Exchequer Partnership (No 2) Holdings Limited

Directors' report and financial statements

for the year ended 31 December 2006

Registered Number 4426554

Exchequer Partnership (No 2) Holdings Limited

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Exchequer Partnership (No 2) Holdings Limited

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements of the company and the group for the year ended 31 December 2006

Principal activities and business review
The company is a holding company with a single subsidiary, Exchequer Partnership (No 2) Plc ('EPP') EPP was established to bid for, and subsequently to complete, a 35-year contract with HM Customs and Excise and Inland Revenue to renovate and then manage the facilities at the East End of the main Treasury building formerly Government Offices, Great George Street, Whitehall, London The renovations were completed in November 2004 and H M Customs and Excise and Inland Revenue then moved into the refurbished accommodation Management of the facilities commenced from this time

The project agreement with HM Customs and Excise and Inland Revenue was signed on 13 December 2002 and Financial Close for the project was achieved on 15 January 2003

Development and performance of the business
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 Company's management services agent and periodic reporting by the independent Technical Assessor A number of contract variations have been successfully implemented

Principal risks and uncertainties
The availability fee and the majority of the costs are contractually linked to the RPI 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 renewals are within budgeted amounts

Key performance indicators
The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator These are reported monthly to the Board and have been extremely small in relation to total availability fee payments

Another key indicator is 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

Results and dividends
The group achieved a loss of £430,000 in the year (2005 profit of £3,805,000) No dividend is proposed (2005 £nil)

Directors and their interests
The directors who held office during the year are given below

T D Anderson
D J Camp (resigned 31 March 2006)
S Hockaday
F P Lewis (resigned 31 March 2006)
Sir Stuart Lipton (resigned 31 March 2006)
J McDonagh (appointed 31 March 2006)
M Ryan (appointed 31 March 2006)

The directors have no interest in the share capital of the company according to the Register maintained by the company under Section 325 of the Companies Act 1985

Directors' report for the year ended 31 December 2006 (continued)

Creditor payment policy
The company's policy is to agree terms of payments with key suppliers For all other suppliers, terms are agreed for each transaction The company endeavours to abide by the terms of payment agreed with suppliers As at 31 December 2006 the creditor days represented by the closing creditors balance were 45 (2005 36)

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period In preparing those financial statements, the directors are required to

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

The directors have confirmed that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each director at the date of the approval of the financial statements has confirmed

(a) that so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) that they have taken steps that to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors
PricewaterhouseCoopers LLP have indicated their willingness to act as auditors, and a resolution concerning their appointment will be proposed at the Annual General Meeting

By order of the Board

Director
22 March 2007

Exchequer Partnership (No 2) Holdings Limited

Independent auditors' report to the shareholders of Exchequer Partnership (No 2) Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Exchequer Partnership (No 2) Holdings Limited for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
22 March 2007

Exchequer Partnership (No 2) Holdings Limited

Consolidated profit and loss account for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Turnover		**8,294**	7,655
Cost of sales		**(5,804)**	(5,684)
Gross profit		**2,490**	1,971
Administrative expenses		**(2,281)**	(3,696)
Operating profit/(loss)	1	**209**	(1,725)
Interest payable and similar charges	2	**(11,201)**	(10,087)
Interest receivable and similar income	3	**10,714**	10,718
Loss from ordinary activities before taxation		**(278)**	(1,094)
Taxation	4	**(152)**	4,899
(Loss)/profit from ordinary activities after taxation	12	**(430)**	3,805

The result for each year relates solely to continuing activities in a single class of business conducted within the United Kingdom

There were no material recognised gains and losses for the year other than the profit for the year

The result is stated on the historical cost basis

The notes on pages 9 to 17 form part of these financial statements

Exchequer Partnership (No 2) Holdings Limited

Consolidated balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
Current assets			
Debtors due within one year	5	**858**	2,795
Debtors due after more than one year	5	**163,917**	165,717
		164,775	168,512
Cash at bank and in hand		**18,893**	15,978
		183,668	184,490
Creditors amounts falling due within one year	7	**(7,944)**	(8,046)
Net current assets		**175,724**	176,444
Creditors amounts falling due after more than one year	8	**(173,910)**	(175,455)
Provision for liabilities and charges	9	**(2,151)**	(896)
Net (liabilities)/assets		**(337)**	93
Capital and reserves			
Called up share capital	10	**50**	50
Profit and loss account	11	**(387)**	43
Total equity shareholders' (deficit)/funds	12	**(337)**	93

The financial statements on pages 4 to 17 were approved by the board of directors on 22 March 2007 and signed on its behalf by

Director

Exchequer Partnership (No 2) Holdings Limited

Company balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Investment in subsidiary at cost	6	**50**	50
Current assets			
Debtors due within one year	5	**522**	472
Debtors due after more than one year	5	**6,774**	7,185
		7,296	7,657
Creditors amounts falling due within one year	7	**(522)**	(472)
Net current assets		**6,774**	7,185
Total assets less current liabilities		**6,824**	7,235
Creditors amounts falling due after more than one year	8	**(6,774)**	(7,185)
Net assets		**50**	50
Capital and reserves			
Called up share capital	10	**50**	50
Profit and loss account	11	**-**	-
Total equity shareholders' funds		**50**	50

The financial statements on pages 4 to 17 were approved by the board of directors on 22 March 2007 and signed on its behalf by

Director

Exchequer Partnership (No 2) Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2006

	2006 £'000	2005 £'000
Net cash outflow from operating activities	4,742	(892)
Returns on investment and servicing of finance		
Interest received	10,745	10,676
Interest paid	(11,001)	(9,166)
	(256)	1,510
Net cash inflow/(outflow) before financing	4,486	618
Management of liquid resources		
Decrease in liquid resources	-	5,134
Financing		
Repayment of amounts borrowed	(1,640)	-
Increase in borrowings	69	3,837
Increase/(decrease) in cash	2,915	9,589

Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2006 £'000	2005 £'000
Operating profit/(loss)	209	(1,725)
Provision movement	1,255	896
(Increase)/decrease in stock/finance debtor	1,648	(220)
Decrease in debtors	1,906	659
Decrease in creditors	(276)	(502)
Net cash outflow from operating activities	4,742	(892)

Notes 13 and 14 form part of this cash flow statement

Exchequer Partnership (No 2) Holdings Limited

Accounting policies

A summary of the principal accounting policies of the company, all of which have been applied consistently, is set out below

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Financial Reporting Standards They include the results of the activities described in the Directors' Report all of which are continuing

The consolidated profit and loss account cash flow statement and balance sheet include the financial statements of the company and its subsidiary as at 31 December 2006

Turnover
Turnover represents amounts due from HM Customs and Excise and Inland Revenue in respect of the company's trading activities All turnover originates in the United Kingdom and is stated exclusive of value added tax

Taxation
Corporation tax is provided on taxable profits at the applicable rate

Finance receivable
The costs incurred in respect of bid development design and construction prior to the occupational availability of the Treasury building have been accumulated within a finance receivable in accordance with FRS 5 as the costs are to be recovered over the contract period

Occupational availability payments from HM Customs and Excise and Inland Revenue are allocated between turnover in relation to the service element of the contract reimbursement of the finance receivable and interest on the finance receivable so as to generate a constant rate of return over the contract period

Finance charges
Arrangement fees and certain costs directly relating to the issuing of the facilities have been offset against the related loans and are being amortised over the duration of each respective financial instrument as part of the finance cost in accordance with FRS 4 The directors have determined this to be 34 5 years for the bonds and 29 years for the mezzanine loan

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

Deferred tax assets are recognised when it is more likely than not they will be recovered The deferred tax assets and liabilities are not discounted

Provisions
Provisions are made in accordance with FRS 12 where an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated

Exchequer Partnership (No 2) Holdings Limited

Notes to the financial statements for the year ended 31 December 2006

1 Operating profit/(loss)

Operating profit/(loss) is stated after charging

	2006 £'000	2005 £'000
Auditors remuneration	**10**	9

The auditors also received remuneration for other services totalling £14,000 (2005 £21,000) during the year The directors received no salary fees or other benefits in the performance of their duties The company had no employees throughout the year Management and administrative staffing resources are provided by secondee staff that are employed by certain related parties (see note 16) The employment costs relating to the secondees are recharged to the company within a management service charge

2 Interest payable and similar charges

	2006 £'000	2005 £'000
Interest payable on bond	**8,848**	8,905
Interest payable on other loans	**733**	758
Interest payable to group companies	**1,128**	-
Other charges	**492**	424
	11,201	10,087

Interest payable and similar charges of £11 201,000 (2005 £10,087,000) relates to interest charges, commitment fees and credit enhancement fees with respect to the borrowings, totalling £10,960,000 (2005 £9,918 000) plus the amortisation of loan issue costs of £241 000 (2005 £169 000) in accordance with FRS 4

3 Interest receivable and similar income

	2006 £'000	2005 £'000
Interest receivable from bank	**603**	511
Statutory interest receivable	**4**	-
Finance income	**10,107**	10,207
	10,714	10,718

Interest receivable and similar income of £10 714,000 (2005 £10,718,000) relates to finance income generated on finance receivable of £10 107 000 (2005 £10 207 000) together with interest income from the company's bank accounts and statutory interest of £607 000 (2005 £511 000)

Exchequer Partnership (No 2) Holdings Limited

4 Taxation

	2006 £'000	2005 £'000
UK Corporation Tax payable at 30%		
- current year	-	-
- adjustment to prior years	-	-
Deferred taxation (charge)/credit at 30%		
- current year	(152)	4,899
- adjustment to prior years	-	-
Total tax (charge)/ credit for the year	(152)	4,899

Factors affecting the tax charge for the year

The current tax charge for the year is lower than the standard rate of Corporation Tax in the UK The differences are explained below

	2006 £'000	2005 £'000
Loss before tax	(278)	(1,094)
UK Corporation Tax at 30%	(83)	(328)
Effects of		
Expenses not deductible for tax purposes	-	30
Capital allowances in excess of depreciation and other timing differences	(52)	(28)
Tax losses carried forward	135	326
Total current tax charge (see above)	-	-

Exchequer Partnership (No 2) Holdings Limited

5 Debtors

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Amounts due within one year				
Trade debtors	562	-	2,426	-
Amounts due from related party undertakings	1	522	15	472
Other debtors	295	-	354	-
	858	522	2,795	472
Amounts due after more than one year				
Finance receivable	159,170	-	160,818	-
Amounts due from related party undertakings	-	6,774	-	7,185
Deferred tax asset	4,747	-	4,899	-
	163,917	6,774	165,717	7,185

Finance receivable	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Balance at 1 January	160,818	-	162,144	-
Additions	-	-	220	-
Finance income reimbursed	(11,755)	-	(11,753)	-
Finance income recognised	10,107	-	10,207	-
Balance at 31 December	159,170	-	160,818	-

Deferred tax asset	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Balance at 1 January	4,899	-	-	-
(Charge)/Credit to the profit and loss account in the year	(152)	-	4,899	-
Balance at 31 December	4,747	-	4,899	-

At 31 December 2006 the company had a deferred tax asset of £ 4,747 000 (2005 £4 899,000) in respect of tax losses brought and carried forward The deferred tax asset has been recognised at 31 December 2006 as it is considered that it will be recoverable in the foreseeable future

6 Investments

	Company 2006 £'000	Company 2005 £'000
Company investment in subsidiary undertaking at cost	50	50

The company owns the entire issued share capital of Exchequer Partnership (No 2) Plc, a company incorporated in England Exchequer Partnership (No 2) Plc is now engaged in a 35 year contract with HM Treasury to renovate and then manage the facilities at the main Treasury buildings formerly Government Offices, Great George Street Whitehall London

7 Creditors: amounts falling due within one year

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Trade creditors	459	-	522	-
Amounts due to related party undertakings	686	-	785	-
Tax and social security	422	-	555	-
Accruals	4,652	-	4,674	-
Loan Stock	522	522	472	472
Mezzanine Loan	84	-	74	-
Bonds	1,119	-	964	-
	7,944	522	8,046	472

8 Creditors: amounts falling due after more than one year

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Loan Stock	6,774	6,774	7,185	7,185
Mezzanine loan	8,892	-	8,976	-
Bonds	158,244	-	159 294	-
	173,910	6,774	175,455	7,185

	2006			2005		
	Loan Stock £'000	Mezzanine Loan £'000	Bonds £'000	Loan Stock £'000	Mezzanine Loan £'000	Bonds £'000
Repayable within one year	522	106	1,333	472	97	1,182
Repayable between two and five years	3,837	522	7,829	2,570	482	6,715
Repayable after five years	2,937	8,739	154,551	4,615	8 885	157,000
Total loans outstanding	7,296	9,367	163,713	7,657	9,464	164,897
Loan issue costs	-	(391)	(4,350)	-	(414)	(4,639)
Total	7,296	8,976	159,363	7 657	9,050	160,258

Loan stock
The unsecured Loan Notes bear interest at 0% to 13th January 2007 and at 15% per annum thereafter The Loan Notes are redeemed at par in accordance with a deed poll dated 21 January 2003 Any outstanding Loan Stock will be redeemed by 13 January 2037 but they may be redeemed before that date at the Exchequer Partnership (No 2) Plc s option on giving notice of no more than 5 days

Mezzanine loan facility
The mezzanine loan facility is scheduled to be repaid by 13 January 2033 Interest charged on the amount drawn under the facility is based on floating LIBOR rate

As at 31 December 2006 £ 9 367 000 (2005 £9 464 000) has been drawn under the Mezzanine facility The total facility is for a maximum of £10 3 million

Bonds
On 15 January 2003 Exchequer Partnership (No2) plc issued £165 145 000 of 5 39%, guaranteed secured bonds due to be repaid in fixed instalments over the period 13 July 2005 to 13 July 2036

The bonds are secured by charges over all the assets of the company

9 Provisions for liabilities and charges

	Lifecyle costs £'000
At 1 January 2006	896
Charged to the profit and loss account in the year	1,347
Utilised during the year	(92)
At 31 December 2006	**2,151**

The provision for lifecycle costs is established to provide for replacement costs of significant items of both revenue and capital nature during the concession period

10 Share capital

	2006 £'000	2005 £'000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

11 Reserves

	Company £'000	Group £'000
At 1 January 2006	-	43
Loss for the year	-	(430)
At 31 December 2006	-	387

12 Movements in equity shareholders' funds/(deficit)

	Share capital £'000	Retained loss £'000	Total £'000
Carrying amount at the beginning of the year	50	43	93
Loss for the year	-	(430)	(430)
Carrying amount at the end of the year	50	(387)	(337)

13 Reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
Increase in cash	**2,915**	9,589
Decrease in Mezzanine loan	**97**	-
Decrease in bond	**1,182**	255
Increase in loan stock	**361**	(4,760)
Decrease in other loans	-	668
Decrease in liquid resources	-	(5,134)
VAT reclaimed on issue costs	**(69)**	-
Movement in net debt resulting from cash flows	**4,486**	618
Non-cash movements		
Roll up of accrued interest	-	(403)
Amortisation of issue costs	**(241)**	(169)
Movement in net debt in year	**4,245**	46
Opening net debt at 1 January 2006	**(160,987)**	(161,033)
Closing net debt at 31 December 2006	**(156,742)**	(160,987)

14 Analysis of changes in net debt

	At 1 January 2006 £'000	Cash flow £'000	Other £'000	**At 31 December 2006** **£'000**
Cash in hand and at bank	15 978	2 915	-	**18,893**
Debt				
Due less than one year	(1 510)	1,640	(1 855)	**(1,725)**
Due after more than one year	(175 455)	(69)	1,614	**(173,910)**
	(160,987)	4,486	(241)	**(156,742)**

Other changes in net debt comprise amortisation of issue costs £241 000 and reclassification of debt due less than one year of £1 614 000

15 Capital commitments

Under the terms of the contract with the First Secretary of State dated 21 January 2003, the company is committed to payments of approximately £37 8m for lifecycle expenditure over the remaining contract term

16 Related party disclosures

The following companies together with undertakings within their individual groups of companies, are considered to be related parties to the company as defined in FRS 8

Bovis Lend Lease Holdings Limited
Stanhope plc
GOGGS Development Limited
Lend Lease Developments Services (UK) Limited
Exchequer Partnership Plc (common shareholders and directors)

Construction contract
Bovis Lend Lease Limited, a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership (No 2) Plc in respect of the construction and renovation work The costs charged by Bovis Lend Lease Limited in this regard in the year ended 31 December 2006 totalled £nil (2005 £800,000)

Stanhope plc fees and sponsor s costs in the year ended 31 December 2006 totalled £nil (2005 £603,000) Lend Lease Development Services Limited provided staff and SPV management services to 30 June 2005 The costs charged by Lend Lease Development Services Limited in the year totalled £nil (2005 £30,000)

Facilities Management contracts
Bovis Lend Lease Limited a subsidiary of Bovis Lend Lease Holdings Limited, is contracted with Exchequer Partnership (No 2) Plc in respect of the hard facilities management contract The costs charged by Bovis Lend Lease Limited in this regard in the year ended 31 December 2006 totalled £2,808,000 (2005 £2,794,000)

From 1 July 2005 Catalyst Lend Lease Limited a subsidiary of Bovis Lend Lease Holdings Limited, provided the SPV Management Services The costs charged by Catalyst Lend Lease Limited in the year totalled £382,000 (2005 £188 000)

Other costs
Exchequer Partnership Plc and GOGGS Development Limited were reimbursed costs of £nil (2005 £171,000) and £nil (2005 £7 000) respectively

Amounts owed to related parties	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Bovis Lend Lease Limited	686	-	691	-
Lend Lease Development Services Limited	-	-	90	-
GOGGS Development Limited	-	-	4	-
Stanhope plc	-	-	-	-

Amounts due from related parties	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Bovis Lend Lease Limited (recovery of costs)	1	-	15	-
Exchequer Partnership (No 2) Plc	-	7,296	-	7,657

All transactions with related parties were carried out on arms length terms

17 Ultimate controlling party

In the opinion of the directors, the ultimate controlling party comprises Catalyst Investment Holdings Limited and Infrastructure Investors LLP acting together

On 25 May 2006 Bovis Lend Lease Holdings Limited transferred its shares in the company to its subsidiary Catalyst Investment Holdings Limited In the opinion of the directors the ultimate controlling party at 31 December 2006 comprised Catalyst Investment Holdings Limited and Infrastructure Investors LLP acting together

Prior to 30 March 2006 when Stanhope plc sold its investment in the company to Infrastructure Investors LLP, in the opinion of the directors the ultimate controlling party comprised Bovis Lend Lease Holdings Limited and Stanhope plc acting together