REGISTERED NUMBER: 04426554 (England and Wales)

Group Strategic Report, Directors' Report and

Consolidated Financial Statements for the Year Ended 31 December 2017

for

Exchequer Partnership (No.2) Holdings Limited

Exchequer Partnership (No.2)
Holdings Limited (Registered number: 04426554)

Contents of the Consolidated Financial Statements for the Year Ended 31 December 2017

Exchequer Partnership (No.2) Holdings Limited

Company Information for the Year Ended 31 December 2017

Directors:	K Gillespie K Hill B Millsom S M Prior C Solley L Tennant
Secretary:	A Mitchell
Registered office:	3rd Floor 3 - 5 Charlotte Street Manchester M1 4HB
Registered number:	04426554 (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 20 Cursitor Street London EC4A 1LT

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Group Strategic Report for the Year Ended 31 December 2017

The directors present their Strategic Report for the company and group for the year ended 31 December 2017.

Group's strategy
To ensure that the group 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.

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 group's management services agent and periodic reporting by the independent Technical Assessor.

During the previous year, a dispute arose over certain defects and the level of availability deductions which should be applied as a consequence. The facilities maintenance contractor is undertaking a programme of remedial works. The directors have appointed technical experts to determine the full extent of the remedial works required and to provide assurance that the works are being carried out to the appropriate standard. All financial penalties and costs in respect of this dispute are to be claimed from the subcontractor.

The group made profit before taxation of £4,664,000 compared to £4,676,000 in 2016. Net assets reduced from £453,000 at 31 December 2016 £157,000 at 31 December 2017 due to dividends being paid.

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 group's management services agent and periodic reporting by the independent Technical Assessor plus regular dialogue with the executive team of HMRC.

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 group. Sustained non-availability can lead to contract termination but there are no indications that the group is 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.

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.

In order to fund the development of the Government accommodation, the group has issued fixed rate debt and receives a proportion of its income increasing at a fixed inflation rate to achieve a correlation between revenue and finance charges.

The group does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities. The secured bonds are not exposed to interest rate risk.

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.

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Group Strategic Report for the Year Ended 31 December 2017

Risk management
The board has overall accountability for ensuring that risk is effectively managed across the group and they regularly review the effectiveness of the group risk process and consider risk in all strategic decision-making.

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 quarterly to the Board and have been extremely small in relation to total unitary 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.

On behalf of the board:

....
A Mitchell - Secretary

Date: 11 May 2018

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Directors' Report for the Year Ended 31 December 2017

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

Principal activities
The company a holding company with a single subsidiary, Exchequer Partnership (No. 2) plc. Exchequer Partnership (No. 2) plc is engaged in a 35-year contract with HM Revenue and Customs (HMRC) 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 HM Customs and Excise and Inland Revenue (HMRC) then moved into the refurbished accommodation. Management of the facilities commenced from this time.

Dividends
The company made a dividend payment of £3,806,000 in the year (2016: £6,078,000).

The profit for the financial year is £3,510,000 (2016: £3,869,000).

Directors
The directors during the year under review were:

K Gillespie	
K Hill	
G Jackson	- resigned 27/2/2017
B Millsom	
S M Prior	- appointed 27/2/2017
C Solley	
L Tennant	

The directors holding office at 31 December 2017 did not hold any beneficial interest in the issued share capital of the company at 1 January 2017 (or date of appointment if later) or 31 December 2017.

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
The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
Pursuant to Section 487 of the Companies Act 2006, the independent auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board:

....
A Mitchell - Secretary

Date: 11 May 2018

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Statement of Directors' Responsibilities for the Year Ended 31 December 2017

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 group and parent company 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 group and parent company and of the profit or loss of the group and parent 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 for the group and parent company financial statements, 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 group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Report on the audit of the financial statements

Opinion

In our opinion:

- Exchequer Partnership (No.2) Holdings Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit and cash flows for the year then ended;
- the group and parent company financial statements 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
- the financial statements 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 Group Strategic Report, Director's Report and Consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2017; 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

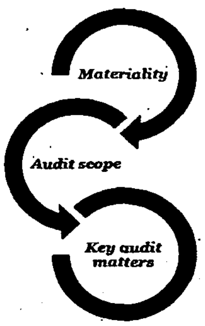
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

We have provided no non-audit services to the group or the parent company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall group materiality: £233,000 based on 5% of profit before tax.
- Overall parent company materiality: £1,000 based on 2% of gross assets.
- Due to the nature of the group we have performed a full scope audit of Exchequer Partnership (No.2) Holdings Limited and Exchequer Partnership (No.2) plc, which provides sufficient coverage across all balances in the Annual Report.
- We have considered the risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment to be a key audit matter.

Independent auditors' report to the members of Exchequer Partnership (No.2) Holdings Limited (continued)

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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Key audit matter	***How our audit addressed the key audit matter***
Risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment The company is in a service concession arrangement with HM Revenue and Customs (HMRC) to renovate and then manage the facilities at the east end of the main Treasury building, formerly Government Offices, 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. The allocation to turnover is calculated by applying a margin to the costs incurred in the ongoing maintenance of the asset. This can result in an accrued or deferred position accounted for within a 'unitary payment control account' (UPCA), which is presented within 'Other Creditors.' 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 and the UPCA, 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, financial income and the UPCA 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 2017 against that used in the year-ended 31 December 2016. We understood the key reasons for the changes. We found the margin applied to similar to that used in the prior year and the differences were understood and found to be reasonable.

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

Independent auditors' report to the members of Exchequer Partnership (No.2) Holdings Limited (continued)

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 parent 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 (No.2) 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 (No.2) 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 then managing the facilities at the east end of the main Treasury building, formerly Government Offices, 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:

	Group financial statements	***Parent company financial statements***
Overall materiality	£233,000	£1,000
How we determined it	5% of profit before tax.	2% of gross 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 gross 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 £1,000 for the parent company only accounts and £233,000 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 £11,600 (group audit) and £50 (Parent company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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 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.

Conclusions relating to going concern (continued)

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

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 and Directors' report, 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 2017 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 parent 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 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.

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.

Independent auditors' report to the members of Exchequer Partnership (No.2) Holdings Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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 parent 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 parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 15 November 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.

H. Ma

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
11 May 2018

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	**17,017**	15,882
Cost of sales		**(11,281)**	(10,544)
Gross profit		**5,736**	5,338
Administrative expenses		**(1,758)**	(1,179)
Operating profit	5	**3,978**	4,159
Interest receivable and similar income	6	**8,506**	8,716
Interest payable and similar expenses	7	**(7,820)**	(8,199)
Profit before taxation		**4,664**	4,676
Tax on profit	8	**(1,154)**	(807)
Profit for the financial year		**3,510**	3,869
Other comprehensive income		**-**	-
Total comprehensive income for the year		**3,510**	3,869
Profit attributable to:			
Owners of the parent		**3,510**	3,869
Total comprehensive income attributable to:			
Owners of the parent		**3,510**	3,869

The notes on pages 17 to 32 form part of these financial statements

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Consolidated Balance Sheet
31 December 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Debtors: amounts falling due within one year	12	**6,053**	7,491
Debtors: amounts falling due after more than one year	12	**129,461**	132,660
Cash at bank		**26,750**	22,030
		162,264	162,181
Creditors: amounts falling due within one year	13	**(10,377)**	(9,662)
Net current assets		**151,887**	152,519
Total assets less current liabilities		**151,887**	152,519
Creditors: amounts falling due after more than one year	14	**(137,857)**	(140,385)
Provisions for liabilities	17	**(13,873)**	(11,681)
Net assets		**157**	453
Capital and reserves			
Called up share capital	18	**50**	50
Retained earnings	19	**107**	403
Shareholders' funds		**157**	453

The financial statements were approved by the Board of Directors on 11 May 2018 and were signed on its behalf by:

Director CT JOLLEY

The notes on pages 17 to 32 form part of these financial statements

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Company balance sheet
31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Investments	11	**50**	50
Total assets less current liabilities		**50**	50
Capital and reserves			
Called up share capital	*18*	**50**	50
Profit and loss account			
Balance at 1 January		**-**	-
Profit for the financial year		**3,806**	6,078
Dividends		**(3,806)**	(6,078)
Shareholders' funds		**50**	50

These financial statements were approved by the Board of Directors on....11 May 2018..........and were signed on its behalf by:

....
Director
CT Soley

The notes on pages 17 to 32 form part of these financial statements

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	50	2,612	2,662
Changes in equity			
Dividends	-	(6,078)	(6,078)
Total comprehensive income	-	3,869	3,869
Balance at 31 December 2016	50	403	453
Changes in equity			
Dividends	-	(3,806)	(3,806)
Total comprehensive income	-	3,510	3,510
Balance at 31 December 2017	50	107	157

The notes on pages 17 to 32 form part of these financial statements

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Company Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	50	-	50
Changes in equity			
Dividends	-	(6,078)	(6,078)
Total comprehensive income	-	6,078	6,078
Balance at 31 December 2016	50	-	50
Changes in equity			
Dividends	-	(3,806)	(3,806)
Total comprehensive income	-	3,806	3,806
Balance at 31 December 2017	50	-	50

The notes on pages 17 to 32 form part of these financial statements

Exchequer Partnership (No.2) Holdings Limited (Registered number: 04426554)

Consolidated Cash Flow Statement for the Year Ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	22	**10,678**	5,245
Net cash from operating activities		**10,678**	5,245
Cash flows from investing activities			
Interest received		**8,506**	8,717
Net cash from investing activities		**8,506**	8,717
Cash flows from financing activities			
Interest paid in year		**(7,680)**	(8,076)
Loan repayments in year		**(2,978)**	(3,077)
Equity dividends paid		**(3,806)**	(6,078)
Net cash from financing activities		**(14,464)**	(17,231)
Increase/(decrease) in cash and cash equivalents		**4,720**	(3,269)
Cash and cash equivalents at beginning of year	23	**22,030**	25,299
Cash and cash equivalents at end of year	23	**26,750**	22,030

The notes on pages 17 to 32 form part of these financial statements

1. **Statutory information**

Exchequer Partnership (No.2) Holdings Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

2. **Accounting policies**

Basis of preparing the financial statements
Exchequer Partnership (No. 2) Holdings Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

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. 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 withe related notes is included; and
- Key Management Personnel compensation has not been included a second time.

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

Significant estimates and judgements
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.

continued...

2. **Accounting policies - continued**

Going concern

The Group currently has £142,746,000 (2015: £146,754,000) of total debt. The Group's 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 September 2037. The Group has considerable financial resources together with long-term contracts with HM Customs and Excise and Inland Revenue (HMRC). As a consequence, the directors believe that the company 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 Customs and Excise and Inland Revenue (HMRC). 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 HM Customs and Excise and Inland Revenue (HMRC) relating to the East End of 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.

continued...

2. **Accounting policies - continued**

Classification of financial instruments issued by the group
In accordance with Section 22 of FRS 102, 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 company's 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 company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

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.

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.

Cash at bank and in hand
Cash at bank and in hand comprises cash balances and call deposits.

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 £4,704,000 at the year end (2016: £5,118,000).

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 and in hand" balance, amounts to £8,660,000 at the year end (2016: £5,695,000).

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.

continued...

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

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.

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.

continued...

3. Turnover

The turnover and profit before taxation are attributable to the principal activities of the group.

An analysis of turnover by class of business is given below:

	2017	2016
	£'000	£'000
Operational services	17,017	15,882
	17,017	15,882

The turnover arises entirely within the United Kingdom and in respect of operational services.

4. Employees and directors

	2017	2016
	£000	£000
Recharges in respect of non-executive directors' services to third parties	258	251

The Group had no employees during the year (2016: 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 (2016: £nil). A payment is made for the services of the non-executive directors to their employer.

5. Operating profit

The operating profit is stated after charging:

	2017	2016
	£'000	£'000
Auditors' remuneration	11	11
Taxation compliance services	-	8

The above amounts reflect amounts receivable by the auditors and their associates.

Auditor's remuneration of £2,000 (2016: £2,000) was, without recharge, borne by Exchequer Partnership (No.2) Plc, the company's subsidiary undertaking.

Lifecycle maintenance costs previously included within 'administrative expenses' have been reclassified as 'cost of sales'. This has had the effect of increasing cost of sales by £1,805,000 and decreasing administrative expenses by the same amount in 2016.

continued...

6. Interest receivable and similar income

	2017 £'000	2016 £'000
Bank interest	5	51
Finance debtor interest	8,501	8,665
	8,506	8,716

7. Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest payable on bonds and mezzanine loan	7,526	7,985
Other charges	294	214
	7,820	8,199

8. Taxation

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

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax	158	-
Deferred tax	996	807
Tax on profit	1,154	807

UK corporation tax has been charged at 19.25% (2016 - 20%).

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:

	2017 £'000	2016 £'000
Profit before tax	4,664	4,676
Profit multiplied by the standard rate of corporation tax in the UK of 19.250% (2016 - 20%)	898	935
Effects of:		
Expenses not deductible for tax purposes	284	360
Income not taxable for tax purposes	(37)	(37)
Reduction in tax rate on deferred tax balances	9	(451)
Total tax charge	1,154	807

continued...

8. **Taxation - continued**

	2017 Current tax £000	2017 Deferred tax £000	2017 Total tax £000	2016 Current tax £000	2016 Deferred tax £000	2016 Total tax £000
Recognised in Profit and loss	**158**	**996**	**1,154**	-	807	807
Total tax	**158**	**996**	**1,154**	-	807	807

Deferred tax charges recognised in profit and loss relate to:

	2017 £000	2016 £000
Tax losses	**1,198**	**1,229**
Origination and reversal of timing differences	**(52)**	**(10)**
Effects of changes in tax rates	**8**	**(412)**
	996	**807**

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

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.

10. **Dividends**

	2017 £'000	2016 £'000
Ordinary shares shares of £1 each		
Dividend	**3,806**	6,078

The dividend per share for the financial year was £76.12 (2016: £121.56).

continued...

11. **Fixed asset investments**

Company

	Shares in group undertakings £'000
Cost	
At 1 January 2017 and 31 December 2017	**50**
Net book value	
At 31 December 2017	**50**
At 31 December 2016	50

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

Subsidiary

Exchequer Partnership (No. 2) Plc
Registered office: The subsidiary company's registered office is 3rd Floor, 3-5 Charlotte Street, Manchester M1 4HB.
Nature of business: Operation of facilities management

Class of shares:	% holding
Ordinary	100.00

	2017 £'000	2016 £'000
Aggregate capital and reserves	**157**	453
Profit for the year	**3,510**	3,869

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

12. **Debtors**

	Group 2017 £'000	Group 2016 £'000
Amounts falling due within one year:		
Trade debtors	**1,402**	3,212
Finance debtor	**3,528**	3,304
Other debtors	**834**	714
Prepayments	**289**	261
	6,053	7,491

continued...

12. **Debtors - continued**

	Group 2017 £'000	2016 £'000
Amounts falling due after more than one year:		
Finance debtor	**129,461**	132,660
Aggregate amounts	**135,514**	140,151

13. **Creditors: amounts falling due within one year**

	Group 2017 £'000	2016 £'000
Fixed rate guaranteed bonds (see note 15)	**5,684**	6,017
Mezzanine loan (see note 15)	**374**	352
Trade creditors	**1,999**	1,214
Corporation tax	**158**	-
VAT	**513**	395
Other creditors	**1,010**	920
Accrued expenses	**639**	764
	10,377	9,662

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

	Group 2017 £'000	2016 £'000
Fixed rate guaranteed bonds (see note 15)	**130,740**	133,020
Mezzanine loan (see note 15)	**7,117**	7,365
	137,857	140,385

continued...

15. Mezzanine loan

An analysis of the maturity of mezzanine loan is given below:

	Group	
	2017	2016
	£'000	£'000
Amounts falling due within one year or on demand:		
Fixed-rate guaranteed secured bonds	5,684	6,017
Mezzanine loan	374	352
	6,058	6,369
Amounts falling due between one and two years:		
Fixed-rate guaranteed secured bonds	1,544	2,037
Mezzanine loan	259	236
	1,803	2,273
Amounts falling due between two and five years:		
Fixed-rate guaranteed secured bonds	6,717	5,469
Mezzanine loan	921	845
	7,638	6,314
Amounts falling due in more than five years:		
Repayable by instalments		
Fixed-rate guaranteed secured bonds	122,479	125,514
Mezzanine loan	5,937	6,284
	128,416	131,798

continued...

15. **Mezzanine loan - continued**

Terms and debt repayment schedule

The total cash repayable on the loan is as follows:

	Currency	Nominal interest	Year of maturity	Repayment schedule	2017 £000	2016 £000
Fixed rate guaranteed secured bonds	GBP	5.396%	2036	Semi-annual	**138,833**	141,387
Mezzanine loan	GBP	LIBOR +3.1%	2033	Semi-annual	**7,698**	7,934

The fixed-rate 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.

continued...

16. **Financial instruments**

	2017 £000	2016 £000
Assets measured at amortised cost	**132,989**	135,964
Liabilities measured at amortised cost	**(143,914)**	(146,754)

The Fixed-rate 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, a fixed-rate 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.

Finance risk
In order to fund the development of the Treasury building, the group has issued fixed rate 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 Assured Guaranty (Europe) Limited 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.

continued...

17. Provisions for liabilities

	Group	
	2017	2016
	£'000	£'000
Deferred tax	**5,793**	4,797
Other provisions		
Lifecycle provision	**8,080**	6,884
Aggregate amounts	**13,873**	11,681

Group

	Deferred tax	**Life cycle provision**
	£'000	**£'000**
Balance at 1 January 2017	**4,797**	**6,884**
Credit to Statement of Comprehensive Income during year	**996**	**1,849**
Utilised during year	**-**	**(653)**
Balance at 31 December 2017	**5,793**	**8,080**

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 HMRC dated 21 January 2003 the group is committed to payments of £30.2 million for lifecycle expenditure over the remaining contact term.

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2017	2016	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Accelerated capital allowances	**-**	-	**(6,674)**	(6,858)	**(6,674)**	(6,858)
Unused tax losses	**2,408**	3,629	**-**	-	**2,408**	3,629
Other	**-**	-	**(1,528)**	(1,568)	**(1,528)**	(1,568)
Tax assets / (liabilities)	**2,408**	3,629	**(8,202)**	(8,426)	**(5,793)**	(4,797)
Net of tax (liabilities) / assets	**(2,408)**	(3,629)	**2,408**	3,629	**-**	-
Net tax (liabilities)	**-**	-	**(5,793)**	(4,797)	**(5,793)**	(4,797)

continued...

18. Called up share capital

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2017 £	2016 £
50,000	Ordinary shares	£1	**50,000**	50,000

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 2017	**403**
Profit for the year	**3,510**
Dividends	**(3,806)**
At 31 December 2017	**107**

Company

	Retained earnings £'000
Profit for the year	**3,806**
Dividends	**(3,806)**
At 31 December 2017	**-**

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.

The largest and smallest group in which the results of the Company are consolidated is Consolidated Investment Holdings Limited, a company incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of the group are available to the public and may be obtained from C/O Albany SPC Services Ltd, 3rd Floor 3-5 Charlotte Street, Manchester M1 4HB.

continued...

21. Related party disclosures

Civis PFI/PPP Infrastructure Fund LP

The related party is a 50% shareholder in Consolidated Investment Holdings Limited, and provided the company with directors' services in the year amounting to £65,000 (2016: £63,000). At the balance sheet date, the amount owing to the related party was £Nil (2016: £Nil).

Aberdeen Infrastructure Finance GP Ltd

The related party is a sister company of Aberdeen Infrastructure (No. 3) Limited, 50% shareholder in Consolidated Investment Holdings Limited. It provided the company with directors' services in the year amounting to £65,000 (2016: £63,000). At the balance sheet date, the amount owing to the related party was £Nil (2016: £Nil).

Aberdeen Sidecar LP Inc.

The related party is a 50% shareholder in Exchequer Partnership Holdings (No. 2) Limited, and provided the company with directors' services in the year amounting to £129,000 (2016: £125,000). At the balance sheet date, the amount owing to the related party was £Nil (2016: £Nil).

Albany SPC Services Ltd

The related party is 100% owned by Civis PFI/PPP Infrastructure Fund LLP, and provided the company with management and other services in the year amounting to £205,000 (2016: £227,000). At the balance sheet date, the amount owing to the related party was £Nil (2016: £Nil).

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

	2017	2016
	£'000	£'000
Profit for the financial year	3,510	3,869
Increase in provisions	1,197	957
Decrease in finance debtor	2,975	2,627
Finance costs	7,820	8,199
Finance income	(8,506)	(8,716)
Taxation	1,154	807
	8,150	7,743
Decrease/(increase) in trade and other debtors	1,658	(2,914)
Increase in trade and other creditors	870	416
Cash generated from operations	10,678	5,245

continued...

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 2017

	31.12.17	1.1.17
	£'000	£'000
Cash and cash equivalents	26,750	22,030

Year ended 31 December 2016

	31.12.16	1.1.16
	£'000	£'000
Cash and cash equivalents	22,030	25,299