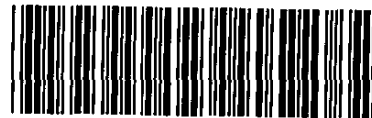


SHEPPEY ROUTE (HOLDINGS) LIMITED

Directors' report and financial statements  
For the year ended 31 December 2011

Registered number 4918710

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## **SHEPPEY ROUTE (HOLDINGS) LIMITED**

### **Directors' report**

The directors present their report and the financial statements for the year ended 31 December 2011

### **Principal activities**

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

The principal activities of Sheppey Route Limited are the design, construction, financing, operation and maintenance of the A249 Iwade Bypass to Queensborough 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 under the Government's Private Finance Initiative (PFI). 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 was completed in January 2007. Following the issue of the Permit to Use 2 (PTU2) Certificate in August 2006, the Highways Agency has been charged for traffic which has been using the new section of the highway.

The consolidated profit and loss account is set out on page 7 and relates to the operating activities during the year. During the year, interim dividends of £426,000 were paid (2010 £1,753,000). The directors do not recommend the payment of a final dividend (2010 £nil).

The directors consider the performance of the Group during the year, the financial position at the end of the year and its prospects for the future to be satisfactory.

### **Principal risks and uncertainties**

The principal activity of the company's subsidiary as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. The financial risks and the measures taken to mitigate them are as detailed in the following section.

#### ***Credit risk***

The subsidiary receives its revenue from a United Kingdom Government body and therefore is not exposed to significant risk. The subsidiary invests cash and enters into interest rate swap agreements with financial institutions. The credit quality of these institutions is reviewed by the Directors on a regular basis. As such the subsidiary's exposure to credit risk is reduced.

#### ***Inflation risk***

The subsidiary's project revenue and operating costs are linked to inflation at the inception of the project.

#### ***Insurance risk***

The subsidiary is exposed to the conditions prevailing in the insurance market at each renewal date. The directors manage this through close monitoring of the claims record of the project and through employing experienced broking organisations to obtain competitive insurance terms.

#### ***Interest rate risk***

The subsidiary hedges its interest rate risk at the inception of the project by swapping the majority of its variable rate debt into a fixed rate by the use of an interest rate swap. As such the subsidiary's exposure to interest rate risk is reduced.

## **SHEPPEY ROUTE (HOLDINGS) LIMITED**

### **Directors' report (*continued*)**

#### ***Lifecycle risk***

The subsidiary is responsible for lifecycle costs. The directors manage this through asset inspection and consequential forecasting of asset replacement costs. A cash lifecycle fund is held by the subsidiary to cover future anticipated replacement costs.

#### ***Liquidity risk***

The subsidiary has adopted a cautious approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

#### ***Solvency and performance of sub-contractors***

The solvency and performance of key sub-contractors is regularly monitored by Directors.

#### **Key performance indicators**

The subsidiary's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities as detailed in the following section.

#### ***Performance of the services***

The Highways Agency has the ability to levy financial penalties and/or require remedial action in the event that either performance standards are not achieved or as a result of congestion according to the detailed criteria set out in the project agreement. The financial penalties are monitored regularly by the Directors. The financial penalties levied are consistent with those anticipated. The group has suffered no material financial impact as a result of the level of financial penalties levied.

#### ***Financial performance***

The subsidiary has modelled the anticipated financial outcome of the project across its full term. The group monitors actual financial performance against anticipated performance. Income and expenditure in respect of the year ended 31 December 2011, which are based on fixed long term contracts, have been in line with the directors' expectations.

#### ***Safety performance***

The subsidiary is committed to providing a safe environment for its sub-contractors and those impacted by its activities. Safety reports are provided at each board meeting. These are reviewed by the directors who monitor actual performance against anticipated performance using industry benchmarks. Appropriate action is taken where necessary in order to ensure all matters raised are fully resolved and are compliant with safety regulations.

## **SHEPPEY ROUTE (HOLDINGS) LIMITED**

### **Directors' report** *(continued)*

#### **Directors and directors' interests**

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

G Farley	resigned	30 September 2011		
BEIF Corporate Services Limited	appointed	30 September 2011	resigned	19 December 2011
BIIF Corporate Services Limited	appointed	30 September 2011	resigned	25 April 2012
B J Wynne-Simmons	appointed	25 April 2012		
A Matthews	resigned	19 December 2011		
D W Bowler				
S Brooks	appointed	19 December 2011		
S N Jones	appointed	19 December 2011		
A R Gates	resigned	28 September 2011		

#### **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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

#### **Auditors**

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

This report was approved by the board on 1 June 2012 and signed on its behalf by



S Brooks  
Director

24 Birch Street  
Wolverhampton  
West Midlands  
WV1 4HY

## **SHEPPEY ROUTE (HOLDINGS) LIMITED**

### **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 and applicable law (UK Generally Accepted Accounting Practice)

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 their profit or loss for that period. In preparing the group and parent company 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 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **Independent Auditor's 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 2011 set out on pages 7 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

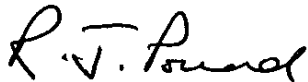
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Independent Auditor's Report to the Members of Sheppey Route (Holdings) Limited (*Continued*)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



**R J Pound (Senior Statutory Auditor)**

*7<sup>th</sup> June* 2012

**For and on behalf of KPMG LLP Statutory Auditor**  
Chartered Accountants  
One Snowhill  
Snowhill Queensway  
Birmingham  
B4 6GH

## SHEPPEY ROUTE (HOLDINGS) LIMITED

### Consolidated profit and loss account for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
<b>Turnover</b>	2	3,376	2,918
Other operating charges		(2,212)	(2,038)
<b>Operating profit</b>	3	<u>1,164</u>	<u>880</u>
Net interest receivable	4	382	411
<b>Profit on ordinary activities before taxation</b>		<u>1,546</u>	<u>1,291</u>
Taxation on profit on ordinary activities	6	(396)	(342)
<b>Profit for the financial year</b>	18	<u>1,150</u>	<u>949</u>

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

There were no recognised gains and losses other than the results for the current or prior year



# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Consolidated balance sheet at 31 December 2011

	<i>Notes</i>	<b>2011</b> <b>£000</b>	2010 £000
<b>Current Assets</b>			
Debtors Amounts falling due within one year	8	3,494	2,981
Debtors Amounts falling due after more than one year	10	<u>89,782</u>	<u>91,222</u>
Total debtors		93,276	94,203
Cash at bank		<u>7,006</u>	<u>7,195</u>
		<b>100,282</b>	101,398
<b>Current Liabilities</b>			
Creditors Amounts falling due within one year	12	<u>(6,446)</u>	(5,608)
<b>Net current assets and total assets less current liabilities</b>		<b>93,836</b>	95,790
Creditors Amounts falling due after more than one year	14	<u>(89,399)</u>	(92,513)
Provisions for liabilities and charges	16	<u>(3,257)</u>	(2,821)
<b>Net assets</b>		<b>1,180</b>	456
<b>Capital and reserves</b>			
Called up share capital	17	50	50
Profit and loss account	18	1,130	406
<b>Equity shareholders' funds</b>		<b>1,180</b>	456

These financial statements were approved by the board of directors on 1 June 2012 and were signed on its behalf by



S Brooks

Director

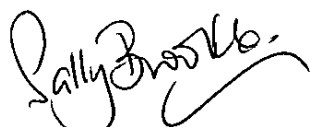
Registered number 4918710

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Company balance sheet at 31 December 2011

	<i>Notes</i>	<b>2011 £000</b>	2010 £000
<b>Fixed assets</b>			
Investment	7	50	50
<b>Current Assets</b>			
Debtors Amounts falling due within one year	9	638	238
Debtors Amounts falling due after more than one year	11	<u>5,734</u>	<u>6,223</u>
Total debtors		6,372	6,461
<b>Current liabilities</b>			
Creditors Amounts falling due within one year	13	(638)	(238)
<b>Net current assets</b>		<u>5,734</u>	<u>6,223</u>
<b>Total assets less current liabilities</b>		5,784	6,273
Creditors Amounts falling due after more than one year	15	(5,734)	(6,223)
<b>Net assets</b>		<u>50</u>	<u>50</u>
<b>Capital and reserves</b>			
Called up share capital	17	50	50
Profit and loss account	19	-	-
<b>Equity shareholders' funds</b>		<u>50</u>	<u>50</u>

These financial statements were approved by the board of directors on 1 June 2012 and were signed on its behalf by



S Brooks  
Director  
Registered number 4918710

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Consolidated cash flow statement

*For the year ended 31 December 2011*

	2011 £000	2010 £000
<b>Net cash inflow from operating activities</b>	<b>2,884</b>	<b>3,343</b>
<b>Return on investments and servicing of finance</b>		
Interest received	6,721	6,890
Interest paid	(6,388)	(6,603)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>333</b>	<b>287</b>
<b>Net cash inflow before use of liquid resources and financing</b>	<b>3,217</b>	<b>3,630</b>
<b>Financing</b>		
Repayment of unsecured shareholder loans	(57)	(46)
Repayment of bank borrowings	(2,579)	(2,389)
Dividends	(426)	(1,753)
<b>Net cash outflow from financing</b>	<b>(3,062)</b>	<b>(4,188)</b>
<b>Net cash inflow/(outflow) before taxation</b>	<b>155</b>	<b>(558)</b>
<b>UK corporation tax paid</b>	<b>(344)</b>	<b>(103)</b>
<b>Decrease in cash</b>	<b>(189)</b>	<b>(661)</b>
<b>Reconciliation of operating profit to net cash outflow from operating activities</b>		
Operating profit	1,164	880
Decrease in operating debtors	927	2,120
Increase/(decrease) in operating creditors	357	(4)
Increase in provision	436	347
	<b>2,884</b>	<b>3,343</b>

The supporting notes to the consolidated cash flow statement are set out in note 22

# **SHEPPEY ROUTE (HOLDINGS) LIMITED**

## **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 company's financial statements

All of 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 408 of the Companies Act 2006. The profit and loss for the year for the Company was £426,000 (2010 £1,753,000)

#### ***Going concern***

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future

The accounts show a consolidated profit on ordinary activities before tax for the year of £1,546,000 (2010 £1,291,000) and a consolidated equity shareholders' surplus of £1,180,000 (2010 £456,000)

The directors have reviewed the company's cash flow forecasts and profit projections over the concession period. The forecasts demonstrate that the company expects to comply with its banking covenants and meet its liabilities as they fall due for the foreseeable future. The directors believe it is appropriate for the financial statements to be prepared on a going concern basis

#### ***Turnover and profit on long term Private Finance Initiative contract balances***

Turnover and profit on long term Private Finance Initiative contracts are recognised in accordance with SSAP 9 *Stocks and long term contracts* and FRS 5 Application note F *Private Finance Initiative and Similar Contracts*

During the construction period, the amount of turnover attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. No margin is recognised during the construction phase of the concession contract

Where the project's principal agreements transfer substantially all the risks and rewards of ownership to the customer, amounts recoverable under long term Private Finance Initiative contracts are transferred to a contract receivable. Following completion of construction, interest receivable is recognised on the contract receivable using an imputed rate to generate a constant return over the life of the contract. Over the course of the contract term, the contract debtor is expected to be fully repaid

During the operational period, unitary charge income is allocated between reimbursement of the contract receivable (including imputed interest receivable) and service revenue. Service revenue reflects the income allocated to the services provided as part of the overall project. A margin is applied to costs incurred so as to achieve a constant return on the expenditure incurred over the life of the contract

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# **SHEPPEY ROUTE (HOLDINGS) LIMITED**

## **Notes (continued)**

### **1 Accounting Policies (continued)**

#### ***Turnover and profit on long term Private Finance Initiative contract balances (continued)***

This margin is calculated using total income forecast to be receivable over the concession, less all lifecycle and other operating costs forecast to be payable over the concession. This margin is reviewed annually by reference to the progress on the contract.

#### ***Life cycle costs***

The estimated costs of the group's obligation to maintain the infrastructure over the life of the contract are accrued in the balance sheet in equal instalments, after taking account of indexation, in accordance with FRS 12 "Provisions, contingent liabilities and contingent assets". An accrual is made where the cumulative estimated cost exceeds the cost incurred to the balance sheet date. This provision is discounted where the time value of money has a material effect.

#### ***Interest receivable***

Interest receivable is recognised in the profit and loss account in the period in which it is earned.

#### ***Interest charges***

Interest payable and similar charges are charged to the profit and loss account as they are incurred.

#### ***Finance costs***

Financing costs are accounted for in accordance with FRS 4 'Capital Instruments' and are written off on a straight line basis over the life of the financing to which they relate.

The balance at the end of the period is set against the outstanding liability.

#### ***Financial instruments***

The group has entered into certain hedging arrangements in respect of interest rates. These financial instruments are accounted for at cost.

#### ***Investments***

Fixed asset investments are stated at cost less any provision for diminution in value.

#### ***Dividends receivable***

Dividends received are credited to the profit and loss account in the year in which they are received.

#### ***Dividends payable***

Dividends are only recognised as a liability at the balance sheet date to the extent they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 2 Turnover

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

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

### 3 Operating Profit

The following costs were incurred during the year

	2011 £000	2010 £000
Auditors' remuneration – audit of these financial statements	1	1
Auditors' remuneration – audit of subsidiary accounts	9	9
	<u>10</u>	<u>10</u>

### 4 Net interest receivable

	2011 £000	2010 £000
<b>Interest payable and similar charges</b>		
Bank borrowings	(5,508)	(5,676)
Amortisation of issue costs	(44)	(23)
Interest payable on unsecured loans from shareholders	(787)	(780)
	<u>(6,339)</u>	<u>(6,479)</u>
<b>Interest receivable and similar income</b>		
Bank interest receivable	50	28
Interest on contract receivable	6,671	6,862
	<u>6,721</u>	<u>6,890</u>
Net interest receivable	<u>382</u>	<u>411</u>

### 5 Staff costs

There were no employees during the year (2010 none) The directors have no contract of service with the company (2010 none) Amounts receivable by third parties in respect of directors' services were £66,000 (2010 £78,000)

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 6 Taxation on profit on ordinary activities

#### a) Analysis of tax charge for the year

	2011 £000	2010 £000
Current tax – UK corporation tax	410	357
Adjustment in respect of prior periods	(14)	(15)
Total tax charge on profit on ordinary activities	<u>396</u>	<u>342</u>

#### b) Factors affecting the tax charge for the year

The UK standard rate of corporation tax for the year is 26.5% (2010: 28%). The actual tax rate is lower than (2010: lower than) the standard rate for the reasons set out below

	2011 £000	2010 £000
Profit on ordinary activities before tax	<u>1,546</u>	<u>1,291</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	410	361
Effect of tax at small company's rate	-	(4)
Adjustment in respect of previous periods	<u>(14)</u>	<u>(15)</u>
Current tax charge for the year	<u>396</u>	<u>342</u>

#### c) Factors that may affect future tax charges

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the company's future current tax charge accordingly.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge.

There is no recognised or unrecognised deferred tax (2010: £nil).

### 7 Fixed asset investments

	2011 £000	2010 £000
<b>Cost and net book value</b>		
Investment in subsidiary at start and end of year	<u>50</u>	<u>50</u>

Shares in subsidiary undertaking represent a holding of 100% of the ordinary share capital of Sheppey Route Limited. This company is incorporated in the United Kingdom and its sole purpose is the design, build and maintenance and operation of the A249 Iwade bypass under the Private Finance Initiative.

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 8 Debtors: Amounts falling due within one year

	2011 £000 Group	2010 £000 Group
Contract receivable	1,659	1,543
Trade debtors	1,103	1,081
Prepayments and accrued income	732	357
	<u>3,494</u>	<u>2,981</u>

### 9 Debtors: Amounts falling due within one year

	2011 £000 Company	2010 £000 Company
Amounts owed by group undertaking (see note 12)	<u>638</u>	<u>238</u>

This loan is unsecured and bears interest at 12.75%

### 10 Debtors: Amounts falling due after more than one year

	2011 £000 Group	2010 £000 Group
Contract receivable	88,997	90,408
Amounts recoverable on contracts	785	814
	<u>89,782</u>	<u>91,222</u>

Interest which has been capitalised in the contract receivable is £9,118,000 (2010 £9,118,000)

### 11 Debtors: Amounts falling due after more than one year

	2011 £000 Company	2010 £000 Company
Amounts owed by group undertaking (see note 12)	<u>5,734</u>	<u>6,223</u>

This loan is unsecured and bears interest at 12.75%. It is repaid in unequal instalments with the final repayment being due in 30 September 2033.



# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 12 Creditors: Amounts falling due within one year

	2011 £000 Group	2010 £000 Group
Bank borrowings	2,669	2,579
Trade creditors	388	179
Unsecured loan from shareholders	485	53
Interest due on loans from shareholders	153	185
Tax creditor	409	357
Accruals and deferred income	1,891	1,867
Other creditors	451	388
	<u>6,446</u>	<u>5,608</u>

### 13 Creditors: Amounts falling due within one year

	2011 £000 Company	2010 £000 Company
Unsecured loan from shareholders	485	53
Interest due on loans from shareholders	153	185
	<u>638</u>	<u>238</u>

### 14 Creditors: Amounts falling due after more than one year

	2011 £000 Group	2010 £000 Group
Bank borrowings	84,501	87,170
Less unamortised costs	(756)	(790)
	<u>83,745</u>	<u>86,380</u>
Unsecured loans from shareholders	5,734	6,223
Less unamortised costs	(80)	(90)
	<u>89,399</u>	<u>92,513</u>
The bank borrowings are repayable as follows		
Within one year	2,669	2,579
Between one and two years	2,920	2,669
Between two and five years	9,715	9,488
Greater than five years	71,866	75,013
	<u>87,170</u>	<u>89,749</u>

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 2011 £87,170,000 (2010 £89,749,000) has been drawn comprising £84,213,000 (2010 £86,753,000) senior loan and £2,957,000 (2010 £2,996,000) mezzanine loan. The group has an additional IRS facility of £15,000,000 of which £nil has been utilised at 31 December 2011 (2010 £nil).

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 14 Creditors: Amounts falling due after more than one year (continued)

Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the of the bank borrowings and are amortised over the periods of the facilities as part of the finance costs in accordance with the provisions of FRS 4

The senior and mezzanine loans are repayable in fifty-one unequal six-monthly instalments commencing on 30 September 2007 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 The fair value of these financial instruments at 31 December 2011 was a liability of £24,746,000 (2010 liability of £14,917,000)

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 company, and by a first floating charge over all its assets

The shareholders subscribed to £5,955,000 of Loan Notes in the company on 31 August 2006 in proportion equal to their shareholding The company has in turn subscribed to secured loans totalling £5,955,000 to Sheppey Route Limited, its subsidiary undertaking In 2007 a further £443,000 was added to the Loan Notes as interest The Loan Notes bear interest at 12.75% per annum and fall due for payment in six monthly intervals The first repayment fell due on 30 September 2008 with the final repayment falling due on 30 September 2033 The profile of these payments is disclosed in note 15

### 15 Creditors: Amounts falling due after more than one year

	2011 £000 Company	2010 £000 Company
Unsecured loans from shareholders	<u>5,734</u>	<u>6,223</u>

The unsecured loans from shareholders carry interest at 12.75% from 1 September 2006 and fall due for payment in six monthly intervals The first repayment fell due on 30 September 2008 with the final repayment falling due on 30 September 2033 as follows

	2011 £000	2010 £000
Between one and two years	67	64
Between two and five years	255	244
Greater than five years	<u>5,412</u>	<u>5,915</u>
	<u>5,734</u>	<u>6,223</u>

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 16 Provisions for liabilities and charges

	2011 £000 Group	2010 £000 Group
Life cycle costs		
At 1 January	2,821	2,474
Utilised during the year	-	(162)
Provided during the year	436	509
At 31 December	<u>3,257</u>	<u>2,821</u>

The lifecycle provision relates to costs expected to be incurred to maintain the road over the duration of the contract. Maintenance costs are expected to be incurred throughout the contracts duration as determined by the agreement between Sheppey Route Limited and the Highways Agency.

### 17 Share capital

	2011 £000	2010 £000
<b>Authorised</b>		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid</b>		
50,000 ordinary shares of £ 1 each	<u>50</u>	<u>50</u>

### 18 Profit and loss account

	2011 £000 Group	2010 £000 Group
At 1 January	406	1,210
Profit for the financial year	1,150	949
Interim dividend paid (£8 52 per share, 2010 £35 06 per share)	(426)	(1,753)
At 31 December	<u>1,130</u>	<u>406</u>

### 19 Profit and loss account

	2011 £000 Company	2010 £000 Company
At 1 January	0	0
Profit for the financial year	426	1,753
Interim dividend paid (£8 52 per share, 2010 £35 06 per share)	(426)	(1,753)
At 31 December	<u>0</u>	<u>0</u>

# SHEPPEY ROUTE (HOLDINGS) LIMITED

## Notes (continued)

### 20 Reconciliation of movement in shareholders' funds

	2011 £000 Group	2010 £000 Group
At 1 January	456	1,260
Profit for the financial year	1,150	949
Interim dividend paid (£8 52 per share, 2010 £35 06 per share)	(426)	(1,753)
At 31 December	<u>1,180</u>	<u>456</u>

### 21 Reconciliation of movement in shareholders' funds

	2011 £000 Company	2010 £000 Company
At 1 January	50	50
Profit for the financial year	426	1,753
Interim dividend paid (£8 52 per share, 2010 £35 06 per share)	(426)	(1,753)
At 31 December	<u>50</u>	<u>50</u>

### 22 Notes to the consolidated cashflow statement

#### Analysis of changes in net debt

	2010 £000	Cashflow £000	Non-cash Movements £000	2011 £000
Cash at bank	7,195	(189)	-	7,006
Bank borrowings	(88,959)	2,579	(34)	(86,414)
Unsecured loan from shareholder	(6,186)	57	(10)	(6,139)
	<u>(87,950)</u>	<u>2,447</u>	<u>(44)</u>	<u>(85,547)</u>

#### Reconciliation in net debt resulting from cash flows

	2011 £000
Decrease in cash in the year	(189)
Outflow from bank borrowings	2,579
Outflow from payment of unsecured debt	57
Change in net debt resulting from cash flows	<u>2,447</u>
Amortisation of bank borrowing issue costs	(34)
Amortisation on unsecured shareholder loan issue costs	(10)
Movement in net debt in the year	<u>2,403</u>
Net debt at start of year	<u>(87,950)</u>
Net debt at end of year	<u>(85,547)</u>

## **SHEPPEY ROUTE (HOLDINGS) LIMITED**

### **Notes (continued)**

#### **23 Related party disclosures**

Administrative, construction, technical and financial services were provided to the group during the year by companies related to Carillion Private Finance (Transport) Limited at a cost of £1,449,000 (2010 £1,619,000), by companies related to BIIF Holdco II Limited at a cost of £499,000 (2010 £429,000) and by companies related to Infrastructure Investments (Roads) Limited £16,000 (2010 £nil)

As at 31 December 2011, £3,196,000 (2010 £nil) was owed to BIIF Holdco II Limited and £3,196,000 (2010 £nil) was owed to companies related to Infrastructure Investments (Roads) Limited, in relation to the services described above

#### **24 Parent undertakings**

BIIF Holdco II Limited acquired 50% of the share capital of Sheppey Route (Holdings) Limited on 30 September 2011. As at 31 December 2011 BIIF Holdco II Limited held 50% of the share capital of Sheppey Route (Holdings) Limited

BEIL Roads Limited changed their name to Infrastructure Investments (Roads) Limited on 21 December 2011. As at 31 December 2011 Infrastructure Investments (Roads) Limited held 50% of the share capital of Sheppey Route (Holdings) Limited

Both of these companies are incorporated in the United Kingdom