SHEPPEY ROUTE (HOLDINGS) LIMITED

Annual report and financial statements
For the year ended 31 December 2015

Registered number 4918710

SHEPPEY ROUTE (HOLDINGS) LIMITED

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Strategic report

Principal activities

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

The principal activities of the Group 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 9 and relates to the operating activities during the year. As per the Consolidated profit and loss account, the consolidated profit for the year was £865,000 (2014: £1,376,000) from which interim dividends of £27,000 (2014: £294,000) and final dividends of £nil (2014: £nil) have been paid. No further dividends are proposed.

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. The financial model for the life of the PFI contract is updated every six months and the directors have reviewed the project against expectations and are satisfied that it is in line with its business plan.

Principal risks and uncertainties

The principal activity of the group'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 sections.

Credit risk

The group receives its revenue from a United Kingdom Government body and therefore is not exposed to significant credit risk. The group invests cash and entered 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 group's exposure to credit risk is reduced.

Inflation risk

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

Insurance risk

The group 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.

Strategic report *(continued)*

Interest rate risk

The group 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 group's exposure to interest rate risk is reduced. See note 16 for further details.

Lifecycle risk

The group 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 group to cover future anticipated replacement costs.

Liquidity risk

The group 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 group'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 Directors monitor actual financial performance against anticipated performance. Income and expenditure in respect of the year ended 31 December 2015, which are based on fixed long term contracts, have been in line with the Directors' expectations.

Strategic report *(continued)*

Safety performance

The group 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.

The report was approved by the Board on 26 September 2016 and signed on its behalf by:

D W Davies
Director

84 Salop Street
Wolverhampton
West Midlands
WV3 0SR

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2015.

Future Developments

The Directors continue to develop the business in line with the contract and there are no issues expected.

Dividends

During the year, interim dividends of £27,000 (2014: £294,000) and final dividends of £nil (2014: £nil) were paid. The directors do not propose the payment of any further dividends.

Political and charitable donations

During the year £nil (2014: £nil) political and £nil (2014: £nil) charitable donations were made by the company.

Post balance sheet events

There are no post balance sheet events.

Directors and directors' interests

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

D Bowler
D W Davies
J Whittington
C Maronne

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

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

This report was approved by the board on 26 September 2016 and signed on its behalf by:

D W Davies
Director

84 Salop Street
Wolverhampton
West Midlands
WV3 0SR

Statement of Directors' Responsibilities in Respect of the Strategic Report, Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 2015 set out on pages 9 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 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 Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

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 2015 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 Strategic Report and 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.

Amanda Moses (Senior Statutory Auditor) 29 September 2016

For and on behalf of KPMG LLP Statutory Auditor

Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

Consolidated profit and loss account and statement of other comprehensive income

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Turnover	2	**3,198**	3,408
Other operating charges		**(2,502)**	(2,303)
Operating profit	3	**696**	1,105
Interest payable and similar charges	4	**(5,834)**	(5,673)
Interest receivable and similar income	5	**6,214**	6,339
Profit on ordinary activities before taxation		**1,076**	1,771
Taxation on profit on ordinary activities	7	**(211)**	(395)
Profit for the financial year		**865**	1,376
Other comprehensive income			
Items that will or may be reclassified to the profit and loss			
Effective portion of fair value changes in cash flow hedges	16	**2,760**	(8,249)
Tax recognised in relation to fair value changes	7	**(995)**	1,650
Other comprehensive income for the year		**1,765**	(6,599)
Total comprehensive income for the year		**2,630**	(5,223)

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

The notes on pages 15 to 32 form part of the financial statements.

SHEPPEY ROUTE (HOLDINGS) LIMITED

Consolidated balance sheet
at 31 December 2015

	Notes	2015 £000	2014 £000
Current assets			
Debtors: amounts falling due within one year	*9*	**3,254**	3,618
Debtors: amounts falling due after more than one year	*10*	**86,116**	89,183
Cash at bank		**8,443**	8,029
		97,813	100,830
Current liabilities			
Creditors: amounts falling due within one year	*11*	**(6,357)**	(6,386)
Net current assets and total assets less current liabilities		**91,456**	94,444
Creditors: amounts falling due after more than one year	*12*	**(99,977)**	(105,743)
Provisions for liabilities and charges	*13*	**(5,482)**	(5,307)
Net liabilies		**(14,003)**	(16,606)
Capital and reserves			
Called up share capital	*15*	**50**	50
Profit and loss account		**4,136**	3,298
Cashflow hedge reserve		**(18,189)**	(19,954)
Total shareholder's deficit		**(14,003)**	(16,606)

The notes on pages 15 to 32 form part of the financial statements.

These financial statements were approved by the board of directors on 26 September 2016 and were signed on its behalf by:

D W Davies
Director

Registered number 4918710

Company balance sheet
at 31 December 2015

	Notes	**2015** **£000**	2014 £000
Fixed assets			
Investment	*8*	**50**	50
Current assets			
Debtors: amounts falling due within one year	*9*	**273**	481
Debtors: amounts falling due after more than one year	*10*	**5,483**	5,531
Total debtors		**5,756**	6,012
Current liabilities			
Creditors: amounts falling due within one year	*11*	**(273)**	(481)
Net current assets		**5,483**	5,531
Total assets less current liabilities		**5,533**	5,581
Creditors: amounts falling due after more than one year	*12*	**(5,483)**	(5,531)
Net assets		**50**	50
Capital and reserves			
Called up share capital	*15*	**50**	50
Profit and loss account		**-**	-
Total shareholders' funds		**50**	50

The notes on pages 15 to 32 form part of the financial statements.

These financial statements were approved by the board of directors on 26 September 2016 and were signed on its behalf by:

D W Davies
Director

Registered number 4918710

Consolidated Statement of Changes in Equity

	Called up share capital £000	Cashflow hedge reserve £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2014	50	(13,355)	2,216	(11,089)
Total comprehensive income for the period				
Profit	-	-	1,376	1,376
Other comprehensive income	-	(6,599)	-	(6,599)
Total comprehensive income for the period	-	(6,599)	1,376	(5,223)
Dividends	-	-	(294)	(294)
Balance at 31 December 2014	**50**	**(19,954)**	3,298	(16,606)

	Called up share capital £000	Cashflow hedge reserve £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2015	50	(19,954)	3,298	(16,606)
Total comprehensive income for the period	-			
Profit	-	-	865	865
Other comprehensive income	-	1,765	-	1,765
Total comprehensive income for the period	-	1,765	865	2,630
Dividends	-	-	(27)	(27)
Balance at 31 December 2015	**50**	**(18,189)**	4,136	**(14,003)**

The notes on pages 15 to 32 form an integral part of these financial statements.

Company Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2014	50	-	50
Total comprehensive income for the period			
Profit	-	294	294
Dividends	-	(294)	(294)
Balance at 31 December 2014	**50**	**-**	**50**

	Called up share capital £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2015	50	-	50
Total comprehensive income for the period			
Profit	-	27	27
Dividends	-	(27)	(27)
Balance at 31 December 2015	**50**	**-**	**50**

The notes on pages 15 to 32 form an integral part of these financial statements.

SHEPPEY ROUTE (HOLDINGS) LIMITED

Consolidated cash flow statement

For the year ended 31 December 2015

	2015	2014
	£000	£000
Net cash inflow from operating activities	**3,802**	3,460
Return on investments and servicing of finance		
Interest received	**6,214**	6,339
Interest paid	**(5,759)**	(5,542)
Net cash inflow from returns on investments and servicing of finance	**455**	797
Net cash inflow before use of liquid resources and financing	**4,257**	4,257
Financing		
Repayment of subordinated debt	**(47)**	(37)
Repayment of bank borrowings	**(3,381)**	(3,189)
Dividends paid	**(27)**	(294)
Net cash outflow from financing	**(3,455)**	(3,520)
Net cash inflow before taxation	**802**	737
UK corporation tax paid	**(388)**	(434)
Increase in cash	**414**	303
Cash and cash equivalents at 1 January	**8,029**	7,726
Cash and cash equivalents at 31 December	**8,443**	8,029
Reconciliation of operating profit to net cash outflow from operating activities		
Operating profit	**696**	1,105
Decrease in operating debtors	**2,443**	1,947
Increase/(Decrease) in operating creditors	**488**	(14)
Increase in provision	**175**	422
	3,802	3,460

The supporting notes to the consolidated cash flow statement are set out in note 17.

Notes
(forming part of the financial statements)

1 Accounting Policies

Sheppey Route (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 Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Group has made 2 measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Group is provided in note 20.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Service concession arrangements –The Group entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.
- Hedge accounting documentation – The Group has taken advantage of the exemption in respect of having prepared hedge accounting documentation for each of the hedging relationships which existed previously before the date of transition.

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.

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group and Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments, which are held at fair value.

1.2 Going concern

The Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to April 2039. Having examined the current status of the Group's principal contracts and likely developments in the foreseeable future, the Directors consider that the Group will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Notes *(continued)*

1.3 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 and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Restricted cash

The Group is 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 £5,051,000 at the year end (2014: £5,588,000).

1.4 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

The Group has entered into Interest rate swaps and has designated these as hedges for highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Notes *(continued)*

1.4 Other financial instruments (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.5 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.

1.6 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 Group under FRS102 section 34C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Highways England.

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. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.7 Expenses

Interest receivable and Interest payable

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 income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Notes *(continued)*

1.8 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.

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. 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.

1.9 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 102, section 21. An accrual is made where the cumulative estimated cost exceeds the cost incurred to the balance sheet date.

1.10 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 this criteria are disclosed in the notes to the financial statements.

2 Turnover

All turnover and profit on ordinary activities before taxation originates in the United Kingdom. Turnover is recognised in accordance with the finance debtor and services income accounting policy above and excludes VAT.

Notes *(continued)*

3 Operating Profit

The following costs were incurred during the year in arriving at operating profit:

	2015 £000	2014 £000
Auditor's remuneration – audit of these financial statements	1	1
Auditor's remuneration – audit of subsidiary accounts	11	10
	12	11

4 Interest payable and similar charges

	2015 £000	2014 £000
Bank borrowings	(4,901)	(5,104)
Interest payable on unsecured loans from shareholders	(933)	(569)
Interest payable	(5,834)	(5,673)

5 Interest receivable and similar income

	2015 £000	2014 £000
Bank interest receivable	13	6
Interest on finance debtor	6,201	6,333
Interest receivable	6,214	6,339

6 Staff costs

There were no employees during the year (2014: none). The directors have no contract of service with the company (2014: none). Amounts payable by third parties in respect of directors' services were £58,000 (2014: £84,000), see note 18.

Notes *(continued)*

7 Taxation on profit on ordinary activities

a) Analysis of tax charge for the year

	2015	2014
	£000	£000
Current tax – UK corporation tax	**218**	381
Effect of decreased tax rate	**19**	-
Restatement of loan values using the effective interest rate method	**(26)**	14
Total tax charge on profit on ordinary activities	**211**	395

	2015			2014		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	**218**	**(7)**	**211**	381	14	395
Recognised directly in equity:						
Effect of decreased tax rate on opening asset	-	**499**	**499**	-	-	-
Revaluation of fair value of derivatives	-	**496**	**496**	-	(1,650)	(1,650)
Total tax	**218**	**988**	**1,206**	381	(1,636)	(1,255)

b) Factors affecting the tax charge for the year

The UK standard rate of corporation tax for the year is 20.25% (2014: 21.5%). The actual tax rate above is equal to (2014: equal to) the standard rate for the reasons set out below:

	2015	2014
	£000	£000
Profit on ordinary activities before tax	**1,076**	1,771
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	**218**	381
Effect of decreased tax rate on opening asset	**19**	-
Restatement of loan values using the effective interest rate method	**(26)**	14
Current tax charge for the year	**211**	395

Notes *(continued)*

7 Taxation *(continued)*

c) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 December 2015 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on the rate of 18% (2014: 20%) substantively enacted at the balance sheet date.

8 Fixed asset investments

	2015	2014
	£000	£000
Cost and net book value		
Investment in subsidiary undertaking at start and end of year	**50**	50

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.

9 Debtors: amounts falling due within one year

	2015	2014
	£000	£000
	Group	Group
Finance debtor	**2,067**	2,067
Trade debtors	**1,187**	1,183
Prepayments and accrued income	**-**	368
	3,254	3,618

	2015	2014
	£000	£000
	Company	Company
Subordinated loan notes owed by group undertaking (see note 12)	**273**	481

This loan is unsecured and bears interest at 12.75%.

Notes *(continued)*

10 Debtors: amounts falling due after more than one year

	2015	2014
	£000	£000
	Group	Group
Finance debtor	**81,246**	83,288
Amounts recoverable on contracts	**677**	714
Deferred tax asset (see note 14)	**4,193**	5,181
	86,116	89,183

Borrowing costs which have been capitalised as part of the finance debtor receivable (before amortisation) is £9,118,000 (2014: £9,118,000).

The Deferred tax asset is based on the revaluation of the Fair Value of Interest Rate Swap derivatives held by the company. These are accounted for as cash flow hedges (see note 16).

	2015	2014
	£000	£000
	Company	Company
Subordinated loan notes owed by group undertaking (see note 12)	**5,483**	5,531

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.

11 Creditors: amounts falling due within one year

	2015	2014
	£000	£000
	Group	Group
Bank borrowings	**3,146**	3,380
Trade creditors	**182**	34
Subordinated loan notes	**92**	91
Interest due on subordinated loan notes	**181**	390
Corporation tax	**240**	410
Accruals and deferred income	**1,832**	1,624
Other creditors	**684**	457
	6,357	6,386

	2015	2014
	£000	£000
	Company	Company
Subordinated loan notes	**92**	91
Interest due on subordinated loan notes	**181**	390
	273	481

Notes *(continued)*

12 Creditors: amounts falling due after more than one year

	2015 £000 Group	2014 £000 Group
Bank borrowings	**72,061**	75,243
Subordinated loan notes	**5,734**	5,558
Other financial instruments (see note 16)	**22,182**	24,942
	99,977	105,743

The bank borrowings are repayable as follows:		
Within one year	**3,146**	3,380
Between one and two years	**3,089**	3,156
Between two and five years	**10,771**	9,931
Greater than five years	**58,201**	62,156
	75,207	78,263

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 £6,397,000 equity bridge loan. As at 31 December 2015 £75,013,000 (2014: £78,393,000) has been drawn comprising £72,259,000 (2014: £75,581,000) senior loan and £2,754,000 (2014: £2,813,000) mezzanine loan. 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 FRS 102.

The senior and mezzanine loans are repayable in fifty-one six-monthly instalments which commenced on 30 September 2007 and mature on 30 September 2032. Interest is charged on amounts drawn under the facilities based on floating LIBOR.

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 of Sheppey Route (Holdings) Limited subscribed to £5,955,000 of Loan Notes on 31 August 2006 in Sheppey Route (Holdings) Limited in proportion to their shareholding. Sheppey Route (Holdings) Limited has in turn subscribed to secured loans in Sheppey Route Limited totalling £5,955,000, the subordinated debt. 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 are repayable 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 overleaf.

Notes *(continued)*

12 Creditors: amounts falling due after more than one year *(continued)*

	2015	2014
	£000	£000
	Company	Company
Subordinated loan notes	**5,483**	5,531

The subordinated loan notes 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:

	2015	2014
	£000	£000
Within one year	**273**	481
Between one and two years	**107**	102
Between two and five years	**407**	312
Greater than five years	**4,969**	5,117
	5,756	6,012

13 Provisions for liabilities and charges

	2015	2014
	£000	£000
	Group	Group
Life cycle costs:		
At 1 January	**5,307**	4,885
Utilised during the year	**(734)**	(424)
Provided during the year	**909**	846
At 31 December	**5,482**	5,307

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.

Notes *(continued)*

14 Deferred tax asset

	2015	2014
	£000	£000
At the beginning of the year	**5,181**	3,517
Recognised directly in equity	**(995)**	1,650
Recognised in profit and loss	**7**	14
At end of year	**4,193**	5,181

	2015	2014
	£000	£000
The elements of the deferred tax asset are as follows:		
Deferred tax on revaluation of fair value of derivatives	**3,993**	4,988
Deferred tax on restatement of loan values using the effective interest rate method	**200**	193
	4,193	5,181

Deferred tax assets are provided in compliance with FRS 102, section 29 and it is expected that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

15 Capital and reserves

	2015	2014
	£000	£000
Share capital		
Allotted, called up and fully paid		
50,000 ordinary shares of £ 1 each	**50**	50

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.

Cash flow hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes *(continued)*

16 Financial instruments

(a) Carrying amount of financial instruments

The carrying value of the financial assets and liabilities include:

	2015	2014
	£000	£000
Assets measured at amortised cost		
- Finance debtor	**83,313**	85,355
- Trade and other debtors	**1,864**	2,265
Assets measured at cost less impairment		
- Cash and cash equivalents	**8,443**	8,029
Liabilities measured at amortised cost		
- Trade and other payables	**2,938**	2,525
- Bank loan	**75,207**	78,263
- Subordinated debt	**6,007**	6,039
Liabilities measured at fair value through profit and loss		
- Interest rate swaps	**22,182**	24,942

(b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swaps are based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes *(continued)*

16 Financial instruments *(continued)*

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102.29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect profit and loss:

	2015				
	Carrying amount £000	**Within 1 year £000**	**Between 1–2 years £000**	**Between 2–5 years £000**	**5 years and over £000**
Interest rate swap	**22,182**	**946**	**924**	**3,217**	**17,095**

	2014				
	Carrying amount £000	Within 1 year £000	Between 1–2 years £000	Between 2–5 years £000	5 years and over £000
Interest rate swap	24,942	1,096	1,017	3,189	19,640

The company 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 2015 was a liability of £22,182,000 (2014: liability of £24,942,000).

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2015 £000	2014 £000
Interest rate swap contracts	**22,182**	24,942

17 Notes to the consolidated cashflow statement

Analysis of changes in net debt

	2014 £000	**Cashflow £000**	**Non-cash Movements £000**	**2015 £000**
Cash at bank	8,029	**414**	**-**	**8,443**
Bank borrowings	(77,742)	**3,381**	**(35)**	**(74,396)**
Unsecured loan from shareholder	(5,566)	**47**	**(8)**	**(5,527)**
	(75,279)	**3,842**	**(43)**	**(71,480)**

Notes *(continued)*

17 Notes to the consolidated cashflow statement *(continued)*

Reconciliation of net cashflow to movement in net debt	2015 £'000	2014 £000
Increase / (decrease) in cash in the year	414	303
Outflow from bank borrowings	3,381	3,191
Outflow from payment of subordinated loan notes	47	37
Change in net debt resulting from cash flows	3,842	3,531
Amortisation of bank borrowing issue costs	(35)	(36)
Amortisation on subordinated loan notes issue costs	(8)	(7)
Movement in net debt in the year	3,799	3,488
Net debt at start of year	(75,279)	(78,767)
Net debt at end of year	(71,480)	(75,279)

18 Related party disclosures

Directors services were provided to the Group during the year by companies related to BIIF Holdco III Limited at a cost of £37,000 (2014: £36,000) and by companies related to Infrastructure Investments (Roads) Limited at a cost of £37,000 (2014: £48,000).

As at 31 December 2015, £nil (2014: £9,200) was owed to BIIF Holdco III Limited and £49,000 (2014: £39,400) was owed to companies related to Infrastructure Investments (Roads) Limited, in relation to the services described above.

19 Parent undertakings

As at 31 December 2015 BIIF Holdco III Limited held 50% of the share capital of Sheppey Route (Holdings) Limited (2014: 50%).

As at 31 December 2015 Infrastructure Investments (Roads) Limited held 50% of the share capital of Sheppey Route (Holdings) Limited (2014: 50%).

Both of these companies are incorporated in the United Kingdom.

20 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables.

Notes *(continued)*

20 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of equity

		1 January 2014			31 December 2014		
		UK GAAP	Effect of transition to FRS102	FRS102	UK GAAP	Effect of transition to FRS102	FRS102
		£000	£000	£000	£000	£000	£000
Current assets							
Debtors (due within 1 year)		3,483	-	3,483	3,618	-	3,618
Debtors (due after more than 1 year)	c	86,084	3,517	89,601	84,002	5,181	89,183
Cash at bank and in hand		7,726	-	7,726	8,029		8,029
		97,293	3,517	100,810	95,649	5,181	100,830
Creditors (due within one year)	b	(6,192)	-	(6,192)	(6,372)	(14)	(6,386)
Net current assets		91,101	3,517	94,618	89,277	5,167	94,444
Creditors: amounts falling due after more than one year	a b	(83,235)	(17,587)	(100,822)	(79,837)	(25,906)	(105,743)
Provisions for liabilities and charges		(4,885)	-	(4,885)	(5,307)	-	(5,307)
Net assets		2,981	(14,069)	(11,089)	4,133	(20,739)	(16,606)
Capital and reserves							
Called up share capital		50	-	50	50	-	50
Cashflow hedge reserve	a	-	(13,355)	(13,355)	-	(19,954)	(19,954)
Profit and loss account		2,931	(715)	2,216	4,083	(785)	3,298
Shareholders' equity		2,981	(14,070)	(11,089)	4,133	(20,739)	(16,606)

Notes to the reconciliation of equity

a) The derivatives held by the entity, being interest rate SWAP contracts, have now been recognised in the balance sheet at their fair value under FRS 102. These have been accounted for as a cash flow hedge and therefore been recognised in a separate cash flow hedge reserve.

b) Bank borrowing and subordinated debt due to the parent undertaking have now been recognised in the balance sheet using the Effective Interest Rate ("EIR") method under FRS102.

Notes *(continued)*

20 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Notes to the reconciliation of equity (continued)

c) A deferred tax asset has been recognised in respect of the fair value of the SWAP arrangements, bank borrowings and subordinated debt due to the parent undertaking. This has been recognised within non-current assets and movements on the deferred tax for the SWAP arrangements is taken to the cash flow hedge reserve and movements on the deferred tax for bank borrowings and subordinated debt due to the parent undertaking is taken to the profit and loss.

The effect of each of the FRS 102 transition adjustments on each financial statement caption at 1 January 2014 and 31 December 2014 is as follows:

	1 January 2014			31 December 2014		
	a) SWAP	b) EIR	Total	a) SWAP	b) EIR	Total
	£000	£000	£000	£000	£000	£000
Current assets						
Debtors (due after more than 1 year)	3,338	179	3,517	4,988	193	5,181
Creditors (due within one year)	-	-	-	-	(14)	(14)
Creditors: amounts falling due after more than one year	(16,694)	(893)	(17,587)	(24,942)	(964)	(25,906)
Cashflow hedge reserve	(13,355)	-	(13,355)	(19,954)	-	(19,954)
Profit and loss account	-	(715)	(715)		(785)	(785)

Notes *(continued)*

20 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of profit for the year ended 31 December 2014

		2014		
		UK GAAP	Effect of transition to FRS102	FRS102
		£000	£000	£000
Turnover		3,408	-	3,408
Other operating charges		(2,303)	-	(2,303)
Operating profit		1,105	-	1,105
Interest payable and similar charges	e	(5,602)	(71)	(5,673)
Interest receivable and similar income		6,339	-	6,339
Profit on ordinary activities before taxation		1,842	(71)	1,771
Taxation on profit on ordinary activities	f	(396)	1	(395)
Profit for the financial year		1,446	(70)	1,376

e) Bank borrowing and subordinated debt due to the parent undertaking have now been recognised in the balance sheet using the Effective Interest Rate ("EIR") method under FRS102, this is the impact on the interest payable charge to Profit and Loss

f) Deferred tax impact of the above.

Notes *(continued)*

21 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect 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 debtors requires of estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.
- Accounting for the provision for liabilities and charges requires an estimation of costs expected to be incurred to maintain the road over the duration of the contract and the value of income to be deferred to match these costs when they arise.