Company registration no. 02644726

# Colas Limited

## Annual report and accounts 2016

# Contents

# Company Information

**Directors**

T. Genestar
E. Haentjens
F.J.P.Gardes
L. Rushbrooke
S.L. Struthers
M. Overton
D.P. Craik
J. Thompson
C.J. Fergusson

**Company secretary** G. D. Stanton

**Registered number** 02644726

**Registered office**
Wallage Lane
Rowfant
Crawley
West Sussex
RH10 4NF

**Independent Auditor**
Mazars LLP
Tower Bridge House
St. Katharine's Way
London
E1W 1DD

**Solicitors**
Thomson Snell & Passmore
3 Lonsdale Gardens
Tunbridge Wells
Kent
TN1 1NX

**Bankers**
Barclays Bank Plc
Hamilton Road
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SL1 4SG

# Strategic report

**for the year ended 31 December 2016**

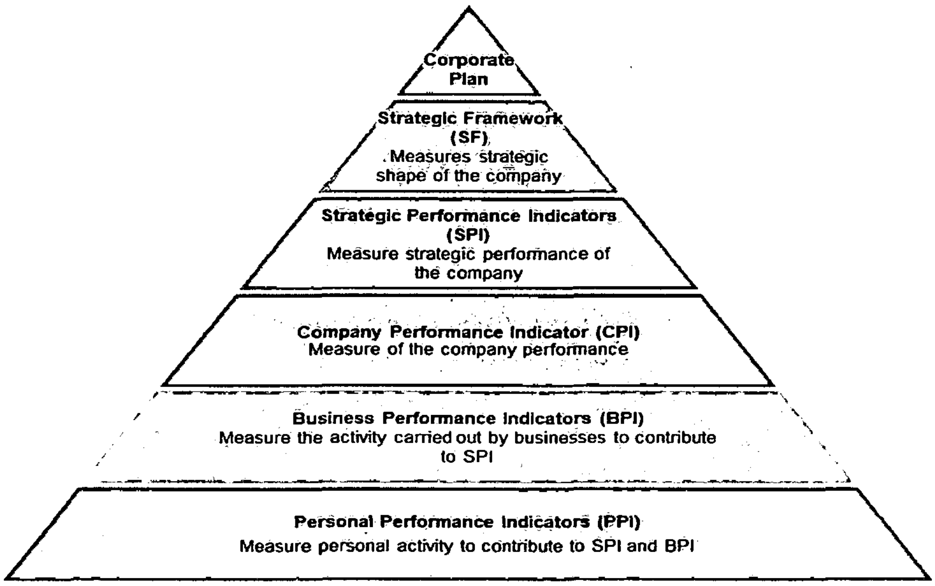
## Chief Executive's review

### Overall performance

The financial year ended 31 December 2016 has been a challenging year for the Company with the overall turnover, including the Company's share of joint operations, showing a 13.7% decrease at £221.4m compared to £256.7m in the previous year. This is mostly due to many public clients having reduced levels of spending through their revenue budgets as well as the ongoing challenge for the Company of securing contracts in a very competitive market. Operating profit for 2016 was disappointingly lower than the previous year at £2.5m (2015:£4.4m), however this was more than offset by a significant increase in dividend income from subsidiaries of £6.3m (2015:£1.3m), resulting in an improved overall profit for the financial year 2016.

### Key performance indicators

The Board measures the strategic performance of the business via a Strategic Framework with Strategic Performance Indicators (SPI's). These SPIs then link into Company Performance Indicators (CPI's) which measure the performance of the Company as per the following diagram:




There are 36 CPIs in total which are categorised under 7 headings that are linked to the Company Mission. Some of the key CPI's measured are: -

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Result** | **Target** | Result | Target |
| **1) Working Safely** | | | | |
| Lost Time Incident Frequency Rate (per 100,000 hours) | **0.12** | **0.1** | 0.36 | 0.1 |
| **2) Inspired People** | | | | |
| Employee Satisfaction | **73%** | **73%** | 72% | no target |
| **3) Governance** | | | | |
| Environmental Incident Frequency Rate (per 100,000 hours) | **0.06** | **0.14** | 0.12 | 0.14 |
| **4) Sustainable Growth** | | | | |
| Work in Hand | **35%** | **40%** | 44% | 40% |

# Strategic report
for the year ended 31 December 2016

## Key performance indicators (continued)

| | 2016 Result | 2016 Target | 2015 Result | 2015 Target |
|---|---|---|---|---|
| **5) Collaborative Relationships** | | | | |
| Operational Net Promoter Score | **74.0** | **75.0** | 75.0 | no target |
| **6) Customer Centric** | | | | |
| Strategic Net Promoter Score | **45.4** | **56.0** | not measured | |
| **7) Innovative Solutions** | | | | |
| Improvement ideas submitted as a % of headcount | **10.0%** | **12.0%** | 13.5% | no target |

## Business review

Due to the various markets that the Company operates in the business is split into 3 distinct operational work-streams:

### Asset Management

Asset Management includes all the term contracts where the Company maintains the client's assets. It also includes the Colas share of joint operations for term contracts. Some notable milestones during the year include:

- The Portsmouth Highways PFI contract which was signed in 2004 reaches the half way stage of its 25 year duration.
- The A-one+ joint operation successfully mobilised and commenced work on 2 new Asset Support Contracts for Highways England in Areas 12 and 4.
- The CVU joint operation under the Central London Highways Alliance Contract has entered its fourth year of operation.
- The Intelligent Transport Systems and Electrical Business Units were combined under one location at City Place, Gatwick to form a new business called Technical & Electrical.

### Contracting

Contracting includes the shorter term spot contracts, frameworks and traditional contracting processes which the Company undertakes. During 2016:

- The £10m runway project in the Falkland Islands on behalf of the Defence Infrastructure Organisation (DIO) was completed during the year.
- The Company secured its place as a delivery partner in The Midland Metro Alliance, which has been formed to build four light rail extensions in the West Midlands over the next ten years.
- The Company successfully completed the runway resurfacing at East Midlands airport, which was undertaken during day and night shifts across five consecutive weekend closures.
- Despite local authority budget constraints, turnover for the Company's specialist processes remained constant in the year and performed in line with expectations.

# Strategic report

for the year ended 31 December 2016

### Business review (continued)

Industrial

Industrial includes manufacturing and product sales and the Company's quarrying activities. Key events in the year include:

- Another good year both operationally and commercially at the manufacturing plant in Warrington, which produces bituminous products.

- A good performance for Colas Cornwall Quarries. Planning permission for the operation of Carnsew Quarry was extended through until 2095.

- The Company established a second asphalt plant at Thamesport to complement the first plant in Blyth.

### Order book

The Work in Hand at the 2016 year end, including the share of joint operations, was £342.5m (2015: £403.9m). The decrease is mainly as a result of completion of Area 7 MAC (Managing Agent Contract) in June 2016 and one year less on other long term contracts. Of this figure, £107.9m relates to 2017 which reflects 35% of the forecast turnover for 2017 secured at the start of the year.

### Health, safety and the environment

The Company's number one strategic target is that 'safety is our first priority.' The Company's policy is to ensure the safety of its employees and any others whose health and safety may be affected by the Company's operations. The Company's safety performance is measured by a number of key performance indicators noted below and the Company operates an employee health screening programme, which will ensure all operational employees have been seen by an occupational health specialist over a three year cycle. The Company maintains its OHAS 18001 accreditation, and the Company also participated in conjunction with its parent Company Colas SA in their Safety Attitude campaign as well as continuing with its own 'together we make it zero' campaign.

The Company's safety performance was recognised in 2016 with a Gold Medal Award from ROSPA for six consecutive Golds and a Gold Fleet Safety Award for its driver training scheme, Safer Attitudes in Driving (SAID) – also from ROSPA. The Company also received a total of 10 awards from the MPA, including one trophy for ground based pumps in the Bitumen Asphalt contract surfacing section and another for automatic TM gates in the contracting section. From the Road Surface Treatment Association, the Company was awarded runner up in the Behavioural Safety category and the Workforce involvement category.

| | **2016** | 2015 |
|---|---|---|
| LTIFR (lost time incidents frequency rate) | 0.12 per 100,000 hrs | 0.36 per 100,000 hrs |
| Incidence rate (RIDDOR)<br>(All industry RIDDOR average – 247 per 100,000 people) | 64 per 100,000 people | 553 per 100,000 people |

There was only one RIDDOR reportable incident in 2016 which was over 7 days in duration. This was a vastly improved performance on 2015 which had 4 RIDDOR reportable incidents.

The Company has an established Environmental Management System (EMS) registered with BSI to ISO14001 which is deployed throughout the organisation. The Company's primary objectives are to comply with applicable legislation, reduce its environmental impact and provide sustainable products and services for its customers. Performance continues to be measured against defined performance indicators in respect of compliance and environmental sustainability.

# Strategic report
for the year ended 31 December 2016

**Health, safety and the environment (continued)**
In 2016, the Company's Environmental Incident Frequency Rate (EIFR) was ahead of target with a result of 0.06 per 100,000 hours, with just two reported incidents, which were minor in their nature and did not cause environmental damage or result in prosecution by environmental regulators. Greenhouse gas emissions increased from 120.3 $tCO_2e$ per £1million of turnover to 160.3 $tCO_2e$ per £1million of turnover in 2016 due to a significant increase in asphalt production at both the Company's new fixed plants and its mobile plants used on airfields projects. However, the Company continues its work on energy measurement and reduction projects, including continued registration to CEMARS, the Certified Emissions Measurement and Reduction Scheme for the fifth year running. The volume of waste sent to landfill continues to be reduced with an overall recycling rate of just under 98% achieved across the organisation by effective waste segregation and optimising recycling opportunities. Compliance results against the Company's EMS remain excellent, with the number of nonconformities being half that of the industry average compared to BSI's clients in the Company's sector.

**Outlook**
The Company carried out a strategic review in 2016 which confirmed the need to rebalance the company over the coming years in order to respond to changing markets and customer requirements, and this was brought sharply into focus as the Company's 2016 performance was particularly impacted by the reduction in the anticipated spend on the strategic network and continuing funding restrictions for local authority highway works.

The Company's aim is to introduce greater stability through a focus on long term growth areas where it can expand its traditional activities alongside new offerings. The Company's traditional activities are the core of what it does and will remain so, but a focus on city regions and growth sectors will provide the stability to establish long term regional business activities leading to better quality of relationships, understanding customer needs, and allowing the Company to plan and invest in a more focused way.

The impact of the UK's decision to leave the European Union is not clear, but early indications reveal that investment in infrastructure is likely to be deployed as an economic stimulus, and this will mean a greater emphasis on large scale capital projects that improve regional and local transport connectivity. The Company's strategic review highlights the need to position itself to capitalise on this element of the market through a combination of organic growth, partnering, and acquisition.

Government policy will be focused on making the UK attractive for investors in infrastructure, whilst at the same time providing support for UK exporters. The Company will draw upon the investment experience of the International Colas Group, together with its global presence to exploit the opportunities that this will present.

The Company's strategy responds to the risks in its market place including the changing way that its key customers are procuring their services, the evolving political landscape, and simultaneously addresses the unprecedented opportunities that will emerge in the coming years.

L. Rushbrooke
Chief Executive
Date: 11 APRIL 2017

# Strategic report
**for the year ended 31 December 2016**

## Finance Director's review

### Trading performance
The Company's turnover for 2016 including joint operations was 13.7% down on 2015 at £221.4m. The turnover for the Asset Management work-stream was lower due to a drop in workload for the CVU joint operation for Transport for London and the A-one+ joint operation for Highways England, partly due to the completion of the Area 7 MAC contract for A-one+ in June 2016. Contracting also experienced lower turnover mainly due to lower levels of spend generally by public clients. However, turnover in the Industrial work-stream was fairly static compared to previous years.

The gross profit was £40.5m, which is 15% down on the 2015 result of £47.2m. This is a disappointing result as the figure was adversely affected by the requirement for some contract provisions within the Contracting business. The total operating profit was £2.5m, which was £1.9m lower than 2015. The decrease in gross profit was somewhat offset by a decrease in administrative expenses, due to savings and efficiencies achieved.

### Tax
The Company's profit before tax for the year was £9.0m which is £3.1m higher than 2015. This is largely due to a £5m increase in dividends received from group undertakings. The corporation tax charge for the year of £0.2m is in line with 2015, giving an effective tax rate of 1.9% (2015: 4.0%).

### Cash and working capital
The Company year-end cash and cash equivalent balance was £12.3m (2015:£29.0m). The lower cash balance at 31 December 2016 reflects higher capital expenditure incurred during the year of £8.7m (2015:£5.8m) and payment of a dividend to the parent Company Colas SA of £9.2m (2015:£5.3m), but the main reason is the adverse movement in working capital, with debtors higher by £4.7m and creditors lower by £4.0m. There is a major focus across the business to manage the working capital position and improve the cash balance in 2017.

### Banking
The Company has a combination of committed and un-committed funding facilities in place with financial institutions to manage its cash requirements, including seasonal variations.

### Risk and uncertainties
Risk management is under the responsibility of the CEO and Finance Director, supported by the Risk Management Committee. The Risk Management Committee has reviewed risk management within the Company and has developed a formal risk management process based on ISO 31000 to provide a proven and consistent approach to risk management across the business.

The format and content of the Corporate Risk Register has been reviewed and modified to record the significant risks at a strategic level. These have been derived from analysis of all identified risks from the risk management process. The Register captures those risks in a standard format, including assessments, agreed responses and actions and current status, with a dashboard / traffic light monitoring system being included in the Risk Register for ease of reference by the Executive Board. The same risk analysis methodology is to be used throughout the Company and captured at lower levels in business, project, contract or department risk registers, mirroring the Corporate Risk Register.

- Price risk arises on financial instruments because of changes in the price of bitumen. The Company attempts to limit its exposure to price fluctuations of bitumen through the agreement of forward purchase contracts to purchase bitumen at pre-agreed prices. The Company also ensures, wherever possible, that construction and maintenance contracts entered into include relevant price fluctuation clauses. However, in 2016 indices failed to adequately track the actual cost increases, mainly due to high labour costs experienced across the industry. The Company also includes back to back arrangements with its supply chain.

# Strategic report
for the year ended 31 December 2016

**Risk and uncertainties (continued)**

- Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. In order to manage this risk, the Company policy requires appropriate credit checks to be carried out on new customers before any sales are made. The Company proactively manages the credit limits for its private clients on a risk basis.

- Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments associated with financial liabilities. In order to manage this risk, the Company manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through its cash flow forecasting. The Company's treasury function has a policy of optimising the level of cash in the business in order to minimise external borrowings.

- Foreign exchange risk - although a substantial part of the Company's revenue is earned within the UK, the Company is exposed to some risk in Euros and US Dollars and is therefore exposed to sudden movements in exchange rates. To protect against such fluctuations, where necessary, the Company would use financial instruments in the form of forward foreign exchange contracts to hedge this exposure.

**Internal control**

The Company has established an internal audit function which audits across the business throughout the year. In addition, there is also a rigorous annual self-evaluation of internal controls. During 2016, a full evaluation of the internal controls took place which showed an improvement in the overall scores.

**Pensions**

The Colas (UK) Pension Plan has both defined benefit and defined contribution categories; membership of the defined benefit categories was closed to new entrants in 1996. The deficit, in relation to the defined benefit categories, decreased in the year to £1.3 million (2015: £1.4 million). The main reasons for the slight decrease in net liability are the better than expected asset performance plus the deficit contributions being paid by the Company which have both served to increase the asset value. A change in methodology in setting the inflation and inflation related assumptions has also been incorporated: an inflation risk premium of 0.15% pa has been adopted (compared with no allowance for an inflation risk premium last year) plus the pension increase assumptions have been set allowing for caps and collars (compared with no allowance for this last year) both of which have served to place a lower value on the Plan liabilities.

**M. Overton**
Finance Director
Date: 11 APRIL 2017

# Directors' report
**for the year ended 31 December 2016**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

### Principal activities
The business conducted by the Company consists of:

Asset Management – highway term maintenance including asset management, electrical engineering and intelligent transport systems.
Contracting – highway and airfield construction and maintenance projects, traffic management and specialist surface treatments.
Industrial – quarrying, asphalt production and manufacture of bituminous (bulk and packed) products.

### Results and dividend
The profit for the financial year before tax was £9,034,000 (2015: £5,979,000). The Company paid a final dividend for year ending 31 December 2015 of £3,975,000 (2014: £5,300,000) and an interim dividend of £5,221,000 during the year to its parent, Colas SA.

The Directors further recommends the payment of a final dividend of £2,915,000 (2015: £3,975,000).

### Research and development
The Company actively pursues the development of new products and processes within its market and will continue this approach in the future in conjunction with its parent Company Colas SA. Through the skills and expertise of its R&D and Project Engineering, it will develop and deliver technical advances, processes and innovations. This is in an effort to achieve practical, integrated solutions that incorporate the most advanced technologies to enhance the quality, effectiveness and safety of the Company's services and minimise their environmental impact.

### Employees
Consultation with employees continues at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests; and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house magazine, briefing meetings, intranet and the annual cascade to all staff by the CEO and Finance Director.

A staff bonus, linked to the achievement of various financial and safety objectives, exists to encourage employees to make a positive contribution towards the Company's trading and safety performance. An operative productivity bonus is also in existence. The Company operates a Share Incentive Plan whereby staff are given the opportunity to purchase, on a monthly basis, shares in the Company's ultimate parent Company. The Company is committed to promoting diversity and inclusion as set out in its Diversity and Inclusion strategy. The Company's equality and diversity policy promotes equality and diversity, maintaining a culture of fairness, transparency and respect for all employees, clients, communities, suppliers, contractors and other stakeholders. The Company ensures that no job applicant or employee receives less favourable treatment than others on grounds of gender, race, religion, nationality, ethnic or national origin, marital status, having dependents, age, sexual orientation, medical conditions, disability, social class, trade union activity or political belief.

Disabled employees receive appropriate training to promote their career development within the Company. Employees who become disabled are, where possible, retained in their existing posts or retrained for suitable alternative posts, taking into account any reasonable adjustments. Colas Limited has held the Investors in People (IIP) Gold Award since December 2012 and achieved re-accreditation in January 2015. During 2016 the Company won the IIP Excellence in Leadership & Management award.

# Directors' report

**for the year ended 31 December 2016**

### Directors

The Directors of the Company during the year and up to the date of signing these financial statements were:

T. Montouche (resigned 16 February 2017)
J. Leost (resigned 16 February 2017)
T. Genestar (appointed 16 February 2017)
E. Haentjens (appointed 16 February 2017)
F.J.P.Gardes
L. Rushbrooke
S.L. Struthers
M. Overton
D.P. Craik
J. Thompson
C.J. Fergusson

### Indemnification of Directors

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for Directors who held office during the year.

### Disclosure in the strategic report

As permitted by Paragraph 1A of schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Director's Report have been omitted as they are included in the Strategic Report on pages 1 to 6. These matters relate to the principal activities of the business and the review of the business and future developments.

### Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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 apply them consistently;
- make judgements 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;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' report

**for the year ended 31 December 2016**

**Disclosure of information to auditor**

Each of the persons who are Directors at the date of approval of this Directors' report confirms that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

The auditor, Mazars LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved and authorised for issue by the Board of Directors and signed by order of the Board.

**G.D. Stanton**
Secretary
Date: 11 APRIL 2017

# Independent auditor's report to the members of Colas Limited

We have audited the financial statements of Colas Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, The Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

**Respective responsibilities of Directors and auditor**

As explained more fully in the 'Statement of Directors' Responsibilities' set out on page 7 to 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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.

**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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

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

**Matters on which we are required to report by exception**

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

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.

**William Neale Bussey (Senior Statutory Auditor)**
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD
Date 11 APRIL 2017

# Income statement
**for the year ended 31 December 2016**

| | Note | £'000s | 2016 £'000s | £'000s | 2015 £'000s |
|---|---|---|---|---|---|
| Turnover | 4 | | **221,447** | | 256,678 |
| Cost of sales | | | **(180,908)** | | (209,508) |
| **Gross profit** | | | **40,539** | | 47,170 |
| Distribution costs | | **(576)** | | (478) | |
| Administrative expenses | | **(40,546)** | | (45,392) | |
| Other operating income | 5 | **3,106** | | 3,149 | |
| | | | **(38,016)** | | (42,721) |
| **Operating profit** | 6 | | **2,523** | | 4,449 |
| Income from interests in group undertaking | 9 | 6,252 | | 1,250 | |
| Interest receivable and similar income | 10 | 322 | | 327 | |
| Interest payable and similar charges | | (63) | | (47) | |
| | | | **6,511** | | 1,530 |
| **Profit on ordinary activities before taxation** | | | **9,034** | | 5,979 |
| Tax on profit on ordinary activities | 11 | | **(172)** | | (242) |
| **Profit for the financial year** | | | 8,862 | | 5,737 |

All amounts relate to continuing operations.

The notes on pages 15 to 36 form part of these financial statements.

**Colas Limited**

# Statement of comprehensive income

**for the year ended 31 December 2016**

| | Note | £'000s | 2016 £'000s | £'000s | 2015 £'000s |
|---|---|---|---|---|---|
| Profit for the financial year | | | **8,862** | | 5,737 |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Actuarial loss on defined benefit pension scheme | 24 | **(1,737)** | | (1,981) | |
| Deferred tax on actuarial loss relating to pension | 24 | **334** | | 396 | |
| Other comprehensive income for the year, net of tax | | | (1,403) | | (1,585) |
| Total comprehensive income for the year | | | **7,459** | | 4,152 |

# Balance sheet
**as at 31 December 2016**

| | Note | £'000s | 2016 £'000s | £'000s | 2015 £'000s |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 13 | | **38,346** | | 33,452 |
| Investments in group undertakings | 14 | | **1,233** | | 1,233 |
| Investments in joint ventures | 15 | | **110** | | 110 |
| | | | **39,689** | | 34,795 |
| **Current assets** | | | | | |
| Stocks | 16 | **5,847** | | 4,810 | |
| Debtors | 17 | **62,793** | | 58,074 | |
| - due after more than one year | | **1,750** | | 2,030 | |
| - due within one year | | **61,043** | | 56,044 | |
| Cash at bank and in hand | | **12,257** | | 28,995 | |
| | | **80,897** | | 91,879 | |
| **Creditors:** amounts falling due within one year | 18 | **(78,319)** | | (82,118) | |
| **Net current assets** | | | **2,578** | | 9,761 |
| **Total assets less current liabilities** | | | **42,267** | | 44,556 |
| **Creditors:** amounts falling due after more than one year | 19 | | **(224)** | | (280) |
| Provisions for liabilities | 20 | | **(10,484)** | | (10,901) |
| **Net assets excluding pension liability** | | | **31,559** | | 33,375 |
| Pension liability | 24 | | **(1,315)** | | (1,394) |
| **Net assets** | | | **30,244** | | 31,981 |
| **Capital and reserves** | | | | | |
| Called up share capital | 25 | | **26,500** | | 26,500 |
| Capital redemption reserve | | | **12** | | 12 |
| Profit and loss account | | | **3,732** | | 5,469 |
| **Total shareholders' funds** | | | **30,244** | | 31,981 |

Approved and authorised for issue by the board of Directors and signed on 11 APRIL 2017 on its behalf by:

M. Overton
Director

L. Rushbrooke
Director

The notes on pages 15 to 36 form part of these financial statements.

# Statement of changes in equity
**as at 31 December 2016**

| | Called up share capital £'000s | Capital redemption reserve £'000s | Profit and loss account £'000s | Total equity £'000s |
|---|---|---|---|---|
| At 1 January 2016 | 26,500 | 12 | 5,469 | 31,981 |
| **Comprehensive income for the year** | | | | |
| Profit | - | - | 8,862 | 8,862 |
| Other comprehensive income for the financial year | - | - | (1,403) | (1,403) |
| Total comprehensive Income for the year | - | - | 7,459 | 7,459 |
| **Contributions by and distributions to owners** | | | | |
| Dividends (Note 12) | - | - | (9,196) | (9,196) |
| Total contributions by and distributions to owners | - | - | (9,196) | (9,196) |
| **At 31 December 2016** | **26,500** | **12** | **3,732** | **30,244** |

| | Called up share capital £'000s | Capital redemption reserve £'000s | Profit and loss account £'000s | Total equity £'000s |
|---|---|---|---|---|
| At 1 January 2015 | 26,500 | 12 | 6,617 | 33,129 |
| **Comprehensive income for the year** | | | | |
| Profit | - | - | 5,737 | 5,737 |
| Other comprehensive income for the financial year | - | - | (1,585) | (1,585) |
| Total comprehensive Income for the year | - | - | 4,152 | 4,152 |
| **Contributions by and distributions to owners** | | | | |
| Dividends (Note 12) | - | - | (5,300) | (5,300) |
| Total contributions by and distributions to owners | - | - | (5,300) | (5,300) |
| **At 31 December 2015** | **26,500** | **12** | **5,469** | **31,981** |

# Notes to the financial statements

**for the year ended 31 December 2016**

## 1. Principal accounting policies

### 1.1 Accounting convention

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with the applicable provisions of the Companies Act 2006. Except for certain disclosure exemptions detailed below, the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

### 1.2 Basis of preparation of financial statements

Colas Limited (the "Company") is a private company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is Wallage Lane, Rowfant, Crawley, West Sussex, RH10 4NF.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it is included in the consolidated financial statements of its ultimate parent, Colas SA, a Company registered in France. The consolidated financial statements of Colas SA are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained as set out in note 26.

As permitted by FRS 101, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 "Share-based Payments";
- the requirement of IFRS 7 "Financial Instruments: Disclosures";
- the requirement of paragraphs 91-99 of IFRS 13 "Fair Value Measurement";
- the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements to present comparative information in respect of: Paragraph 79(a)(iv) of IAS 1, 73(e) of IAS 16 and 118(e) of IAS 38";
- the requirements of paragraphs 10(d), 10(f ), 16, 40A, 40B, 40C, 40D and 111 of IAS 1 "Presentation of Financial Statements";
- the requirements of IAS 7 "Statement of Cashflows";
- the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- the requirements of paragraph 17(e) of IAS 24 "Related Party Disclosures";
- the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f ) and 135(c)-135(e) of IAS 36 "Impairment of Assets".

### 1.3 Going concern

At the date of signing of the financial statements, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## 2. Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates and assumptions concerning the future. It also requires management to exercise their judgement in the process of applying the Company's accounting policies.

Application of accounting policies in the preparation of the financial statements requires the Board of Directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### Revenue recognition

Revenue recognition requires management to make estimates of each contract's outcome and stage of completion. Management assesses the profitability of ongoing contracts at least monthly. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty. A detailed review of income accrued on all contracts is performed regularly to ensure all balances are recoverable. In the event that the recoverability of the contract income is uncertain or is dependent on the outcome of certain events, relevant contact provisions would be made accordingly.

### Defined benefit pension plan

The value of the future defined benefit pension plan obligation requires judgement in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management make these judgements in consultation with an independent actuary. Details of the judgements made in calculating these transactions are disclosed in note 24.

### Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

## 3. Summary of significant accounting policies

### 3.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received from its customers, including the Company's share of revenue from work carried out by jointly controlled operations. Revenue excludes intra-Company sales, discounts, rebates, value added tax and other sales taxes.

### Sale of bitumen products

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

# Notes to the financial statements

for the year ended 31 December 2016

## 3. Summary of significant accounting policies (continued)

### Long term contracts

Revenue arises from an increase in the value of work performed on construction contracts and on the value of services provided during the year. Where the outcome of a long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs.

A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. Variations are included in contract revenue when it is probable that the customer will approve the variation and the related adjustment to the contract price can be measured reliably.

A claim is an amount that the contractor seeks to collect from the customer as reimbursement for costs whose inclusion in the contract price is disputed, and may arise from, for example, delays caused by the customer, errors in specification or design and disputed variations in contract work. Claims are included in contract revenue when negotiations with the customer have reached an advanced stage such that it is probable that the customer will accept the claim and the amount of the claim can be measured reliably.

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

Construction work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less amounts billed, and is included in amounts recoverable on contract. Cost includes all expenditure related directly to specific projects and an appropriate allocation of fixed and variable overheads based on normal operating capacity. Amounts valued and billed to customers that have not been settled by customers (including retentions related to contracts in progress) are included in trade receivables where they are stated after allowance for any doubtful debts.

Where cash received from customers exceeds the value of work performed, the amount is included in other creditors.

### 3.2 Research and development

Expenditure on research is charged to the income statement in the period in which it is incurred. Development expenditure is only recognised as an asset where all the recognition criteria of IAS38 – Intangible Assets are met before the new or substantially improved product is released for sale on the market. Development expenditure is therefore charged to the income statement in the year in which it is incurred due to uncertainties inherent in the development of the new products, as the expected future economic benefits cannot be reliably determined. As long as the product has not reached the market place, there is no reliable evidence that positive future cash flow will be obtained.

### 3.3 Leasing commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

### 3.4 Government and other grants

Government grants in respect of capital expenditure are credited to a deferred income account and are amortised to the profit and loss account in equal annual instalments over the expected useful economic lives of the related assets once it has been determined that all the conditions relating to the grant have been satisfied and there will be no recourse for the grant.

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure. Total grants received less the amounts credited to profit and loss account at the end of the reporting period are included in the balance sheet as deferred income.

# Notes to the financial statements
**for the year ended 31 December 2016**

## 3. Summary of significant accounting policies (continued)

### 3.5 Contract bid costs
All contract bid costs are expensed as incurred until the outcome of a contract can be estimated reliably, being the point at which the Company is awarded preferred bidder status, from which time further bid costs are recognised as an asset and charged as an expense over the period of the contract.

### 3.6 Foreign currencies
Foreign currency transactions arising from operating activities are translated from local currency into pounds sterling at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the period end exchange rate. Foreign currency gains or losses are credited or charged to the profit and loss account as they arise.

### 3.7 Interest payable and receivable
Interest payable and receivable is recognised as incurred or accrued under the accruals concept. Interest payable includes financing charges which are spread over the period to redemption, using the effective interest method. Commitment fees on non-utilised facilities are also included within interest payable.

### 3.8 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in reserves, in which case the current and deferred tax are also recognised in other comprehensive income or directly in reserves, respectively.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods ("temporary differences") and it further excludes items that are never taxable or deductible ("permanent differences"). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

A deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

# Notes to the financial statements

**for the year ended 31 December 2016**

## 3. Summary of significant accounting policies (continued)

### 3.9 Tangible fixed assets and depreciation

Tangible fixed assets are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment. Assets are grouped into classes of similar nature and use and separately disclosed except where this is not material.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

| | |
|---|---|
| Freehold buildings | 7 - 40 years |
| Long and short leasehold land and buildings | over the lease term |
| Plant and machinery | 2 - 15 years |
| Fixtures, fittings and equipment | 2 - 10 years |

The cost of quarry reserves is depreciated based on the greater of a units of production method or a straight line method of depreciation calculated on the duration of the planning consent to extract, with a maximum of 40 years.

### 3.10 Impairment of tangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets in order to assess whether there is any indication that those assets may have suffered an impairment loss. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine if there is any impairment loss.

### 3.11 Investments

Investments in subsidiary undertakings and joint ventures are stated at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, an impairment is recognised.

### 3.12 Joint operations

The Company has contractual agreements with other participants to engage in joint activities that do not create entities carrying on a trade or business of their own. The Company includes its share of assets and liabilities in such joint operations and of the profit or loss from such joint operations, measured in accordance with the terms of each operation, which is pro-rata to the Company's interest in the joint operation.

### 3.13 Inventories and work in progress

Inventories and short term work-in-progress are stated at the lower of cost and net realisable value. Cost is calculated on a 'first in first out' basis and includes directly attributable costs and overheads that have been incurred to bring the inventories to its present condition and location. Full provision is made for obsolete and defective inventories.

# Notes to the financial statements

**for the year ended 31 December 2016**

## 3. Summary of significant accounting policies (continued)

### 3.15 Share based payments

Bouygues SA (the Company's ultimate parent Company) operates a share option scheme under which options over shares in Bouygues SA have been granted to certain Company Directors and employees. The Directors do not consider the associated share based payment charge of approximately of £58,000 (2015: £57,000) to be material and, as permitted by FRS 101, the Company has applied the disclosure exemptions available in respect of Share based payments. The cumulative share based payment liability amounts to approximately £272,000 (2015: 214,000).

### 3.16 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company has obligations under property leases and the property has ceased to be used for the purposes of the business, full provision for onerous lease contract is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements. Onerous lease provisions are discounted to present value.

### 3.17 Capital redemption reserve

The capital redemption reserve is created to maintain the capital of the Company.

### 3.18 Financial instruments

Financial instruments are initially recorded at fair value. Subsequent valuation depends on the designation of the instrument.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible (with a maturity of three months or less) to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure that amounts recognised represent the recoverable amount.

A provision for impairment arises where there is evidence that the Company will not be able to collect amounts due, which is achieved by creating an allowance for doubtful debts recognised in the profit and loss account within administrative expenses. Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. Key indicators of impairment include disputes with customers over commercial positions, or where debtors have significant financial difficulties such as historic default of payments or information that suggests bankruptcy or financial reorganisation are a reasonable possibility.

When a trade receivable is expected to be uncollectible, it is written off against the allowance for doubtful debts. Subsequent recoveries of amounts previously provided for or written off are credited against administrative expenses.

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments are recognised initially at fair value. Subsequently, derivative financial instruments are not remeasured and therefore no gains or losses on re-measurement to fair value are recognised in the income statement, as the purchase of bitumen contracts are held for the purpose of the delivery of bitumen in accordance with Colas' usage requirements and therefore falls outside the scope of IAS 39 and are non-speculative.

# Notes to the financial statements

**for the year ended 31 December 2016**

## 3. Summary of significant accounting policies (continued)

### 3.19 Pensions

The Company operates both defined contribution and defined benefit pension schemes.

Some employees are part of a defined benefit pension scheme, the assets of which are held separately from those of the Company in independently administered funds. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of comprehensive income. The actuarial valuation is updated on an annual basis.

The deficit on the Company's defined benefit pension scheme is recognised in full and presented on the face of the balance sheet net of the related deferred tax asset, to the extent that it is considered recoverable.

In 2008, the Company gave the Colas (UK) Pension Plan a first charge over the freehold land and building at Rowfant to cover the deficit of the Plan

The Company also operates defined contribution schemes. The assets of such schemes are held separately from those of the Company in independently administered funds. The amounts charged against profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

## 4. Segmental information

The geographical market analysis by destination of the Company's turnover is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **£'000s** | £'000s |
| United Kingdom | **215,735** | 249,216 |
| Rest of Europe | **5,712** | 7,462 |
| | **221,447** | 256,678 |

In the opinion of the Directors, all turnover and results arise from a single business segment, being the provision of an integrated range of road and airfield construction, maintenance, quarrying and electrical engineering services and products.

## 5. Other operating income

| | **2016** | 2015 |
|---|---|---|
| | **£'000s** | £'000s |
| Royalties receivable | **235** | 203 |
| Rent receivable | **44** | 47 |
| Management fees | **2,077** | 2,395 |
| Profit on sale of fixed assets | **176** | 34 |
| Amortisation of government grant (Note 20) | **56** | 55 |
| Foreign currency gain (loss) | **73** | (39) |
| Sundry income | **445** | 454 |
| | **3,106** | 3,149 |

# Notes to the financial statements
for the year ended 31 December 2016

## 6. Operating profit

| The operating profit is stated after charging: | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Depreciation of owned fixed assets | **3,722** | 4,192 |
| Research and development | **1,301** | 1,222 |
| Operating lease rentals - plant and machinery | **2,803** | 3,743 |
| Operating lease rentals - other | **1,557** | 1,628 |
| Fees payable to the auditor for the audit of the Company financial statements | **170** | 176 |
| Fees payable to the auditor for the other services | **20** | 2 |

## 7. Staff costs

Staff costs, including Directors' remuneration, were as follows:

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Wages and salaries | **63,585** | 62,185 |
| Social security costs | **6,833** | 6,773 |
| Other pension costs | **6,576** | 7,669 |
| | **76,994** | 76,627 |

The average monthly number of employees, including the Directors, during the year, analysed by category was as follows:

| | 2016 Number | 2015 Number. |
|---|---|---|
| Administration | **514** | 522 |
| Contracting and distribution | **782** | 837 |
| | **1,296** | 1,359 |

## 8. Directors' emoluments

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Emoluments | **1,221** | 1,025 |
| Contributions to money purchase pension schemes | **53** | 54 |
| | **1,274** | 1,079 |
| Highest paid Director: | | |
| Emoluments | **329** | 276 |
| Contributions to money purchase pension schemes | **8** | 15 |
| | **337** | 291 |
| Accrued pension at the year end | **42** | 41 |

# Notes to the financial statements
for the year ended 31 December 2016

## 8. Directors' emoluments (continued)

The highest paid Director was granted share options in the ultimate parent Company Bouygues SA and did not exercise share options during the year

| | 2016 Number | 2015 Number. |
|---|---|---|
| Number of Directors who received Bouygues SA share options in respect of qualifying services | 6 | 6 |
| Retirement benefits are accruing to the following number of Directors under: | | |
| Defined benefit schemes | 3 | 3 |
| Money purchase pension schemes | 6 | 6 |

## 9. Income from interests in group undertaking

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Dividends received from subsidiaries and joint ventures: | | |
| ICB Emulsions Limited | 4,002 | - |
| South West Highways Limited | 1,000 | 1,250 |
| Ensign Highways Holdings Limited | 1,250 | - |
| | 6,252 | 1,250 |

## 10. Interest receivable and similar income

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Bank interest receivable | 12 | 24 |
| Interest on amounts owed by joint venture | 310 | 303 |
| | 322 | 327 |

# Notes to the financial statements

**for the year ended 31 December 2016**

## 11. Taxation on profit on ordinary activities

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| **Analysis of tax charge in the year** | | |
| **Current tax** (see note below) | | |
| UK corporation tax charge on profit for the year | - | 472 |
| Adjustment in respect of prior year | (286) | (653) |
| **Total current tax** | (286) | (181) |
| **Deferred taxation** | | |
| Deferred taxation for the period | 458 | 423 |
| **Total deferred taxation** | 458 | 423 |
| **Tax on profit on ordinary activities** | 172 | 242 |

**Factors affecting tax credit for the year**

The tax assessed for the year is lower at the standard rate of corporation tax in the UK of 20% (2015 – 20.25%). The differences are explained below:

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Profit on ordinary activities before tax | 9,034 | 5,979 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 20.25%) | 1,806 | 1,210 |
| **Effects of:** | | |
| Dividend received | (1,250) | (256) |
| Other items including non-deductible expenses | (28) | 42 |
| Adjustments to tax charge in respect of prior periods | (286) | (653) |
| Utilisation of tax losses brought forward | (63) | (36) |
| Pension adjustment | (7) | (65) |
| **Total tax charge for the year** | 172 | 242 |

**Factors that may affect future tax charges**

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these financial statements. In addition to the changes in the rates of corporation tax disclosed above it has been announced by the government that the main rate of corporation tax will be further reduced by 1% to 17% from 1 April 2020. This further rate reduction had not been substantively enacted at the balance sheet date and has therefore not been reflected in these financial statements. Deferred tax balances at the reporting date are measured at 18% (2015: 18%).

# Notes to the financial statements

**for the year ended 31 December 2016**

## 12. Dividend on equity shares

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| (a) Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend paid for the year ended 31 December 2015 of 15p per share and of 20p per share for the year ended 31 December 2014 | **3,975** | 5,300 |
| Interim dividend paid for the year ended 31 December 2016 of 15p per share and of Nil per share for the year ended 31 December 2015 | **5,221** | - |
| | **9,196** | 5,300 |
| (b)Proposed dividends not recognised in the year: | | |
| Proposed final dividend for the year ended 31 December 2016 of 19.7p per share and 15p per share for the year ended 31 December 2015 | **2,915** | 3,975 |

## 13. Tangible fixed assets

| | Freehold land & buildings * £'000s | Leasehold land & buildings £'000s | Plant & machinery £'000s | Fixtures fittings & equipment £'000s | Total £'000s |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2016 | 22,789 | 162 | 47,580 | 4,144 | 74,675 |
| Additions | 167 | - | 7,919 | 574 | 8,660 |
| Disposals | (39) | - | (659) | (3) | (701) |
| At 31 December 2016 | **22,917** | **162** | **54,840** | **4,715** | **82,634** |
| **Depreciation** | | | | | |
| At 1 January 2016 | 7,225 | 159 | 30,534 | 3,305 | 41,223 |
| Charge for the year | 782 | - | 2,567 | 373 | 3,722 |
| Disposals | (7) | - | (648) | (2) | (657) |
| At 31 December 2016 | **8,000** | **159** | **32,453** | **3,676** | **44,288** |
| **Net book value** | | | | | |
| At 31 December 2016 | **14,917** | **3** | **22,387** | **1,039** | **38,346** |
| At 31 December 2015 | 15,564 | 3 | 17,046 | 839 | 33,452 |

* The Colas (UK) Pension Plan has a first charge over the freehold land and buildings at Rowfant.

# Notes to the financial statements
for the year ended 31 December 2016

## 14. Fixed asset investments – Group undertakings

| | Shares in Group undertakings |
|---|---|
| | £'000s |
| **Cost** | |
| At 1 January 2016 and 31 December 2016 | 23,614 |
| **Amounts provided** | |
| At 1 January 2016 and 31 December 2016 | (22,381) |
| **Net book value** | |
| At 31 December 2016 and 31 December 2015 | 1,233 |

**Additional information on principal subsidiary undertakings:**

| Trading Subsidiaries | Country of registration or incorporation | Class of shares held | Percentage held |
|---|---|---|---|
| ICB Emulsions Limited | Northern Ireland | Ordinary | 100% |

ICB Emulsions Limited is engaged in the manufacture of bitumen emulsions, road contracting, civil engineering and distribution of building products.

| Dormant Subsidiaries | Country of registration or incorporation | Class of shares held | Percentage held |
|---|---|---|---|
| A One Integrated Highway Services Limited | England & Wales | Ordinary | 100% |
| AFS-Colas Lighting Limited | England & Wales | Ordinary | 100% |
| Aram Resources Limited | England & Wales | Ordinary | 100% |
| Bitumac Limited | England & Wales | Ordinary | 100% |
| Colas Highway Services Limited | England & Wales | Ordinary | 100% |
| Colcon Limited | England & Wales | Ordinary | 100% |
| Wight Highways Limited | England & Wales | Ordinary | 100% |
| Fibredec Limited | England & Wales | Ordinary | 100% |
| Island Highways Limited | England & Wales | Ordinary | 100% |
| Lion Emulsions Limited | England & Wales | Ordinary | 100% |
| Retread (Roads) Limited | England & Wales | Ordinary | 100% |
| Safedrain Limited | England & Wales | Ordinary | 100% |
| Spraygrip Ltd | England & Wales | Ordinary | 100% |
| Tregunnon Quarry Limited | England & Wales | Ordinary | 100% |
| West Of England Quarry Company Limited | England & Wales | Ordinary | 100% |

# Notes to the financial statements

**for the year ended 31 December 2016**

## 15. Fixed asset investments – Other

| | Interests in joint ventures |
|---|---|
| | **£'000s** |
| **Cost** | |
| At 1 January 2016 and 31 December 2016 | **110** |
| **Amounts provided** | |
| At 1 January 2016 and 31 December 2016 | - |
| **Net book value** | |
| At 31 December 2016 and 31 December 2015 | **110** |

**Additional information on joint ventures:**

| Company | Country of registration | Class of shares held | Principal activity |
|---|---|---|---|
| South West Highways Limited | England & Wales | Ordinary – 50% | Maintenance of highways and vehicles |
| Newhaven Roadstone Limited | England & Wales | Ordinary – 50% | Manufacture and sale of coated macadams and sale of dry stone |
| Pennine Highways Limited | England & Wales | Ordinary – 50% | Non-trading |
| Ensign Highways Holdings Limited | England & Wales | Ordinary – 50% | Holding Company for Ensigns Highways Limited |
| Ensign Highways Limited* | England & Wales | Ordinary – 50% | Construction and repair of highways |

*Through Ensign Highways Holdings Limited

## 16. Stocks

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Raw materials and consumables | **3,565** | 2,369 |
| Finished goods and goods for resale | **2,282** | 2,441 |
| | **5,847** | 4,810 |
| Inventory expensed during the year | **19,984** | 22,594 |

# Notes to the financial statements

**for the year ended 31 December 2016**

## 17. Debtors

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | **21,060** | 23,530 |
| Amounts recoverable on contracts | **15,752** | 12,150 |
| Amounts owed by group undertakings | **1,028** | 320 |
| Amounts owed by joint ventures | **16,858** | 12,885 |
| Deferred tax asset (Note 21) | **446** | 536 |
| Other debtors | **3,222** | 4,283 |
| Prepayments and accrued income | **2,677** | 2,340 |
| | **61,043** | 56,044 |
| **Amounts due after one year:** | | |
| Amounts owed by joint ventures | **1,750** | 2,030 |
| | **62,793** | 58,074 |

## 18. Creditors: Amounts falling due within one year

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Trade creditors | **18,446** | 14,385 |
| Amounts owed to group companies | **4,004** | 6,876 |
| Corporation tax | **-** | 472 |
| Other taxation and social security costs | **5,451** | 6,954 |
| Other creditors | **12,631** | 10,853 |
| Payments on account | **85** | 123 |
| Deferred income | **224** | 280 |
| Accruals | **37,478** | 42,175 |
| | **78,319** | 82,118 |

## 19. Creditors: Amounts falling due after more than one year

| **Government grants** | 2016 £'000s | 2015 £'000s |
|---|---|---|
| At 1 January | **280** | 335 |
| Amortisation in the year | **(56)** | (55) |
| Total deferred income at 31 December | **224** | 280 |

# Notes to the financial statements

**for the year ended 31 December 2016**

## 20. Provisions for liabilities

| | At 1 January 2016 £'000s | Additional provision £'000s | Amounts utilised £'000s | At 31 December 2016 £'000s |
|---|---|---|---|---|
| Onerous contract | 322 | - | (250) | **72** |
| Contracts provision | 8,486 | 171 | (191) | **8,466** |
| Environmental provision | 88 | - | - | **88** |
| Onerous lease provision | 572 | 26 | (115) | **483** |
| Long service award | 298 | - | (20) | **278** |
| Insurance claims provision | 1,135 | 20 | (58) | **1,097** |
| | 10,901 | 217 | (634) | **10,484** |

**Onerous contracts**
The provision made for losses on contracts is expected to be utilised in 2017 as the contract it relates to is coming to a commercial close.

**Contract provision**
Provision made to rectify in the future periods work completed in the current or earlier years. The majority of the provision is expected to be utilised within five years.

**Environmental**
The provision relates to the balance of the estimated cost of removing plant and returning the land to agricultural pasture for one of the Company's sites on which the lease expired in 2004.

**Onerous lease provision**
The Company had two wharf sites where it does not currently have any operational plans and which are on long term lease agreements. One of these sites was disposed of in 2006. The lease on the second premis runs until 2021. Lease costs have been fully provided for.

**Long service award**
Long service award is accrued over the period the service is provided by the employee.

**Insurance claims provision**
Insurance claim provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from Group insurance department.

# Notes to the financial statements

**for the year ended 31 December 2016**

## 21. Deferred taxation

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| The potential unrecognised deferred taxation asset is as follows: | | |
| Capital allowances in (advance)/arrears of depreciation | **86** | 36 |
| Unrelieved trading losses | **1,168** | 1,214 |
| Other timing differences | **43** | 56 |
| Unrealised capital losses | **4,107** | 4,107 |
| | **5,404** | 5,413 |

The Directors believe that there is uncertainty over the recoverability of the deferred tax asset and have therefore not recognised the asset in these accounts.

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior period. | | |
| At 1 January | **884** | 911 |
| Charged to the income statement (Note 11) | | |
| Capital allowances in (advance)/arrears of depreciation | **(119)** | 89 |
| Other timing differences | **29** | (103) |
| Pension fund deficit | **(34)** | (13) |
| At 31 December | **760** | 884 |
| Capital allowances in (advance)/arrears of depreciation | **(86)** | 33 |
| Other timing differences | **532** | 503 |
| Deferred tax asset (Note 17) | **446** | 536 |
| Pension fund deficit | **314** | 348 |
| | **760** | 884 |

Deferred tax in respect of Company's defined benefit pension scheme is disclosed in Note 24.

# Notes to the financial statements
**for the year ended 31 December 2016**

## 22. Other financial commitments

The total future aggregate minimum lease payments of the Company under non-cancellable operating leases are set out below:

| | Land and buildings 2016 £'000s | Land and buildings 2015 £'000s | Other 2016 £'000s | Other 2015 £'000s |
|---|---|---|---|---|
| Amounts due within: | | | | |
| Within one year | **411** | 499 | **735** | 934 |
| Between two and five years | **1,049** | 507 | **490** | 818 |
| After five years | **412** | 419 | **-** | - |
| | **1,872** | 1,425 | **1,225** | 1,752 |

## 23. Contingent liabilities and financial commitments

The Company has given commitments in the form of guarantees relating to construction and other agreements entered into in the normal course of business and specific performance bonds amounting to £9,494,000 (2015: £9,706,000).

In 2008, the Company gave the Colas (UK) Pension Plan a first charge over the freehold land and building at Rowfant to cover the deficit of the Plan.

The Company has committed to the purchase of bitumen for a sum of £9,255,000 (2015: £16,359,000) for 2017 to 2019.

## 24. Pension costs

The Colas (UK) Pension Plan:

The Colas (UK) Pension Plan provides benefits to the employees of the Company. The Plan is self-administered and its assets are held independently of the Company's finances. It has both defined benefit and defined contribution categories – the latter having been introduced in April 1996 to provide benefits for all future eligible employees. The Plan is funded partly by contributions from members and partly by contributions from the Company at rates advised by professionally qualified actuaries.

The Pension Plan includes members whose membership relates to employment with a subsidiary Company ICB Emulsions Limited. The proportion of the deficit which concerns these members has been eliminated from the provision in the accounts of the parent Company and provided for in the accounts of ICB Emulsions Limited. Calculations for ICB's share of deficit is arrived at by comparing the average profile of the ICB membership with that of the Plan as a whole in order to determine the approximate share of deficit.

The Company has prepared its accounting statement under IAS19. A full actuarial valuation was carried out on 30 November 2016 using the Projected Unit Credit method and updated to 31 December 2016 on 5 January 2017 by a qualified independent actuary. The main assumptions used by the actuary are detailed in the disclosures below.

The estimated contribution for year ending 31 December 2017 is £2,578,000.

# Notes to the financial statements

**for the year ended 31 December 2016**

## 24. Pension costs (continued)

### Change in benefit obligation

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Opening benefit obligation | **73,242** | 74,702 |
| Current service cost | **682** | 765 |
| Interest cost | **2,731** | 2,627 |
| Member contributions | **51** | 67 |
| Actuarial loss/(gain) due to change in assumptions | **15,293** | (1,465) |
| Benefits paid | **(2,760)** | (3,454) |
| Closing benefit obligation | **89,239** | 73,242 |

### Change in plan assets

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Opening fair value of plan assets | **71,333** | 72,700 |
| Expected return on plan assets | **2,711** | 2,610 |
| Actuarial gains/(loss) on plan assets | **13,382** | (3,573) |
| Employer contributions | **2,726** | 2,983 |
| Member contributions | **51** | 67 |
| Benefits paid | **(2,760)** | (3,454) |
| Closing fair value of plan assets | **87,443** | 71,333 |

### Actual return on assets

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Actual return on plan assets | **16,093** | (963) |

### Amounts recognised in the balance sheet

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Present value of benefit obligations | **89,239** | 73,242 |
| Fair value of plan assets | **(87,443)** | (71,333) |
| Deficit | **1,796** | 1,909 |
| Less ICB Emulsions Limited share of deficit | **(167)** | (167) |
| | **1,629** | 1,742 |
| Deferred tax | **(314)** | (348) |
| Total recognised in the balance sheet | **1,315** | 1,394 |

# Notes to the financial statements

for the year ended 31 December 2016

## 24. Pension costs (continued)

### Amounts recognised in the profit and loss account

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Current service cost | 682 | 765 |
| Interest cost | 2,731 | 2,627 |
| Expected return on plan assets | (2,711) | (2,610) |
| | 702 | 782 |
| Less ICB Emulsions Limited cost | (122) | (123) |
| Total recognised in the profit and loss account | 580 | 659 |

### Amounts recognised in the statement of comprehensive income

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Effect of changes in demographic assumptions | - | (224) |
| Effect of changes in financial assumptions | 15,293 | (1,348) |
| Effect of experience adjustments | - | 107 |
| (Return) on plan assets (excluding interest income) | (13,382) | 3,573 |
| Less ICB Emulsions Limited cost | (174) | (127) |
| | 1,737 | 1,981 |
| Deferred tax | (334) | (396) |
| Total recognised in the statement of comprehensive income | 1,403 | 1,585 |

### Plan assets

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| Cash and cash equivalents | 3,548 | 944 |
| Equity instruments | 14,405 | 12,371 |
| Real estate | 698 | - |
| Debt instruments | 69,665 | 59,653 |
| Investment funds | (873) | (1,635) |
| Total | 87,443 | 71,333 |

# Notes to the financial statements

for the year ended 31 December 2016

## 24. Pension costs (continued)

### Principal actuarial assumptions

| | 2016 % p.a. | 2015 % p.a. |
|---|---|---|
| Rate of increase in salaries | **3.95** | 3.80 |
| Rate of increase in pensions | **3.35** | 3.30 |
| Discount rate | **2.70** | 3.80 |
| Inflation assumption | **3.45** | 3.30 |

| | 2016 Years | 2015 Years |
|---|---|---|
| Member aged 65 (current life expectancy) | **22.8** | 22.8 |
| Member aged 40 (life expectancy at age 65) | **25.0** | 24.9 |
| Assumption used for mortality rate - 1.5% long term rate | | |

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

### Sensitivity analysis

The sensitivity analysis of the net deficit above have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period and may not be representative of the actual change, which is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous period.

| | 2016 £'000s | 2015 £'000s |
|---|---|---|
| 1. Discount rate | | |
| -25 Basis points | **93,212** | 76,249 |
| +25 Basis points | **85,508** | 70,221 |
| 2.Inflation rate | | |
| -25 Basis points | **86,574** | 70,254 |
| +25 Basis points | **91,983** | 75,950 |
| 3.Salary increase | | |
| -25 Basis points | **88,778** | 72,715 |
| +25 Basis points | **89,709** | 73,577 |
| 4.Mortality | | |
| -1 year age rating | **92,281** | 75,286 |
| -0.25% long term rate of improvement | **88,500** | 72,201 |

# Notes to the financial statements
for the year ended 31 December 2016

## 24. Pension costs (continued)

### History of experience gains and losses

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | **£'000s** | £'000s | £'000s | £'000s | £'000s |
| Defined benefit obligation | **89,239** | 73,242 | 74,702 | 66,228 | 60,863 |
| Fair value of plan assets | **(87,443)** | (71,333) | (72,700) | (61,740) | (58,862) |
| | **1,796** | 1,909 | 2,002 | 4,488 | 2,001 |

**Difference between the actual and expected return on scheme assets:**

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Amounts (£'000s) | **13,382** | (3,573) | 7,376 | (1,119) | (1,334) |
| Percentage of scheme assets | **15%** | (-5%) | 10% | (-2%) | (-2%) |

**Experience gains and losses on scheme liabilities:-**

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Amounts (£'000s) | **-** | (107) | - | (24) | (2,880) |
| Percentage of present values of scheme liabilities | **0%** | 0% | 0% | 0% | (-5%) |

**Balance sheet reconciliation**

| | **2016** | 2015 |
|---|---|---|
| | **£'000s** | £'000s |
| Opening deficit | **1,909** | 2,002 |
| Pension expense recognised in profit and loss account | **702** | 782 |
| Actuarial loss/(gain) recognised in the statement of comprehensive income | **1,911** | 2,108 |
| Contributions made by the Company | **(2,726)** | (2,983) |
| Closing deficit | **1,796** | 1,909 |
| Less ICB Emulsions Limited share of deficit | **(167)** | (167) |
| Deferred tax | **(314)** | (348) |
| | **1,315** | 1,394 |

## 25. Share capital

| | **2016** | 2015 |
|---|---|---|
| | **£'000s** | £'000s |
| **Allotted, called up and fully paid: Equity Shares** | | |
| 26,500,000 ordinary shares of £1 each | **26,500** | 26,500 |

# Notes to the financial statements

for the year ended 31 December 2016

## 26. Parent undertakings and ultimate parent controlling party

The Company's immediate parent is Colas SA, which is incorporated in France and is listed on the Paris stock exchange. The accounts of the Company and its subsidiary undertakings are incorporated in the financial statements which form part of the annual report of the Colas SA group of companies, the smallest group into which these results are consolidated. Copies of Colas SA's consolidated accounts may be obtained from the Company at Colas Limited, Wallage Lane, Rowfant, Crawley, West Sussex, RH10 4NF.

Colas SA's ultimate parent Company and controlling party is Bouygues SA, which is incorporated in France. This is the largest Company into which these results are consolidated. Copies of Bouygues SA consolidated accounts may be obtained from the Company at Challenger, 1 Avenue Eugène Freyssinet, 78061 Saint-Quentin-en-Yvelines, Cedex - France.

## 27. Joint operations

From October 2009 to June 2016 for Area 12 and from July 2010 onwards for Area 14, the Company has a 33.3% share in a joint operation with CH2M Limited and Costain Group Plc under Managing Agent Contractor (MAC) model, for the maintenance and development of highways assets on behalf of Highways England.
In 2013 the Company entered into a joint operation with Volker Highways and URS Infrastructure, to fulfil an eight year contract for Transport for London. The Company's share is 40%.
The Company also has a 33.3% share in a joint operation with CH2M Limited and Costain Group Plc in Area 12 Yorkshire and Humberside and Area 4 in Kent for a new contract of five years which commenced in July 2016. The contracts will operate under the new Asset Support Contract (ASC) delivery model, replacing the Managing Agent Contractor (MAC) model, placing more focus on the long term effective maintenance and development of Highways England assets. Turnover from joint operations included in the results is £69,688,000 (2015: £89,434,000) and the (loss)/profit before taxation is (£169,000) (2015: £210,000).