

**Group Strategic Report, Directors' Report and
Consolidated Financial Statements for the Year Ended 31 December 2018**

for

Exchequer Partnership Holdings Limited



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for the Year Ended 31 December 2018**

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Exchequer Partnership Holdings Limited

Company Information for the Year Ended 31 December 2018

Directors:	M Donn K Hill B Millsom S M Prior C Solley A L Tennant
Secretary:	A Mitchell
Registered office:	3rd Floor 3 - 5 Charlotte Street Manchester M1 4HB
Registered number:	03810496 (England and Wales)
Independent auditors:	PricewaterhouseCoopers LLP 1 Hardman Square Manchester M3 3EB
Bankers:	Bank of Scotland 33 Old Broad Street London BX2 QLB
Solicitors:	Macfarlanes LLP 20 Cursitor Street London EC4A 1LT

**Group Strategic Report
for the Year Ended 31 December 2018**

The directors present their Strategic Report for the company and group for the year ended 31 December 2018.

Group objectives

The group is engaged in a 35-year contract with HM Treasury to renovate and then manage the facilities at the main Treasury building formerly Government Offices, Great George Street, Whitehall, London. The renovations were completed in July 2002 and HM Treasury then moved into the refurbished accommodation. Management of the facilities commenced from this time.

Group strategy

To ensure that the company achieves its objective, the strategy is to implement processes, policies and procedures to comply with the control matrices stipulated in the project documentation committed to at the inception of the project. This includes minimising performance and availability deductions, cash monitoring and maintenance of good working relationships between all stakeholders.

Performance of the business and future developments

The business has operated smoothly with minimal deductions from availability fee payments. The facilities maintenance service has been closely monitored throughout the year. This takes the form of full-time representation on site through the group's management services agent and periodic reporting by the independent Technical Assessor. A number of contract variations have been successfully implemented.

In 2016 a dispute arose over certain construction defects. The group is undertaking a programme of remedial works and will seek to recover costs incurred from the construction contractor to the fullest extent possible

The Group made a profit before taxation of £3,131,000 compared to £2,599,000 in 2017 as a result of inflation changes. Net assets increased from £615,000 at 31 December 2017 to £1,813,000 at 31 December 2018 due to the timing of dividend payments.

**Group Strategic Report
for the Year Ended 31 December 2018**

Principal risks and uncertainties

As the project is currently in its operational phase, operational risks are monitored closely. This takes the form of full-time representation on site through the Company's management services agent and periodic reporting by the independent Technical Assessor plus regular dialogue with the executive team of HM Treasury.

The group's revenues have largely been in line with expectations, with very few deductions applied for non-availability of the assets. Any such deductions are passed down to the subcontractors so there is no direct financial consequence to the company. Sustained non-availability can lead to contract termination but the company is not anywhere close to such termination trigger points. Compliance with the detailed and complex operational requirements of the PFI projects remains a key risk given the potential termination consequences. Directors receive regular reports on actual performance compared to termination trigger thresholds.

Another risk is the continued funding from the public sector counterparties to the PFI project agreements, especially as these counterparties are under pressure to make savings in their operational PFI contracts. To date, most of the pressure to make such cost savings has fallen on the sub-contractors to the project companies rather than on the project companies themselves. Furthermore, it is understood that current policy from central government is not to encourage voluntary termination of PFI projects.

There is no RPI swap to reduce volatility of operating cash flows in relation to the index linked debt service. However, the availability fee and the majority of the costs are contractually linked to the Retail Price index. A relatively small proportion of total costs is not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good and current premium renewal are competitive and within budgeted amounts.

The group's principal financial instruments comprise secured bonds and a mezzanine loan. The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession.

The group does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities.

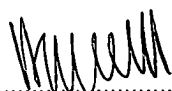
A small proportion of cash flow is derived from bank interest on cash balances. The current low levels of interest rates have reduced this interest but this has not impacted on debt covenant compliance.

Key performance indicators

There are two Key Performance Indicators which are monitored:

- The level of performance and availability deductions arising from failures to achieve specified levels of contract. These are reported quarterly to the Board and have been extremely small in relation to total unitary payments.
- The ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

By order of the board:



.....
A Mitchell - Secretary

Date: 30 MAY 2019

**Directors' Report
for the Year Ended 31 December 2018**

The directors present their group strategic report and the audited consolidated financial statements for the year ended 31 December 2018.

Principal activity

The company is a holding company with a single subsidiary, Exchequer Partnership plc ('EPP'). EPP is engaged in a 35-year contract with HM Treasury to renovate and then manage the facilities at the main Treasury building formerly Government Offices, Great George Street, Whitehall, London. The renovations were completed in July 2002 and HM Treasury then moved into the refurbished accommodation. Management of the facilities commenced from this time.

Dividends

The group made a dividend payment in the year of £971,000 (2017: £3,932,000).

The profit for the year is £2,169,000 (2017: £1,758,000).

Directors

The directors during the year under review were:

M Donn	- appointed 18.7.18
K Gillespie	- resigned 16.7.18
K Hill	
B Millsom	
S M Prior	
C Solley	
A L Tennant	

The directors holding office at 31 December 2018 did not hold any beneficial interest in the issued share capital of the company at 1 January 2018 (or date of appointment if later) or 31 December 2018.

No appointments or resignations of directors occurred between the year end and the date of approval of these financial statements.

Other information

An indication of likely future developments in the business has been included in the Strategic Report on page 2.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's 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 group's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

By order of the board:



.....
A Mitchell - Secretary

Date: 30 MAY 2019

**Statement of Directors' Responsibilities
for the Year Ended 31 December 2018**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Independent auditors' report to the members of Exchequer Partnership Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Exchequer Partnership Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheet as at 31 December 2018; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

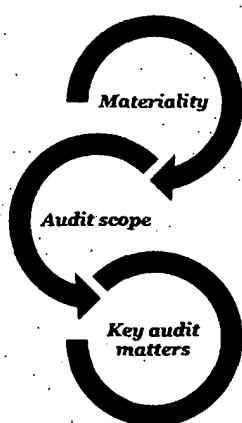
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

We have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall group materiality: £156,000 (2017: £130,000), based on 5% of profit before tax.
 - Overall company materiality: £10,000 (2017: £10,000), based on 2% of total assets.
 - We have performed a full scope audit of Exchequer Partnership Holdings Limited and Exchequer Partnership plc, which provides sufficient coverage across all balances in the Annual Report.
 - Risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to overstatement of performance and retained earnings, as a method for accelerating dividend payments. Audit procedures performed by the engagement team included, but were not limited to: review of the financial statement disclosures to underlying supporting documentation, review of the margin applied to costs, review of the calculation and allocation of the unitary payment and enquiries of management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment</i> The company is in a service concession arrangement with HM Treasury to renovate and manage the facilities at the main Treasury building at Whitehall, London. The company accounts for the service concession arrangement as a finance debtor with amortisation and financial income recognised each year at a constant rate (see note 1 to the financial statements). The unitary payments received from HMRC for the service concession arrangement are allocated to turnover, financial income and the finance debtor amortisation. Due to the judgement required to estimate the margin and the significant impact that the allocation of the unitary payments has on key accounts: turnover, financial income, the finance debtor, including those most susceptible to fraudulent manipulation, we consider this risk to be a key area of focus.	Our audit addressed the risk as follows: - We tested a sample of unitary payments received from HMRC, agreeing to invoice and evidence of cash receipt and used this to determine an expectation for total value of payments received in the year. We did not note any issues from our testing. - We re-performed the allocation of the unitary payment between turnover, finance debtor amortisation and financial income and checked that the allocated amounts had been recognised consistently in each of the impacted accounts. We found the calculation to be performed accurately and recognised consistently across the impacted accounts. - We compared the margin applied to costs in the year-ended 31 December 2018 against that used in the year-ended 31 December 2017. We found the margin applied to be similar to that used in the prior year, which is consistent with our expectations, given there have been no significant changes during 2018.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The consolidated financial statements are for a group whereby all significant trading activity occurs in a single subsidiary entity, Exchequer Partnership plc. The parent company is a holding company with no transactions during the year, other than dividend transactions that pass through the entity.

Due to statutory audit requirements all entities within the group have been subject to full scope audit procedures, although only Exchequer Partnership plc is considered financially significant to the group.

The company is a 'Special Purpose Vehicle' for a 'Private Finance Initiative / Public Private Partnership' ('PFI / PPP') project. The company carries on the business of renovating and managing the facilities at the main Treasury building at Whitehall, London. It operates as a single business and we audited the complete financial information of the company, including all material account balances, classes of transactions and financial statement disclosures.

The financial and operational management are sub-contracted to a third party service provider. We completed the audit of the group from the offices of the third party service provider where all books and records are maintained.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<i>Group financial statements</i>	<i>Company financial statements</i>
Overall materiality	£156,000 (2017: £130,000).	£10,000 (2017: £10,000).
How we determined it	5% of profit before tax.	2% of total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.	We believe that total assets is the appropriate measure to use, given there are limited transactions within the company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £10,000 for the parent company only accounts and £156,000 for the subsidiary accounts. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7,800 (Group audit) (2017: £6,500) and £500 (Company audit) (2017: £500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 11 November 2002 to audit the financial statements for the year ended 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement is 17 years, covering the years ended 31 December 2002 to 31 December 2018.



Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
30 May 2019

**Consolidated Statement of Comprehensive Income
for the Year Ended 31 December 2018**

	Notes	2018 £'000	2017 £'000
Turnover	3	17,695	16,917
Cost of sales		(11,497)	(11,214)
Gross profit		6,198	5,703
Administrative expenses		(1,267)	(1,182)
Operating profit	5	4,931	4,521
Interest receivable and similar income	6	7,223	7,283
Interest payable and similar expenses	7	(9,023)	(9,205)
Profit before taxation		3,131	2,599
Tax on profit	8	(962)	(841)
Profit for the financial year		2,169	1,758
Other comprehensive income		-	-
Total comprehensive income for the year		2,169	1,758
Profit attributable to: Owners of the parent		2,169	1,758
Total comprehensive income attributable to: Owners of the parent		2,169	1,758

The notes on pages 17 to 30 form part of these financial statements

Exchequer Partnership Holdings Limited (Registered number: 03810496)

Consolidated Balance Sheet
31 December 2018

	Notes	2018 £'000	2017 £'000
Current assets			
Debtors: amounts falling due within one year	12	3,835	4,207
Debtors: amounts falling due after more than one year	12	109,084	112,377
Cash at bank		23,514	16,673
		<u>136,433</u>	<u>133,257</u>
Creditors: amounts falling due within one year	13	<u>(9,265)</u>	<u>(8,543)</u>
Net current assets		<u>127,168</u>	<u>124,714</u>
Total assets less current liabilities		<u>127,168</u>	<u>124,714</u>
Creditors: amounts falling due after more than one year	14	(117,251)	(118,410)
Provisions for liabilities	17	<u>(8,104)</u>	<u>(5,689)</u>
Net assets		<u><u>1,813</u></u>	<u><u>615</u></u>
Capital and reserves			
Called up share capital	18	500	500
Retained earnings	19	<u>1,313</u>	<u>115</u>
Shareholders' funds		<u><u>1,813</u></u>	<u><u>615</u></u>

The financial statements were approved by the Board of Directors on 30 MAY 2019 and were signed on its behalf by:



Director

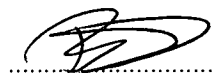
B P MILLSON

Exchequer Partnership Holdings Limited (Registered number: 03810496)

**Company Balance Sheet
31 December 2018**

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	11	<u>500</u>	<u>500</u>
Total assets less current liabilities		<u><u>500</u></u>	<u><u>500</u></u>
Capital and reserves			
Called up share capital	18	<u>500</u>	<u>500</u>
Shareholders' funds		<u><u>500</u></u>	<u><u>500</u></u>
 Company's profit for the financial year		 <u><u>971</u></u>	 <u><u>3,932</u></u>

The financial statements were approved by the Board of Directors on 30 MAY 2019 and were signed on its behalf by:



Director

B P MILLSON

**Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2018**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	500	2,289	2,789
Changes in equity			
Dividends	-	(3,932)	(3,932)
Total comprehensive income	-	1,758	1,758
Balance at 31 December 2017	<u>500</u>	<u>115</u>	<u>615</u>
Changes in equity			
Dividends	-	(971)	(971)
Total comprehensive income	-	2,169	2,169
Balance at 31 December 2018	<u>500</u>	<u>1,313</u>	<u>1,813</u>

**Company Statement of Changes in Equity
for the Year Ended 31 December 2018**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	500	-	500
Changes in equity			
Dividends	-	(3,932)	(3,932)
Total comprehensive income	-	3,932	3,932
Balance at 31 December 2017	<u>500</u>	<u>-</u>	<u>500</u>
Changes in equity			
Dividends	-	(971)	(971)
Total comprehensive income	-	971	971
Balance at 31 December 2018	<u><u>500</u></u>	<u><u>-</u></u>	<u><u>500</u></u>

**Consolidated Cash Flow Statement
for the Year Ended 31 December 2018**

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	22	10,340	9,189
Interest paid		(4,835)	(4,839)
Tax paid		(54)	-
Net cash from operating activities		<u>5,451</u>	<u>4,350</u>
Cash flows from investing activities			
Interest received		<u>7,223</u>	<u>7,283</u>
Net cash from investing activities		<u>7,223</u>	<u>7,283</u>
Cash flows from financing activities			
Loan repayments in year		(4,862)	(4,449)
Equity dividends paid		(971)	(3,932)
Net cash from financing activities		<u>(5,833)</u>	<u>(8,381)</u>
Increase in cash and cash equivalents		<u>6,841</u>	<u>3,252</u>
Cash and cash equivalents at beginning of year	23	<u>16,673</u>	<u>13,421</u>
Cash and cash equivalents at end of year	23	<u><u>23,514</u></u>	<u><u>16,673</u></u>

The notes on pages 17 to 30 form part of these financial statements

**Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2018**

1. Statutory information

Exchequer Partnership Holdings Limited is a company, limited by shares and registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. Accounting policies

Basis of preparing the financial statements

These financial statements were prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentational currency of these financial statements is sterling.

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

All amounts in the financial statements have been rounded to the nearest £1,000.

Measurement convention

The financial statements are prepared on the historical cost basis.

Financial Reporting Standard 102 - reduced disclosure exemptions

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time; and
- No separate parent company Cash Flow Statement with the related notes is included; and
- Key Management Personnel compensation has not been included a second time.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 December 2018. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.

In assessing control, the group takes into consideration potential voting rights that are currently exercisable. A special purpose entity (SPE) is consolidated if the group concludes that it controls the SPE.

Under Section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

2. Accounting policies - continued

Significant judgements and estimates

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the Group's accounting policies are described below:

- Accounting for the service concession contract and finance debtor requires estimation of a finance debtor interest rate.

Going concern

The Group currently has £122,453,000 (2017: £123,127,000) of total debt. The Group forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities.

The Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to December 2037. The Group has considerable financial resources together with long-term contracts with HM Treasury. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Finance debtor and service income

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company under FRS102 because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with HM Treasury. The Company has taken the transition exemption in FRS102 Section 35.10(i) which allows it to continue the service concession arrangement accounting policies from previous UK GAAP.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. Amounts receivable under the agreement with the HM Treasury relating to the main Treasury building facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

2. Accounting policies - continued

Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

Basic financial instruments

(a) Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

(b) Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

(c) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits.

(d) Restricted cash

The Group is obligated to keep a separate cash reserve in respect of future financing costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £5,036,000 at the year end (2017: £4,779,000).

The Group is also obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank" balance, amounts to £12,324,000 at the year end (2017: £7,279,000).

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

2. Accounting policies - continued

Deferred tax

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of an asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Impairment excluding deferred tax assets

- Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Interest receivable and interest payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method. Other interest receivable and similar income is recognised in profit or loss as it accrues.

Dividend income

Dividend income is recognised in the profit and loss account on the date the company's right to receive payment is established.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date. Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

3. Turnover

The turnover and profit on ordinary activities before taxation are attributable to the one principal activity of the group and arise entirely within the United Kingdom.

4. Employees and directors

	2018	2017
	£000	£000
Recharges in respect of non-executive directors' services to third parties	<u>266</u>	<u>258</u>

The Group had no employees during the year (2017: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges. The Directors received no remuneration for their services during the year (2017: £nil). A payment is made by the company to their employer for the services of the non-executive directors.

5. Operating profit

The operating profit is stated after charging:

	2018	2017
	£'000	£'000
Audit of the subsidiary	9	9
Audit of the parent company	<u>2</u>	<u>2</u>

Auditor's remuneration of £2,000 (2017: £2,000) was, without recharge, borne by Exchequer Partnership Plc, the company's subsidiary undertaking. All fees relate to audit services. No non-audit services were provided.

6. Interest receivable and similar income

	2018	2017
	£'000	£'000
Bank interest	128	2
Finance debtor interest	<u>7,095</u>	<u>7,281</u>
	<u>7,223</u>	<u>7,283</u>

7. Interest payable and similar expenses

	2018	2017
	£'000	£'000
Interest payable on index- linked bonds	8,594	8,772
Interest payable on mezzanine loan	175	180
Other charges	<u>254</u>	<u>253</u>
	<u>9,023</u>	<u>9,205</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

8. Tax on profit

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2018 £'000	2017 £'000
Deferred tax	962	841
Tax on profit	962	841

UK corporation tax has been charged at 19% (2017 - 19.25%).

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £'000	2017 £'000
Profit before tax	3,131	2,599
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.250%)	595	500
Effects of:		
Expenses not deductible for tax purposes	389	381
Income not taxable for tax purposes	(24)	(25)
Change in tax rate on deferred tax balances	2	(15)
Total tax charge	962	841

Deferred tax charges recognised in profit and loss relate to:

	2018 £000	2017 £000
Tax losses	1,008	867
Origination and reversal of timing differences	(46)	(28)
Effects of changes in tax rates	-	2
	962	841

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

9. Individual statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

10. Dividends

	2018 £'000	2017 £'000
Ordinary (2017: £1) shares of £1 each		
Final	<u>971</u>	<u>3,932</u>

The dividend per share for the financial year was £1.94 (2017: £7.86)

11. Fixed asset investments

Company

	Unlisted investments £'000
Cost	
At 1 January 2018	
and 31 December 2018	<u>500</u>
Net book value	
At 31 December 2018	<u>500</u>
At 31 December 2017	<u>500</u>

The group or the company's investments at the Balance Sheet date in the share capital of companies include the following:

Subsidiary

Exchequer Partnership Plc

Registered office: 3rd Floor, 3-5 Charlotte Street, Manchester M1 4HB

Nature of business: Operation of facilities management

	% holding		
Class of shares:	100.00		
Ordinary		2018 £'000	2017 £'000
Aggregate capital and reserves		1,813	615
Profit for the year		<u>2,169</u>	<u>1,758</u>

The carrying amount of the investment is supported by the net assets of the subsidiary undertaking.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

12. Debtors

	Group	
	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	87	679
Finance debtor	3,294	3,096
Other debtors	30	69
Tax	54	-
Prepayments and accrued income	370	363
	<u>3,835</u>	<u>4,207</u>
Amounts falling due after more than one year:		
Finance debtor	<u>109,084</u>	<u>112,377</u>
Aggregate amounts	<u>112,919</u>	<u>116,584</u>

13. Creditors: amounts falling due within one year

	Group	
	2018	2017
	£'000	£'000
Index-linked guaranteed secured bonds (see note 15)	4,874	4,416
Mezzanine loan (see note 15)	329	302
Trade creditors	168	1,453
Taxation and social security	616	732
Other creditors	2,431	1,101
Accruals and deferred income	847	539
	<u>9,265</u>	<u>8,543</u>

14. Creditors: amounts falling due after more than one year

	Group	
	2018	2017
	£'000	£'000
Index-linked guaranteed secured bonds (see note 15)	114,238	115,068
Mezzanine loan (see note 15)	3,013	3,342
	<u>117,251</u>	<u>118,410</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

15. Loans

An analysis of the maturity of loans is given below:

	Group	
	2018	2017
	£'000	£'000
Amounts falling due within one year or on demand:		
Index-linked guaranteed secured bonds	4,874	4,416
Mezzanine loan	329	302
	<u>5,203</u>	<u>4,718</u>
Amounts falling due between one and two years:		
Index-linked guaranteed secured bonds	4,222	4,874
Mezzanine loan	359	329
	<u>4,581</u>	<u>5,203</u>
Amounts falling due between two and five years:		
Index-linked guaranteed secured bonds	21,952	18,084
Mezzanine loan	1,288	1,179
	<u>23,240</u>	<u>19,263</u>
Amounts falling due in more than five years:		
Repayable by instalments		
Index-linked guaranteed secured bonds	88,064	92,110
Mezzanine loan	1,366	1,834
	<u>89,430</u>	<u>93,944</u>

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**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018****15. Loans - continued**

The effects of indexation in the year increased the amount due to the bond holders by £4,041,000 (2017: £4,223,000).

Terms and debt repayment schedule

The total cash repayable on the loan is as follows:

	Currency	Nominal interest	Year of maturity	Repayment schedule	2018 £000	2017 £000
Index-linked guaranteed secured bonds	GBP	3.58%	2035	Semi-annual	120,742	121,255
Mezzanine loan	GBP	LIBOR +4%	2026	Semi-annual	3,366	3,674

The index-linked guaranteed secured bonds are secured by a fixed charge over the whole of the property, assets and undertaking of the company, assignment of all rights to any proceeds of any insurance policies and all present and future book and other charges over all assets which have not been secured by way of a fixed charge or assignment.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

16. Financial instruments

	2018	2017
	£000	£000
Assets measured at amortised cost	<u>112,919</u>	<u>116,584</u>
Liabilities measured at amortised cost	<u>(126,516)</u>	<u>(126,953)</u>

The index-linked guaranteed secured bonds and Mezzanine loan are considered to be basic financial instruments as both satisfy the criteria set out in FRS102 Section 11.9 in that they are for a fixed amount of debt and both have either a fixed rate of interest or positive variable rates of interest. The finance debtor is also considered a basic financial instrument due to it being a long term receivable. As all are classed as basic financial instruments they are held at amortised cost.

The group's principal financial instruments comprise short term bank deposits, an index-linked guaranteed secured bond and a Mezzanine loan.

The main objective of these financial instruments is to ensure that the profile of the debt service costs is tailored to match expected revenues arising from the Concession Agreement.

The group does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities.

The main risks arising from the group's financial instruments are finance risk, liquidity risk, credit risk, and interest rate risk and they are summarised below.

- Finance risk

In order to fund the development of the Treasury building, the group has issued index-linked debt to achieve a correlation between the portion of the unitary payment that increases at a fixed inflationary rate and the finance charges.

- Liquidity risk

The group builds up sufficient cash balances to ensure it is able to meet its loan and other liabilities.

- Credit risk

The above financial instruments are subject to credit and market risk. The carrying value of financial assets represents the maximum credit exposure. The group maintains regular liaison with Citi as insurance guarantor of the Bond.

- Interest rate risk

The company has no hedging arrangements in place to eliminate risk from interest rate movements and fluctuations in Retail Price indices however a 'natural' hedge is arrived at by a percentage of the availability fee inflating at a fixed rate to match the fixed-rate senior debt servicing.

- Market risk

Market risk is the sensitivity of the value of financial instruments to changes in related interest rates. The company's financial instruments are not subject to significant changes in interest rates.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

17. Provisions for liabilities

	Deferred tax £000	Lifecycle provision £000	Total £000
At beginning of year	2,301	3,388	5,689
Utilised during year	-	(102)	(102)
Charge to the profit and loss for the year	962	1,555	2,517
At end of year	3,263	4,841	8,104

Lifecycle provisions represent the difference between the cumulative charge to profit and loss and the cumulative amount of cash expenditure paid to the lifecycle sub-contractor. Lifecycle expenditure is charged to profit and loss on a systematic basis, so as to give an annual charge, increasing with inflation each year, which in total equates to the total amount of the forecast lifecycle expenditure to be paid over the whole concession. The amounts and timing of these payments are defined in the sub-contract agreement.

Under the terms of the contract with HM Treasury date 5 May 2000 Exchequer Partnership Plc is committed to payments totalling £21 million for lifecycle expenditure over the remaining contract term.

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	(4,673)	(4,799)	(4,673)	(4,799)
Unused tax losses	1,410	2,498	-	-	1,410	2,498
Tax assets / (liabilities)	1,410	2,498	(4,673)	(4,799)	(3,263)	(2,301)
Net of tax (liabilities) / assets	(1,410)	(2,498)	1,410	2,498	-	-
Net tax liabilities	-	-	(3,263)	(2,301)	(3,263)	(2,301)

In the year ended 31 December 2019 a net increase in the deferred tax liabilities of £1,115,000 is expected to occur due to the utilisation of tax losses.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

18. Called up share capital

Allotted, issued and fully paid:		Nominal value:	2018	2017
Number:	Class:		£	£
500,000	Ordinary (2017: £1)	£1	<u>500,000</u>	<u>500,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

19. Reserves

Group

	Retained earnings £'000
At 1 January 2018	115
Profit for the year	2,169
Dividends	(971)
At 31 December 2018	<u>1,313</u>

Company

	Retained earnings £'000
Profit for the year	971
Dividends	(971)
At 31 December 2018	<u>-</u>

20. Ultimate parent company

In the opinion of the directors, the ultimate controlling party comprises Consolidated Investment Holdings Limited and Aberdeen Sidecar LP Inc. acting together.

21. Related party disclosures

Civis PFI/PPP Infrastructure Fund LP

50% shareholder in Consolidated Investment Holdings Limited (CIHL)

The related party provided director's services to the group in the year amounting to £67,000 (2017: £64,000). The balance due at the year end was £Nil (2017: £Nil).

Aberdeen Infrastructure Finance GP Ltd

Sister company of 50% shareholder in CIHL

The related party provided director's services to the group in the year amounting to £67,000 (2017: £64,000). The balance due at the year end was £Nil (2017: £Nil).

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018**

21. Related party disclosures - continued

Aberdeen Sidecar LP Inc.

50% shareholder in Exchequer Partnership Holdings Limited

The related party provided director's services to the group in the year amounting to £133,000 (2017: £129,000). The balance due at the year end was £Nil (2017: £Nil).

Albany SPC Services Limited

100% owned by Civis PFI/PPP Infrastructure Fund LLP

The related party provided management services to the group in the year amounting to £212,000 (2017: £205,000). The balance due at the year end was £Nil (2017: £Nil).

22. Reconciliation of profit for the financial year to cash generated from operations

	2018	2017
	£'000	£'000
Profit for the financial year	2,169	1,758
Decrease in finance debtor	3,095	2,909
Increase in provisions	1,453	450
Finance costs	9,023	9,205
Finance income	(7,223)	(7,283)
Taxation	962	841
	<u>9,479</u>	<u>7,880</u>
Decrease/(increase) in trade and other debtors	624	(221)
Increase in trade and other creditors	237	1,530
	<u>237</u>	<u>1,530</u>
Cash generated from operations	<u>10,340</u>	<u>9,189</u>

23. Cash and cash equivalents

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2018

	31/12/18	1/1/18
	£'000	£'000
Cash and cash equivalents	<u>23,514</u>	<u>16,673</u>

Year ended 31 December 2017

	31/12/17	1/1/17
	£'000	£'000
Cash and cash equivalents	<u>16,673</u>	<u>13,421</u>