Registered in England and Wales
Company Number: 04398020

Foreland Holdings Limited

and its subsidiary companies

Financial Statements

31 December 2018

Foreland Holdings Limited

and its subsidiary companies

Board of Directors

S D P Williams - Managing Director

P B Morton resigned 19 February 2019

J W F Warwick

R A J T Chaffey

Company Secretary and Registered Office

R A J T Chaffey

4th Floor, 117 - 119 Houndsditch, London EC3A 7BT

Auditors

BDO LLP

150 Aldersgate Street, London, EC1A 4AB

Bankers

Lloyds TSB Bank Plc

25 Gresham Street, London, EC2V 7HN

Santander UK Plc

2 Triton Square, Regent's Place, London, NW1 3AN

Solicitors

Watson, Farley & Williams

15 Appold Street, London, EC2A 2HB

Company No. 04398020

Strategic Report

The Group owns and operates four Ro-Ro ships. Throughout the year these four ships were deployed with the UK Ministry of Defence ("MoD") under a long term Strategic Sealift Service Concession Agreement ("Concession Agreement").

The key financial indicators monitored by the Group are turnover and operating margin. All vessels completed routine dry-dockings in 2017 with the next scheduled for 2022.

The result on vessel trading showed an increase in gross profit from £10.1m in 2017 to £10.4m in 2018. The profit for the year has increased from £5.1m in 2017 to £5.7m in 2018.

At reporting date, the Group maintained a strong cash position of £5.1m. Total equity has increased from £16.2m in 2017 to £16.7m in 2018.

The ship management contracts held by AW Ship Management Ltd, formerly Andrew Weir Shipping Ltd, (for technical management) continue as before. AW Ship Management Limited carry out the crew management and delegate all functional duties to AW Crewing Services.

The Group elected to enter the UK Tonnage Tax regime in August 2002. The initial election was for 10 years and it was renewed in 2018 and it continues on an annual rolling basis. The Group meets its obligation to train cadets.

The MoD income was close to budget.

The Group fixed, at the commencement of the Concession Agreement, the interest rate costs on its bank loans through swap arrangements for the duration of the financing, and the Concession Agreement with the MoD reflects these arrangements, see Notes 18 and 24 to the financial statements. Any prepayment of the finance for the Group's assets may result in an adverse cost to unwind the associated interest rate derivatives.

Strategic Report (continued)

Since May 2014, the Group has operated four Ro-Ro ships which are all dedicated to the MoD's Concession Agreement. The future profitability of the Group will therefore rely on the good performance of those ships within the terms of the Concession Agreement. This Private Finance Agreement runs to 31 December 2024. The Directors expect the ships to be suitable for future trading beyond that date. Adequate insurance cover is in place to meet the assessed risks.

The Group's income from UK MoD is by way of a "take or pay" daily rate payable for the use of each ship. This rate is adjusted annually by reference to a basket of indices. It is possible that the trends for inflation and wages may cause a negative adjustment to the take or pay rate, and the Group could suffer a reduction in profit as a result.

The Group does not hold or issue derivatives and other financial instruments for speculative purposes.
It is the policy of the Group to ensure that all sections of the community have an equal opportunity in matters related to employment.

The Group strives to maintain the highest possible standards in corporate governance and bases its actions on the principles of openness, integrity and accountability.

Directors

The names of the directors of the Company as at the date of this report are listed on page 1.

The Group has directors' liability insurance in place.

Independent Auditors

On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in their place. BDO LLP has indicated its willingness to continue in office.

Financial Risk Management Objectives and Policy

The financial risk management objectives and policies of the Group are disclosed in Note 24(d).

This statutory strategic report was approved by the Board on 7th June 2019
and signed on its behalf by:

R. A. J. T. Chaffey

R A J T Chaffey
Secretary

Directors' Report

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

The financial statements have been prepared under, and comply with, International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

Please refer to the strategic report on pages 1 to 2 for the names of the directors, activities and the likely future developments of the Group and a discussion of the risks and uncertainties. Please refer to Note 24 of the financial statements for further disclosure of the financial risks.

Results and Dividends

The Group generated a profit for the financial year after taxation of £5.7 million (2017: £5.1 million) and a dividend of £5.2 million (2017: £4.0 million) was paid during the year.

Statement as to disclosure of information to auditors

The directors confirm at the time when this report is approved:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all steps that ought to have been taken as a director, in order to be aware of any relevant audit information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

The report of the directors was approved by the Board on 7th June 2019
and signed on its behalf by:

R. A. J. T. Chaffey

R A J T Chaffey
Secretary

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company; such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Foreland Holdings Limited

We have audited the financial statements of Foreland Holdings Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2018 which comprise consolidated statement of comprehensive income, company statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flow, company statement of cash flow, consolidated statement of changes in equity, company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies At 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- 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 or the parent 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.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent Auditor's Report to the Members of Foreland Holdings Limited (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Michael Simms

Michael Simms, *Senior Statutory Auditor*
For and on behalf of BDO LLP, Statutory Auditor
150 Aldersgate Street
London, EC1A 4AB

14 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Foreland Holdings Limited
and its subsidiary companies

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018	2017
		£'000's	£'000's
Revenue	4	**23,508**	23,487
Cost of sales		**(13,151)**	(13,390)
Gross profit		**10,357**	10,097
Administrative expenses		**(916)**	(842)
Operating profit	5	**9,441**	9,255
Interest receivable and similar income	6	**28**	4
Interest payable and similar charges	7	**(3,743)**	(4,190)
Profit before taxation		**5,726**	5,069
Tax expense	8	**-**	-
Profit for the year		**5,726**	5,069
Other Comprehensive Income			
Other comprehensive income for the year		**-**	-
Total Comprehensive Income for the year		**5,726**	5,069

The notes on pages 14 to 31 form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Share Capital £'000's	Retained Earnings £'000's	Total Equity £'000's
Balance at 31 December 2016	**100**	**15,003**	**15,103**
Total comprehensive income for year	-	5,069	5,069
Dividends paid (Note 11)	-	(4,000)	(4,000)
Balance at 31 December 2017	**100**	**16,072**	**16,172**
Total comprehensive income for year	-	5,726	5,726
Dividends paid (Note 11)	-	(5,190)	(5,190)
Balance at 31 December 2018	**100**	**16,608**	**16,708**

The notes on pages 14 to 31 form part of these financial statements.

Company Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018 £'000's	2017 £'000's
Revenue			
Dividends from subsidiary		**5,190**	4,000
Interest receivable and similar income	6	**19**	4
Interest payable and similar charges	7	**(17)**	(6)
Profit before taxation		**5,192**	3,998
Tax expense	8	**-**	-
Profit for the year		**5,192**	3,998

Company Statement of Changes in Equity
For the year ended 31 December 2018

	Share Capital £'000's	Retained Earnings £'000's	Total Equity £'000's
Balance at 31 December 2016	**100**	**-**	**100**
Total comprehensive income for year	-	3,998	3,998
Dividends paid (Note 11)	-	(4,000)	(4,000)
Balance at 31 December 2017	**100**	**(2)**	**98**
Total comprehensive income for year	-	5,192	5,192
Dividends paid (Note 11)	-	(5,190)	(5,190)
Balance at 31 December 2018	**100**	**-**	**100**

The notes on pages 14 to 31 form part of these financial statements.

Consolidated Statement of Financial Position
At 31 December 2018

	Note	2018 £'000's	2017 £'000's
Non-current assets			
Ships and equipment	12	**5,686**	7,252
Finance lease receivables	14	**46,871**	54,514
Other financial assets	15	**4,161**	6,344
		56,718	68,110
Current assets			
Finance lease receivables	14	**7,644**	7,317
Other financial assets	15	**1,995**	2,462
Trade and other receivables	16	**3,892**	1,140
Cash and cash equivalents	21	**5,095**	7,335
		18,626	18,254
Less: Current liabilities			
Trade and other payables	17	**1,501**	1,224
Other financial liabilities	18	**9,243**	9,498
Contract liabilities	19	**1,336**	1,336
		12,080	12,058
Net current assets		**6,546**	6,196
Total assets less current liabilities		**63,264**	74,306
Less: Non-current liabilities			
Other financial liabilities	18	**39,876**	50,118
Contract liabilities	19	**6,680**	8,016
		46,556	58,134
Net Assets		**16,708**	16,172
Equity			
Share capital	20	**100**	100
Retained earnings		**16,608**	16,072
Total Equity		**16,708**	16,172

Approved by the Board and authorised for issue on 7th June 2019
Signed on its behalf by S D P Williams, Director

The notes on pages 14 to 31 form part of these financial statements.

Foreland Holdings Limited

and its subsidiary companies

Company Statement of Financial Position

At 31 December 2018

	Note	2018 £'000's	2017 £'000's
Non-current assets			
Investment in subsidiaries	13	**100**	100
Current assets			
Cash and cash equivalents	21	**3,639**	4,235
Less: Current liabilities			
Interest due to related companies	17	**10**	3
Other financial liabilities	18	**604**	604
		614	607
Net current assets		**3,025**	3,628
Total assets less current liabilities		**3,125**	3,728
Less: Non-current liabilities			
Other financial liabilities	18	**(3,025)**	(3,630)
Net Assets		**100**	98
Equity			
Share capital	20	**100**	100
Retained earnings		**-**	(2)
Total Equity		**100**	98

Approved by the Board and authorised for issue on 7th June 2019
Signed on its behalf by S D P Williams, Director

The notes on pages 14 to 31 form part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 £'000's	2017 £'000's
Profit before taxation		**5,726**	5,069
Adjustments for:			
Depreciation	12	**1,566**	1,166
Finance lease income receivable		**(2,566)**	(2,880)
Interest receivable and similar income	6	**(28)**	(4)
Interest payable and similar charges	7	**3,743**	4,190
		8,441	7,541
Increase in trade and other receivables		**(2,754)**	(404)
Increase in trade and other payables		**286**	734
Decrease in contract liabilities		**(1,336)**	(1,336)
		4,637	6,535
Finance lease instalments received		**9,883**	9,883
Cash generated from operations		**14,520**	16,418
Interest paid		**(3,751)**	(4,209)
Taxation paid		**-**	-
Net cash from operating activities		**10,769**	12,209
Cash flows from investing activities			
Interest received		**28**	4
Capital expenditure		**-**	(7,828)
Net cash generated from/(used in) investing activities		**28**	(7,824)
Cash flows from financing activities			
Dividends paid	11	**(5,190)**	(4,000)
Repayment of bank loan facilities		**(6,432)**	(6,803)
(Repayment) / drawdown of offset		**(810)**	4,210
Repayment of other loans		**(605)**	(605)
Net cash used in financing activities		**(13,037)**	(7,198)
Net decrease in cash and cash equivalents		**(2,240)**	(2,813)
Cash and cash equivalents at beginning of year		**7,335**	10,148
Cash and cash equivalents at end of year	21	**5,095**	7,335

The notes on pages 14 to 31 form part of these financial statements.

Foreland Holdings Limited
and its subsidiary companies

Company Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 £'000's	2017 £'000's
Profit before taxation		**5,192**	3,998
Adjustments for:			
Dividends from subsidiary		**(5,190)**	(4,000)
Interest receivable and similar income	6	**(19)**	(4)
Interest payable and similar charges	7	**17**	6
Cash generated from operations		**-**	-
Interest paid		**(10)**	(8)
Net cash used in operating activities		**(10)**	(8)
Cash flows from investing activities			
Dividends from subsidiary		**5,190**	4,000
Interest received		**19**	4
Net cash generated from investing activities		**5,209**	4,004
Cash flows from financing activities			
Dividends paid	11	**(5,190)**	(4,000)
Repayment of loan notes		**(605)**	(605)
Net cash used in financing activities		**(5,795)**	(4,605)
Net decrease in cash and cash equivalents		**(596)**	(609)
Cash and cash equivalents at beginning of year		**4,235**	4,844
Cash and cash equivalents at end of year	21	**3,639**	4,235

The notes on pages 14 to 31 form part of these financial statements.

1. General

Foreland Holdings Ltd is a company incorporated in England and Wales. The address of the registered office is given on page 1. The Company is a holding company and the Group was established to provide and operate six ships under a Concession Agreement dated 27 June 2002 with the MoD. There have been various minor changes to that Agreement since. In April 2012 a Deed of Amendment was agreed with the MoD which among other things provided for the disposal of two of the six ships which were the subject of the Concession Agreement of 2002. These two ships were sold in 2014 and all other changes have been reflected in the financial statements.

The parent company is Hadley Shipping Ro-Ro Ltd and the ultimate holding company is Warwick and Esplen Ltd.

2. Accounting Policies

(a) Basis of preparation

The financial statements are prepared in Pounds Sterling as this is the currency of the primary economic environment in which the Group operates.

The financial statements have been prepared under, and comply with, International Financial Reporting Standards (IFRS) as adopted by the European Union.

(b) Basis of consolidation

The consolidated financial statements incorporate the results for the year of the Company and of its subsidiaries, Foreland Shipping Ltd and AWSR Shipping Ltd.

(c) Investments in subsidiaries

Investments held by the Company in subsidiaries are shown at cost less provision for impairment.

(d) Ships and equipment

Ships and equipment are stated at cost less accumulated depreciation and any provision for impairment.

Depreciation is provided to write off the cost of fixed assets, after allowing for estimated residual value, on a straight line basis over their estimated useful lives as follows:-

i) Ships from date of delivery until 31 December 2024 (the date of termination of the agreement with the MoD).
ii) Dry-dock over the dry-dock cycle of 5 years.
iii) Equipment over 4 years.

The Group reviews ships and equipment for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The recoverable amount is the higher of an asset's net selling price and value in use based on estimated future cash flows. Provision for impairment in value of ships and equipment is recognised in profit or loss in the statement of comprehensive income.

The estimated residual values and useful economic lives of the ships are reviewed annually.

(e) Finance leases (as lessor)

Amounts receivable under finance leases represent the total outstanding investment in the leases. Finance lease income is allocated to accounting periods to reflect a consistent rate of return on the Group's investment.

(f) Cash

Cash comprises cash in hand and short-term deposits with an original maturity of three months or less with any qualifying financial institution.

2. Accounting Policies (continued)

(g) Derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income. Amounts deferred in other comprehensive income are recognised in profit or loss in the Statement of Comprehensive Income in the same period in which the hedged firm commitment or transaction affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting would be recognised as profit or loss in the statement of comprehensive income as they arise.

The Company has incorporated the changes made to IFRS 9 Financial Instruments for the measurement of financial assets and financial liabilities and has evaluated the extent of the impact that the standard will have on its financial statements. The application of IFRS9 has resulted in recognition of some financial assets under the category "Financial assets at amortised cost" (Note 24(c)). These financial assets were previously categorised as "Loans and receivables" On application the effect is not considered to be material.

Other financial instruments are recognised when the Group has become party to the contractual provisions of the instrument.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period.

Equity instruments
Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade receivables
Trade receivables are initially stated at their fair value and reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made for an amount equal to life time expected loss when there is objective evidence that credit risk has increased significantly since the initial recognition. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and the default in payments are considered indicators of increased credit risk. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The amount of the allowance is recognised as profit or loss in the statement of comprehensive income.

Trade payables
Trade payables are initially measured at fair value.

Provisions
Provisions are recognised where amounts are expected to be payable by the Group in the future, in respect of past events, where it is probable that payments will be required to settle the obligation and where a reliable estimate can be made of the amounts involved.

(h) Foreign currencies

Transactions in foreign currencies are translated into Pounds Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rate of exchange ruling at the end of the reporting period. All resultant differences on exchange are dealt with through profit or loss in the Statement of Comprehensive Income.

(i) Revenue recognition

Revenue comprises the value of services and finance lease income supplied by the Group, exclusive of value added tax, in respect of shipping operations carried out during the year. Time charter and ship operating income is recognised on a time basis.

2. Accounting Policies (continued)

(i) Revenue recognition (continued)

The Group has incorporated the changes made to IFRS 15 Revenue from Contracts with Customers, with effect 1 January 2018 for the disclosure of contracts with customers and has evaluated the extent of the impact that the standard will have on its financial statements.

The adaptation of IFRS 15 has resulted in reclassification of Deferred Income to Contract Liabilities. There was no change in the amount accounted. The cash was received in advance at the inception of the contract.

Contract Liability is recognised over the duration of underlying lease.

(j) Borrowing costs

Borrowing costs are charged to profit or loss in the statement of comprehensive income as incurred with the exception of any borrowing costs directly attributable to the construction of fixed assets which are added to the costs of those assets. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on assets, is deducted from the cost of those assets.

(k) Taxation

Tonnage tax in respect of the Group's shipping operations is provided by reference to the net tonnage of the ships at the current rates and charged to cost of sales. Corporation tax is payable at the current rate on taxable income arising from activities not qualifying for tonnage tax.

Deferred income taxes are provided for on all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred income tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the financial reporting date.

(l) Pension costs
The Company's original defined benefit pension scheme, the Merchant Navy Officers Pension Fund (MNOPF), has closed to future defined benefit accrual. The trustees of the MNOPF have hedged current liabilities for longevity and investment risks. All extant pension schemes for the ships' crew are defined contribution schemes and charged to profit or loss in the statement of comprehensive income.

(m) Standards in issue but not yet effective – adopted by the EU

The financial statements have been drawn up on the basis of accounting Standards, Interpretations and amendments effective or early adopted at the beginning of the accounting period on 1 January 2018.

Management have concluded that there are no relevant Standards or Interpretations in issue that are not yet adopted, that will have a significant impact on the financial statements other than the following:

(n) IFRS 16 Leases

The standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, will be required to recognise all leased assets on their balance sheet as 'right-of-use assets' with a corresponding lease liability. The requirements for lessors are substantially unchanged.

On application of the standard the disclosures are likely to increase for both lessors and lessees. The standard includes principles on disclosing the nature, amount, timing and variability of lease payments and cash flows, by providing qualitative and quantitative information.

2. Accounting Policies (continued)

(n) IFRS 16 Leases (continued)

The Group has evaluated the extent of the impact that the standard will have on its financial statements, and the effect is not considered likely to be material, however further disclosures will be required.

The standard is effective for periods beginning on or after 1 January 2019.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, there were no critical judgements or estimates that management made that have a significant effect on the amounts recognised in the financial statements.

4. Revenue

	2018	2017
	£'000's	£'000's
Group		
Revenue has arisen from:		
Services provided	**20,942**	20,607
Finance lease income	**2,566**	2,880
	23,508	23,487

5. Operating Profit

	2018	2017
	£'000's	£'000's
Group		
Operating profit is arrived at after charging/(crediting):		
Depreciation	**1,566**	1,166
Auditors' remuneration:		
Statutory audit	**29**	25
Taxation services	**3**	6
Foreign exchange (gain)/loss	**(1)**	31

6. Interest Receivable and Similar Income

	2018	2017
	£'000's	£'000's
Group		
Bank interest receivable	**28**	4
Company		
Bank interest receivable	**19**	4

7. Interest Payable and Similar Charges

	2018	2017
	£'000's	£'000's
Group		
Bank loans	**3,726**	4,184
Other loans	**17**	6
	3,743	4,190
Company		
Other loans	**17**	6

8. Taxation

The Group is in the UK tonnage tax regime under which its ship owning and operating activities are taxed based on the net tonnage of ships operated. Tonnage tax is charged separately as an expense in cost of sales. Any income and profits outside the tonnage tax regime are taxed under the normal U.K. corporation tax rules.

	2018 £'000's	2017 £'000's
Current taxation: UK corporation tax charge for the year	-	-

The Company has no taxation chargeable on the profit for the year (2017: nil).

Factors affecting the corporation tax charge in the year:

	2018 £'000's	2017 £'000's
The differences are explained below:		
Profit on ordinary activities before tax	**5,726**	5,069
Less profits assessable under the tonnage tax regime	**(5,677)**	(5,024)
Revised profit on ordinary activities before tax	**49**	45
Revised profit on ordinary activities multiplied by the marginal rate of corporation tax in the UK of 19% (2017: standard rate 19.25%)	**9**	9
Tonnage tax for the year at 19% charged to cost of sales (2017: 19.25%)	**(9)**	(9)
	-	-

9. Staff Costs

An analysis of staff costs, including directors' remuneration is as follows:

	2018 £'000's	2017 £'000's
Wages and salaries	**629**	400
Social security costs	**71**	44
	700	444

The average monthly number of Group full-time employees during the year was 5 (2017: 4).

The Company has no employees and no staff costs (2017: nil).

The remuneration of employees is determined by the remuneration committee having regard to the performance of the Company, the performance of individuals and market trends.

Ships' crew are employed by Foreland Shipping (Guernsey) Ltd, a wholly owned subsidiary of a related party.

10. Directors' Emoluments

	2018 £'000's	2017 £'000's
Directors' emoluments, including chairman's fees	**479**	309

The highest paid director's salary is £148,000 (2017 : £140,000).

11. Dividends on Equity Shares

	2018 £'000's	2017 £'000's
Dividends paid of £51.90 per share (2017: £40 per share)	**5,190**	4,000

12. Ships and Equipment

Group 2018	**Dry-Dock** £'000's	**Equipment** £'000's	**Total** £'000's
Cost			
At 1 January 2018	**7,828**	**13**	**7,841**
At 31 December 2018	**7,828**	**13**	**7,841**
Depreciation			
At 1 January 2018	**576**	**13**	**589**
Charge for the year	**1,566**	**-**	**1,566**
At 31 December 2018	**2,142**	**13**	**2,155**
Net book value			
At 31 December 2018	**5,686**	**-**	**5,686**

Group 2017	Dry-Dock £'000's	Equipment £'000's	Total £'000's
Cost			
At 1 January 2017	5,276	13	5,289
Additions	7,828	-	7,828
Disposals	(5,276)	-	(5,276)
At 31 December 2017	7,828	13	7,841
Depreciation			
At 1 January 2017	4,686	13	4,699
Charge for the year	1,166	-	1,166
Disposals	(5,276)	-	(5,276)
At 31 December 2017	576	13	589
Net book value			
At 31 December 2017	7,252	-	7,252

13. Investment in Subsidiaries

	2018 £'000's	2017 £'000's
Company		
Cost and net book value:		
Shares in subsidiary companies	**100**	100

Investments include £100k relating to 100% of the issued share capital of Foreland Shipping Limited and £100 relating to 100% of the issued share capital of AWSR Shipping Limited. Details of subsidiaries are included in Note 23.

14. Finance Lease Receivables

	2018 £'000's	2017 £'000's
Group		
Receivable within one year	**7,644**	7,317
Receivable after more than one year	**46,871**	54,514
At 31 December	**54,515**	61,831
Present value of minimum lease payments		
Amounts receivable		
In one year or less	**7,644**	7,317
Between one and five years	**34,155**	32,692
Later than five years	**12,716**	21,822
	54,515	61,831
Amounts receivable under finance lease		
Amounts receivable		
In one year or less	**9,883**	9,883
Between one and five years	**39,533**	39,533
Later than five years	**13,083**	22,967
	62,499	72,383
Less unearned financial income	**(7,984)**	(10,552)
	54,515	61,831

Finance lease receivables cover four ships against which the banks hold fixed charges as security for the Tranche A loan.

Amounts receivable under finance leases represent the total outstanding investment in the leases which is equal to the present value of the minimum lease payments receivable based on an annual interest rate of 4.5% (2017: 4.5%).

Aggregate lease rentals amounted to £9.9 million during the year ended 31 December 2018 (2017: £9.9 million) comprising capital repayments of £7.3 million (2017: £7 million) and finance lease income included in revenue of £2.6 million (2017: £2.9 million).

15. Other Financial Assets

Fair value of derivatives and financial instruments:	Note	2018 £'000's	2017 £'000's
Non-current assets			
Fair value of interest rate swap contracts	18	**4,161**	6,344
Current assets			
Fair value of interest rate swap contracts	18	**1,995**	2,462

16. Trade and Other Receivables

	2018 £'000's	2017 £'000's
Group		
Trade receivables	**2,724**	189
Other receivables	**829**	614
Prepayments and accrued income	**339**	337
	3,892	1,140

17. Trade and Other Payables

	Note	2018 £'000's	2017 £'000's
Group			
Trade payables		**428**	705
Other payables and accruals		**1,063**	516
Amounts due to related companies	22	**10**	3
		1,501	1,224
Company			
Interest due to related companies	22	**10**	3

18. Other Financial Liabilities

	2018 £'000's	2017 £'000's
Group		
Current liabilities		
Bank loans	**6,644**	6,432
Other loans	**604**	604
Fair value of interest rate swap contracts	**1,995**	2,462
	9,243	9,498
Non-current liabilities		
Bank loans	**32,690**	40,144
Other loans	**3,025**	3,630
Fair value of interest rate swap contracts	**4,161**	6,344
	39,876	50,118
Bank loans		
Current liabilities	**6,644**	6,432
Non-current liabilities	**32,690**	40,144
	39,334	46,576
Bank loans repayable:		
In one year or less	**6,644**	6,432
Between one and two years	**7,545**	6,644
Between two and five years	**25,145**	24,859
In five years or more	**-**	8,641
	39,334	46,576
Loans not wholly repayable within five years:		
Tranche A	**35,705**	42,342
Tranche B	**3,629**	4,234
	39,334	46,576

18. Other Financial Liabilities (continued)

	2018 £'000's	2017 £'000's
Company		
Current liabilities	**604**	604
Non-current liabilities	**3,025**	3,630
	3,629	4,234

Under the terms of a loan agreement between the subsidiary, Lloyds TSB Bank Plc and Santander UK Plc, the Group drew down loans totalling £171.3 million to fund the construction and purchase of six ships. The loans are repayable in six monthly instalments. The Tranche A loan of £158.9 million is repayable between 30 June 2004 and 30 June 2024 and the Tranche B loan of £12.4 million is repayable in equal instalments between 31 July 2004 and 31 July 2024.

Following the restructure and sale of two vessels in 2012 there was a loan repayment of £38.7 million.

Interest is charged on all loans based on Sterling LIBOR plus margins. The margin on Tranche A is 2.00%. The margin on Tranche B is 0.5%.

The Tranche A loan is secured through charges over the four (2017: four) ships and all other assets of Foreland Shipping Limited. The Tranche B loan is secured through the loan notes issued by the Company to the sole shareholder.

Other loans

On 27 June 2002 six million two hundred thousand £1 unsecured subordinated loan notes (2004-2024) were issued by the Company to two of the Company's shareholders in equal proportions. On 19 August 2013 a further £3.3 million loan notes were issued to one of the shareholders as part of the process of purchasing an extra 50% interest in the Company. All loan notes in issue at the year end represent amounts owed to the sole shareholder of the Company. Interest is payable at Sterling LIBOR per annum. The loan notes can be repaid, at the Company's discretion, commencing after 31 July 2004, on the Group's satisfactory compliance with the terms of the bank loan agreement, as referred to above. During the year £0.6 million was repaid and a further £0.6 million is intended to be repaid during 2019.

Derivatives and Financial Instruments

Interest rate swaps

The Group has entered into interest rate swaps to fix the future cash outflows of interest payable on the secured loans so avoiding fluctuations from LIBOR rate movements. The swaps are calculated in accordance with the relevant interest rate swap agreements based on Tranche A loan balances between 27 June 2002 and 30 June 2024 and Tranche B loan balances between 27 June 2002 and 31 July 2024. The interest rates have been fixed on Tranche A at 5.519% and 5.041%, and Tranche B at 5.482% and are compared to Sterling six month LIBOR.

The Concession Agreement includes an embedded derivative in respect of the interest rate swaps. A corresponding asset or liability is recognised in the statement of financial position, equivalent to the fair value of the interest rate swaps, to reflect the fact that the Group bears no financial gain or loss as a result from entering into the interest rate swaps.

18. Other Financial Liabilities (continued)

Interest rate swaps (continued)

	2018 £'000's	2017 £'000's
The fair value of the interest rate swaps is as follows:		
Fair value liability at 1 January	**(8,806)**	(11,614)
Contracts matured in year and transferred to profit	**(2,462)**	(2,908)
Decrease in the year for contracts held at year-end	**5,112**	5,716
Fair value liability at 31 December	**(6,156)**	(8,806)
Current liability	**(1,995)**	(2,462)
Non-current liability	**(4,161)**	(6,344)
	(6,156)	(8,806)

	2018 £'000's	2017 £'000's
The fair value of the embedded derivative is as follows:		
Assets		
Fair value asset at 1 January	**8,806**	11,614
Contracts matured in year and transferred to profit	**2,462**	2,908
Decrease in the year for contracts held at year-end	**(5,112)**	(5,716)
Fair value asset at 31 December	**6,156**	8,806
Current asset	**1,995**	2,462
Non-current asset	**4,161**	6,344
	6,156	8,806

There is no overall impact on retained earnings for the year ended 31 December 2018 or 31 December 2017 as a result of the recognition of the above financial assets and liabilities relating to interest rate swaps and the corresponding embedded derivative.

The fair value liability relating to the interest rate swaps of £6.2 million (2017: £8.8 million) is offset by a corresponding £6.2 million (2017: £8.8 million) fair value asset relating to the embedded derivative in respect of the interest rate swaps included within the Concession Agreement. The interest rate swaps effectively convert the variable LIBOR related interest on the bank loans to a fixed interest rate. This fixed rate interest determined by the interest rate swaps is explicitly recognised in the Concession Agreement as an element of the income receivable from the MoD.

19. Contract Liabilities

	2018 £'000's	2017 £'000's
The balance at 31 December is summarised as follows:		
Current liabilities	**1,336**	1,336
Non-current liabilities	**6,680**	8,016
	8,016	9,352

20. Share Capital

	2018 £'000's	2017 £'000's
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	**100**	100

Shareholders in respect of each class of ordinary shares are entitled to appoint a director.

21. Cash and Cash Equivalents

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amounts of these assets are their fair value.

	2018 £'000's	2017 £'000's
Group		
Cash in hand and balances with banks:		
Restricted Use:		
Bank collateral for Tranche B loan	**3,629**	4,234
Tranche B loan repayment	**302**	2,302
Dry-dock reserve	**1**	1
Total restricted use bank balances	**3,932**	6,537
Unrestricted cash and bank balances	**1,163**	798
Cash and cash equivalents	**5,095**	7,335
Company		
Cash in hand and balances with banks:		
Restricted Use:		
Bank collateral for Tranche B loan	**3,629**	4,234
Unrestricted cash and bank balances	**10**	1
Cash and cash equivalents	**3,639**	4,235

22. Transactions with Related Parties

In addition to the security provided by the sole shareholder in respect of the bank loan disclosed in Note 18, the group received services during the year from the following related parties:

	2018 £'000's	2017 £'000's
Management Services and Reimbursement of Costs:		
AW Ship Management Limited – ship management	**520**	542
AW Crewing Services Limited – crew management	**300**	300
Current related parties transaction for full year:		
Hadley Shipping Company Limited		
– salaries	**700**	424
– management fee	**35**	238
	1,555	1,504

Included in current assets are the following amounts due from related parties:

	2018	2017
Group		
Current assets - Trade and other receivables:		
AW Crewing Services Limited	**79**	54
	79	54

Included in current liabilities are the following amounts due to related parties:

	2018	2017
Group		
Current liabilities - Trade and other payables:		
Hadley Shipping (Ro Ro) Limited	**10**	3
	10	3

The amount due from/to a related party is interest free and repayable on demand.

22. Transactions with Related Parties (continued)

	2018 £'000's	2017 £'000's
Included in liabilities are the following amounts due to related parties:		
Company		
Current liabilities – loan note interest due to related companies:		
Hadley Shipping (Ro-Ro) Limited	**10**	3
Current liabilities – financial liabilities (loan notes):		
Hadley Shipping (Ro-Ro) Limited	**604**	604
Non-current liabilities – financial liabilities (loan notes):		
Hadley Shipping (Ro-Ro) Limited	**3,025**	3,630
	3,639	4,237

Under the terms of the loan note agreement, interest is payable in cash every six months together with any loan note repayments made at the Company's discretion.

Related parties are either shareholders of the Company or are in the same groups of companies as the shareholder.

Compensation of key management personnel, comprising solely directors, is disclosed in Note 10.

23. Subsidiary Undertakings included in the Consolidation

The Company owns 100% of the issued share capital of both Foreland Shipping Limited and AWSR Shipping Limited. Both companies are registered in England and Wales. Foreland Shipping Limited owns and operates ships. AWSR Shipping Limited is a dormant.

24. Financial Instruments

Group

(a) Capital risk management

The Group's objectives when managing capital are:

i) to safeguard the Group's ability to continue as a going concern so that it can continue to provide benefits for stakeholders and returns to its shareholders;
ii) to adhere to various financial conditions as set out in the Financing Agreements with the banks and within the Concession Agreement.

The Group monitors its capital structure on a semi-annual basis to adhere to the requirements as set out in the Financing Agreements with the banks, the Concession Agreement, in the light of changes in economic conditions and the risk characteristics relating to the Group's activities.

In order to maintain or adjust its capital structure, the Group may prepay existing secured loans or vary the amount of dividends paid to its shareholders.

Under the terms of the Financing Agreements with the banks and the Concession Agreement the Tranche B loan is considered to be part of the capital of the Group. Under these agreements the committed equity is considered to be the share capital of the Company and the Tranche B loan balance. Adjusted capital comprises all components of the committed equity and retained earnings (other than amounts recognised in equity relating to cash flow hedges).

24. Financial Instruments (continued)

(a) Capital risk management (continued)

The Financing Agreements specify minimum Debt Service Ratios and a minimum Loan Life Cover Ratio, based on the Tranche A loan, which must be achieved before the Company may make distributions to its shareholders. The Concession Agreement stipulates criteria and reviews to be conducted relating to Equity Internal Rate of Return and distributions to shareholders.

Adjusted capital which the directors believe meets the objectives above, is summarised as follows:

	Adjusted Equity £'000's	Tranche B Loan £'000's	Adjusted Capital £'000's
Balance at 31 December 2018	**16,708**	**3,629**	**20,337**
Balance at 31 December 2017	16,172	4,234	20,406

(b) Significant accounting policies

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in Note 2 to the financial statements.

(c) Categories of financial instruments

2018	**Total**	**Fair value through profit or loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**	**Other balances**
	£'000's	**£'000's**	**£'000's**	**£'000's**	**£'000's**
Non current assets					
Ships and equipment	5,686	-	-	-	5,686
Finance lease receivables	46,871	-	46,871	-	-
Financial assets	4,161	4,161	-	-	-
Current assets					
Finance lease receivables	7,644	-	7,644	-	-
Financial assets	1,995	1,995	-	-	-
Trade and other receivables	3,892	-	3,553	-	339
Cash and cash equivalents	5,095	-	5,095	-	-
Current liabilities					
Trade and other payables	(1,501)	-	-	(428)	(1,073)
Financial liabilities	(9,243)	(1,995)	-	(7,248)	-
Contract liabilities	(1,336)	-	-	-	(1,336)
Non-current liabilities					
Financial liabilities	(39,876)	(4,161)	-	(35,715)	-
Contract liabilities	(6,680)	-	-	-	(6,680)
Net Assets	**16,708**	**-**	**63,163**	**(43,391)**	**(3,064)**

24. Financial Instruments (continued)

(c) Categories of financial instruments (continued)

2017	Total	Fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Other balances
	£'000's	£'000's	£'000's	£'000's	£'000's
Non current assets					
Ships and equipment	7,252	-	-	-	7,252
Finance lease receivables	54,514	-	54,514	-	-
Financial assets	6,344	6,344	-	-	-
Current assets					
Finance lease receivables	7,317	-	7,317	-	-
Financial assets	2,462	2,462	-	-	-
Trade and other receivables	1,140	-	805	-	335
Cash and cash equivalents	7,335	-	7,335	-	-
Current liabilities					
Trade and other payables	(1,224)	-	-	(710)	(514)
Financial liabilities	(9,498)	(2,462)	-	(7,036)	-
Contract liabilities	(1,336)	-	-	-	(1,336)
Non-current liabilities					
Financial liabilities	(50,118)	(6,344)	-	(43,774)	-
Contract liabilities	(8,016)	-	-	-	(8,016)
Net Assets	16,172	-	69,971	(51,520)	(2,279)

(d) Financial risk management objectives and policies

The finance function monitors and manages the financial risks relating to the operations of the Group through internal management reports which analyses exposures by degree and magnitude of risks. These risks are monitored by the directors and include market risk, currency risk, fair value interest rate risk, credit risk and liquidity risk.

The Group uses derivatives to eliminate as far as possible any significant exposure to interest rate movements on borrowing costs. The effect of the derivatives is to fix future interest rates on existing bank loans. The Group does not hold or issue derivatives and other financial instruments for speculative purposes.

i) Interest rate swap contracts

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings over the life of the Concession Agreement. The Concession Agreement includes an embedded derivative in which the MoD acknowledges its responsibility for any fair value gains or losses arising from the interest rate swaps as part of the financial borrowings. A corresponding asset or liability is recognised in the Statement of Financial Position, equivalent to the fair value of the interest rate swaps, to reflect the fact that the Group bears no risk of financial gain or loss resulting from entering into the interest rate swaps.

24. Financial Instruments (continued)

(d) Categories of financial instruments (continued)

ii) Fair value measurements
Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as follows:
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset and liability that are not based on observable market data.

The Group has determined that it does not have any financial instruments categorised as Level 1 or 3 using the fair value hierarchy. The Group has determined that its interest rate swap agreements are categorised as Level 2 using the fair value hierarchy. Amounts categorised as Level 2 are summarised within fair value through profit or loss as set out in Note 24(c).

The fair values of interest rate swap contracts and forward exchange contracts are calculated by management based on external valuations received from the Group's bankers, based on the forward exchange rates and anticipated future interest yields respectively.

(e) Foreign currency risk management

The Group holds €147k (2017: €1k) in a Euro denominated bank account at the financial reporting date.

The Group's financial assets are subject to movements in exchange rate, mainly between GBP and EUR. As at 31 December 2018 should the GBP/EUR rate have increased/decreased by 10% with all variables remaining constant the increase/decrease in the result for the year would have been £13k (2017: £5k).

(f) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by using interest rate swap agreements in accordance with the Financing Arrangements with the bank and the Concession Agreement. It is the Group's policy to hedge 100% of the bank loans for the duration of the Concession Agreement.

The Group's exposure to interest rates on financial liabilities is detailed in Note 18.

i) Interest rate sensitivity analysis
There is no overall effect on retained earnings relating to the interest rate swap agreements and corresponding embedded derivatives included in the Concession Agreement.

ii) Interest rate swap agreements
All interest rate swap agreements exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rate borrowings. The interest rates swaps settle every six months. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

24. Financial Instruments (continued)

(g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The revenue for the ships is determined under a Strategic Sealift Service Concession Agreement.

i) Finance lease receivables
The finance lease receivables are with the MoD and the directors are of the opinion that the Group has only limited exposure to credit risk.

An allowance is made for an amount equal to life time expected loss when there is objective evidence that credit risk has increased significantly since the initial recognition.

ii) Trade receivables
Trade receivables represent amounts recoverable by the Group in respect of revenue and other amounts charged to customers. The Group has limited exposure to credit risk as the Company's major customer is the MoD.

iii) Trade payables
Trade payables represent amounts payable by the Group in respect of goods and services received from suppliers.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables
The following table details the Group's remaining contractual maturity for its financial liabilities:

2018	**Less than 3 months**	**3 months to 1 year**	**1-5 years**	**5+ years**	**Total**
	£'000's	**£'000's**	**£'000's**	**£'000's**	**£'000's**
Non interest bearing	1,501	-	-	-	1,501
Variable interest rate instruments (Note 18)	725	9,824	50,195	-	60,744
Derivative financial instruments (Note 18)	84	1,893	4,340	-	6,317
	2,310	**11,717**	**54,535**	-	**68,562**

2017	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	£'000's	£'000's	£'000's	£'000's	£'000's
Non interest bearing	1,219	-	-	-	1,219
Variable interest rate instruments (Note 18)	735	10,090	53,823	6,865	71,513
Derivative financial instruments (Note 18)	108	2,373	5,874	642	8,997
	2,062	12,463	59,697	7,507	81,729

24. Financial Instruments (continued)

(h) Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

The variable interest rate instruments in the previous tables comprise bank loans and the interest rates have been fixed using interest rate swap agreements. These amounts comprise payments, net of amounts receivable/payable under the interest rate swap agreements. These amounts also include the £1 unsecured subordinated loan notes due to two shareholders.

(i) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
ii) The fair value of finance lease receivables is based on the terms set out in Note 14 to the financial statements. Sterling LIBOR at the time of the commencement of the Concession Agreement was 4.15%. The directors are of the opinion that an appropriate interest rate to be applied to finance lease receivable at 31 December 2018 is 0.98% (2017: 0.96%). The effect on fair values at the financial reporting date including the impact as a result of change to sovereign risk is reported below;
iii) The fair value of bank loans is based on management's assessment of loan financing as at 31 December 2018, based on changes to the existing margins in place, and this is reported below. As the terms of the bank loans and current margins are fixed to the end of the Concession Agreement, the directors do not consider the figures reported below will ever result in an effective impact to its statement of financial position; and
iv) The fair value of derivative instruments is calculated using discounted cash flow analysis using the applicable yield curve derived from quoted interest rates for the duration of the instruments.

	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	2018	**2018**	2017	2017
	£'000's	**£'000's**	£'000's	£'000's
Financial assets:				
Finance lease receivables (Note 14)	**54,515**	**60,595**	61,831	69,892
Financial liabilities:				
Bank loans (Note 18)	**39,334**	**38,578**	46,576	45,653

Company

The Company's statement of financial position is set out on page 11 and comprises cash and cash equivalents of £3.6 million (2017: £4.2 million), interest bearing current liabilities of £0.6 million (2017: £0.6 million) and long term loan notes of £3.0 million (2017: £3.6 million) due to the sole shareholder. The expected maturity of these liabilities is detailed in Note 18 to the financial statements and sensitivity analysis has been reported in Note 24(f).

25. *Note Supporting Statement of Cashflows*

Group - 2018	**Current loans and borrowing**	**Non-current loans and borrowing**	**Total**
	£'000's	**£'000's**	**£'000's**
	Note 18	Note 18	
At 1 January 2018	7,036	43,774	50,810
Cashflow	(7,037)	-	(7,037)
Non-current at 31 December 2017 becoming current at 31 December 2018	7,249	(7,249)	-
Repayment of offset	-	(810)	(810)
At 31 December 2018	**7,248**	**35,715**	**42,963**

Company - 2018	**Current loans and borrowing**	**Non-current loans and borrowing**	**Total**
	£'000's	**£'000's**	**£'000's**
	Note 18	Note 18	
At 1 January 2018	604	3,630	4,234
Cashflow	(605)	-	(605)
Non-current at 31 December 2017 becoming current at 31 December 2018	605	(605)	-
At 31 December 2018	**604**	**3,025**	**3,629**

Group - 2017	Current loans and borrowing	Non-current loans and borrowing	Total
	£'000's	£'000's	£'000's
	Note 18	Note 18	
At 1 January 2017	7,407	46,601	54,008
Cashflow	(7,408)	-	(7,408)
Non-current at 31 December 2016 becoming current at 31 December 2017	7,037	(7,037)	-
Drawdown of offset	-	4,210	4,210
At 31 December 2017	7,036	43,774	50,810

Company - 2017	Current loans and borrowing	Non-current loans and borrowing	Total
	£'000's	£'000's	£'000's
	Note 18	Note 18	
At 1 January 2017	604	4,235	4,839
Cashflow	(605)	-	(605)
Non-current at 31 December 2016 becoming current at 31 December 2017	605	(605)	-
At 31 December 2017	604	3,630	4,234