SHEPPEY ROUTE (HOLDINGS) LIMITED

Directors' report and financial statements
For the year ended 31 December 2005

Registered number 4918710

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COMPANIES HOUSE 02/08/2006

SHEPPEY ROUTE (HOLDINGS) LIMITED

Directors' report

The directors present their report and the consolidated financial statements for the year ended 31 December 2005.

Principal activities

The principal activity is that of a holding company with a single subsidiary, Sheppey Route Limited.

Sheppey Route Limited was established to undertake the design, construction, financing, operation and maintenance of the A249 Iwade Bypass to Queenborough Improvement scheme together with the operation and maintenance of the existing A249 between Junction 5 of the M2 and the docks entrance at the Port of Sheerness. This agreement together with a loan facilities agreement, an Operations and Maintenance contract and other related contracts was signed on 19 February 2004. Construction commenced in February 2004 and is due for completion in August 2006.

Results and dividends

The consolidated profit and loss account is set out on page 4 and relates to the operating activities during the period. The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who served during the year and subsequently were as follows:

Director

J Bal	(appointed 7 November 2005)
G Farley	(appointed 22 November 2005)
A Matthews	
MS Robinson	
H Gilbey	(resigned 7 November 2005)
N Maruf	(appointed 11 March 2005, resigned 22 November 2005)
J McDonagh	(resigned 11 March 2005)

No director had any interest in the shares of the company or other group undertaking at the end of the year.

Auditors

In accordance with section 385 of the Companies Act 1985 a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

This report was approved by the board on 24 July 2006 and signed on its behalf by:

D Anderson
Secretary

24 Birch Street
Wolverhampton
West Midlands
WV1 4HY

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.

Independent auditors' report to the members of Sheppey Route (Holdings) Limited

We have audited the financial statements of Sheppey Route (Holdings) Limited for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated balance sheet, company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 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 UK Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2005 and of its results for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

24 July 2006
2 Cornwall Street
Birmingham B3 2DL

Consolidated profit and loss account
for the year ended 31 December 2005

	Notes	2005 £000	15 months ended 31 December 2004 £000
Turnover	2	**42,214**	37,891
Other operating charges		**(38,234)**	(36,325)
Operating profit	3	**3,980**	1,566
Interest payable and similar charges	4	**(3,981)**	(1,577)
Interest receivable and similar income	4	**1**	11
Net interest payable	4	**(3,980)**	(1,566)
Profit on ordinary activities before taxation		**-**	-
Taxation on profit on ordinary activities	6	**-**	-
Profit on ordinary activities after taxation and retained profit for the financial year		**-**	-

A statement of movement in shareholders' funds is shown in note 14 to the financial statements.

The results reported above derive from continuing operations in a single class of business within the United Kingdom.

There is no material difference between the result as disclosed in the profit and loss account above and its historical cost equivalent.

Statement of total recognised gains and losses

There were no recognised gains and losses other than the results for the year or the previous period reported above.

SHEPPEY ROUTE (HOLDINGS) LIMITED

Consolidated balance sheet
at 31 December 2005

	Notes	**2005** **£000**	2004 £000
Current assets			
Debtors: Amounts falling due within one year	*7*	**2,620**	984
Debtors: Amounts falling due after more than one year	*8*	**79,103**	37,752
Total debtors		**81,723**	38,736
Cash at bank		**65**	219
		81,788	38,955
Current liabilities			
Creditors: Amounts falling due within one year	*10*	**(8,278)**	(1,547)
Net current assets and total assets less current liabilities		**73,510**	37,408
Creditors: Amounts falling due after more than one year	*11*	**(73,460)**	(37,358)
Net assets		**50**	50
Capital and reserves			
Called up share capital	*13*	**50**	50
Equity shareholders' funds	*14*	**50**	50

These financial statements were approved by the board of directors on 24 July 2006 and were signed on its behalf by:

MS Robinson

Director

Company balance sheet
at 31 December 2005

	Notes	**2005 £000**	2004 £000
Fixed assets			
Investment	*9*	**50**	50
Net assets		**50**	50
Capital and reserves			
Called up share capital	*13*	**50**	50
Equity shareholders' funds		**50**	50

These financial statements were approved by the board of directors on 24 July 2006 and were signed on its behalf by:

MS Robinson

Director

Consolidated cash flow statement

for the year ended 31 December 2005

	2005		2004	
	£000	**£000**	£000	£000
Net cash outflow from operating activities (see below)		**(38,595)**		(35,946)
Returns on investments and servicing of finance				
Interest received	**1**		11	
Interest paid	**(3,575)**		(1,218)	
Net cash outflow from returns on investments and servicing of finance		**(3,574)**		(1,207)
Net cash outflow before financing		**(42,169)**		(37,153)
Financing				
Issue of Ordinary Share Capital		**-**		50
Increase in bank borrowings		**42,015**		38,355
Loan arrangement fees		**-**		(1,033)
(Decrease)/increase in cash		**(154)**		219
Reconciliation of operating profit to net cash outflow from operating activities				
Operating profit		**3,980**		1,566
Increase in debtors		**(42,987)**		(38,616)
(Decrease)/increase in creditors		**412**		1,104
Net cash outflow from operating activities		**(38,595)**		(35,946)

The supporting notes to the consolidated cashflow statement are set out in note 15.

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements. During the year, the company adopted Financial Reporting Standard ('FRS') 21 'Events After the Balance Sheet Date', FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 28 'Corresponding Amounts'. The adoption of FRS 21, FRS 25 and FRS 28 has no effect on either the current or the preceding year.

All the notes to the accounts relate to the group, except where otherwise stated.

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards using the historical cost convention.

Basis of consolidation

The group accounts consolidate the accounts of Sheppey Route (Holdings) Limited and its subsidiary undertaking using the acquisition method. All inter-company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The profit for the financial year was £nil (2004:£nil)

Contract receivable

In accordance with FRS 5 Application Note F the costs incurred in construction have been treated as a contract receivable. This treatment arises from applying the guidance within the Application Note which indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to the customer.

Increases in the contract receivable represent the costs arising on construction including initial tender costs and borrowing costs.

Deferred taxation

Deferred taxation has been accounted for under FRS 19.

Deferred taxation is provided, without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where an event has occurred by the balance sheet date that results in an obligation to pay more or less tax in the future. Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Turnover

Turnover represents the value of work done and excludes value added tax.

The company's sole business is that described in the Director's Report and all turnover is derived in the United Kingdom.

Notes *(continued)*

3 Operating profit

The following costs were incurred during the period and have been capitalised as part of the contract receivable.

	2005 £000	15 months Ended 31 December 2004 £000
Auditors' remuneration - audit work	**9**	8

Audit fees for the parent company amounted to £nil (2004:£nil)

4 Net interest payable

	2005 £000	15 months Ended 31 December 2004 £000
Interest payable and similar charges		
Bank borrowings	**3,681**	1,153
Bank commitment fees	**258**	388
Amortisation of issue costs	**42**	36
	3,981	1,577
Interest receivable and similar income		
Bank interest receivable	**(1)**	(11)
	3,980	1,566

5 Staff costs

There were no employees during the year (2004: none). The directors have no contract of service with the company. Amounts receivable by third parties in respect of directors' services were £53,000 (2004: £47,000).

6 Taxation on profit on ordinary activities

	2005 £000	15 months ended 31 December 2004 £000
Charge for the period - current tax	**-**	-

The tax assessed for the year is in line with the standard rate of corporation tax in the UK (30%) (2004: 30%).

7 Debtors: Amounts falling due within one year

	2005 £000	2004 £000
Contract receivable	**615**	-
Trade debtors	**24**	-
Prepayments	**120**	120
Other debtors	**1,821**	864
	2,620	984

Notes *(continued)*

8	**Debtors: Amounts falling due after more than one year**	**2005 £000**	2004 £000
	Contract receivable	**78,376**	37,253
	Amounts recoverable on contracts	**727**	499
		79,103	37,752

9	**Investments - Company**	**2005 £000**
	Shares in subsidiary undertaking	
	Cost and net book value	
	At beginning and end of year	**50**

Shares in subsidiary undertaking represents a holding of 100% of the ordinary share capital of Sheppey Route Limited. This company is incorporated in Great Britain.

10	**Creditors: Amounts falling due within one year**	**2005 £000**	2004 £000
	Bank borrowings	**5,955**	-
	Trade creditors	**20**	26
	Other creditors	**2,028**	521
	Accruals and deferred income	**275**	1,000
		8,278	1,547

11	**Creditors: Amounts falling due after more than one year**	**2005 £000**	2004 £000
	Bank borrowings	**74,415**	38,355
	Less: unamortised issue costs	**(955)**	(997)
		73,460	37,358
	The bank borrowings are repayable as follows:		
	Within one year	**5,955**	-
	Between one and two years	**829**	-
	Between two and five years	**5,113**	7,751
	Greater than five years	**68,473**	30,604
		80,370	38,355

Bank borrowings relate to term loan facilities granted by the bank. The loan facility is for a total value of £103,493,000 comprising £94,432,000 senior loan, £3,106,000 mezzanine loan and £5,955,000 equity bridge loan. As at 31 December 2005 £80,370,000 (2004: £38,355,000) has been drawn comprising £72,045,000 (2004: £31,368,000) senior loan, £2,370,000 (2004: £1,032,000) mezzanine loan and £5,955,000 equity bridge loan. The company has an additional performance guarantee facility of £4,000,000 of which £nil has been utilised at 31 December 2005 (2004: £nil). Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the bank borrowings and are being amortised over the periods of the facilities as part of the finance costs in accordance with the provisions of FRS4.

Notes *(continued)*

11 Creditors: Amounts falling due after more than one year *(continued)*

The senior and mezzanine loans are repayable in fifty-one six-monthly instalments commencing on 30 September 2007. The equity bridge loan is repayable on 31 August 2006. Interest is charged on amounts drawn under the facilities based on floating LIBOR.

The group has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. For the term loan facility a total of four hedging agreements have been entered into with Royal Bank of Scotland, Dexia, Bank of Ireland and Allied Irish Bank, all fixing the interest rate at 5.375% until the agreements expire on 30 September 2032. A hedging agreement has also been entered into for the equity Bridge fixing the interest rate at 4.7918% until the agreement expires on 31 August 2006.

The facilities are secured by a first legal mortgage over any freehold or leasehold property; a first fixed charge over any freehold or leasehold property, investments, plant and machinery, credit balances (except those secured by a prior fixed charge), book debts, other contracts, insurances, intellectual property, uncalled capital and goodwill of the group; and by a first floating charge over all its assets.

The shareholders are committed to providing secured loans totalling £5,955,000 to the company. The company is in turn committed to providing loans totalling £5,955,000 to its subsidiary undertaking.

12 Provision for liabilities and charges

No provision has been made in the financial statements for deferred taxation and there is no potential liability as at 31 December 2005 (2004: £nil).

13 Share capital

	2005	2004
	£000	£000
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	**50**	50

Notes *(continued)*

14 Reconciliation of movement in equity shareholders' funds

	2005 £000	2004 £000
At beginning of year	**50**	-
Share capital issued during the year	-	50
Increase in shareholder funding	-	-
At end of year	**50**	50

15 Consolidated cash flow statement

Analysis of debt	At 31 December 2005 £000	Cash flow £000	Other movements £000	At 31 December 2005 £000
Cash at bank	219	(154)	-	65
Bank borrowings	(37,358)	(42,015)	(42)	(79,415)
	(37,139)	(42,169)	(42)	(79,350)

Reconciliation in net debt resulting from cash flows	2005 £000	2004 £000
(Decrease)/increase in cash in the year	**(154)**	219
Outflow from bank borrowings	**(42,015)**	(38,355)
	(42,169)	(38,136)
Other movements:		
Bank borrowings issue costs	-	1,033
Amortisation of bank borrowings issue costs	**(42)**	(36)
	(42)	997
Movement in net debt in the year	**(42,211)**	(37,139)

16 Capital commitments

(a) Under the terms of a contract with Carillion Construction Limited dated 19 February 2004, the company was committed at 31 December 2005 to payments totalling £13,191,000 (2004: £51,057,000) in respect of design and construction services to be provided in the period to 31 August 2006.

(b) Under the terms of a contract with TPS Consult Limited dated 19 February 2004, the company was committed at 31 December 2005 to payments totalling £147,000 (2004: £368,000) for services to be provided in the period to 31 August 2006.

(c) Under the terms of various other contracts the company was committed at 31 December 2005 to payments estimated at £83,000 (2004: £1,236,000) in respect of other services to be provided in the period to 31 August 2006.

Notes *(continued)*

17 Related party disclosures

In addition to the contracted commitments set out in note 16 (a) and (b) above, administrative, construction and technical services were provided to the group during the year by companies related to Carillion Private Finance Limited at a cost of £38,111,000 (2004: £36,333,000) and by companies related to Barclays European Infrastructure Limited at a cost of £27,000 (2004: £16,000).

As at 31 December 2005, £316,000 (2004: £1,057,000) was owed to Carillion Private Finance Limited and companies related to Carillion Private Finance Limited and £20,000 (2004: £16,000) was owed to companies related to Barclays European Infrastructure Limited, in relation to the services described above.

18 Parent undertakings

At 31 December 2005 the share capital of Sheppey Route (Holdings) Limited was held 50% by Carillion Private Finance Limited and 50% by Barclays European Infrastructure Limited. Both of these companies are incorporated in Great Britain.