

Company Registration No. 05494495 (England and Wales)

BY CHELMER (HOLDINGS) LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



BY CHELMER (HOLDINGS) LTD

COMPANY INFORMATION

Directors	Mr J C Heath Mr M C Wayment Mr M G D Holden Ms E G Wegener	(Appointed 5 October 2018)
Secretary	HCP Management Services Ltd	
Company number	05494495	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE	

BY CHELMER (HOLDINGS) LTD

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BY CHELMER (HOLDINGS) LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

By Chelmer (Holdings) Ltd is the owner of By Chelmer plc. These two companies constitute the By Chelmer group of companies ('the Group')

Principal activities

The principal activity of the Group is the finance, design and construction, refurbishment and operation of Broomfield hospital in Chelmsford (the Hospital) under the Government's private Finance initiative ('PFI'). The Group continued with these activities throughout the year and will continue in this activity for the foreseeable future.

Development and performance

The Group continued its principal activities throughout the current year as outlined above.

The Group has a project agreement with Mid Essex Hospital Services National Health Service Trust (the 'Trust'), together with an associated construction contract, funding agreements, hard services contracts and ancillary project agreements (the Project Agreement). The Project Agreement requires the Company to finance, design, develop, construct, maintain and deliver certain non-core services (the project) within Broomfield Hospital in Chelmsford (the Hospital) for a primary term of 35 years and 4 months from the date of signing of the Project Agreement to 31 March 2043.

In order to achieve these objectives, the Group strategy is to sub contract services to third party providers who hold the relevant technical knowledge and resources to deliver these services.

The results of the Group are set out in the attached financial statements.

As reported in the Group's profit and loss account, revenue has increased from £7,003,000 in 2017 to £7,037,000 in 2018. The increase is due to an uplift in the services revenue. The increase in service revenue is due to an increase in costs and the mark-up thereon, less a reduction in pass through revenue. Pass through revenue is offset by pass through costs, it is work requested by a third party which is paid for by the company and then recharged onto the third party.

Interest receivable and similar income has declined to £9,653,000 (2017: £9,833,000) mainly due to reduced interest receivable on the Finance Debtor. Interest receivable on the Finance Debtor has reduced in proportion with the reduction in the Finance Debtor balance.

Interest payable and similar expenses has decreased to £12,717,000 (2017: £13,774,000).

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £146,647,000 (2017: £149,059,000). The Finance Debtor amortisation during the year was £2,412,000 (2017: £2,260,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

During the year, the Group has repaid £6,283,200 of the Secured Guaranteed Bonds. Scheduled loan repayment dates are 31 March and 30 September each year. In the previous financial year, the company repaid a total of £6,060,000.

During the year the Group has repaid £48,700 (2017: £1,574,000) of the subordinated unsecured loan stock.

The loss for the year after taxation was £1,095,000 (2017 £2,005,000). Operations were in line with expectation for the period. The reduction in loss after tax was mainly due to an early redemption of subordinated debt in 2017 whereas the current year has no early redemption.

The directors consider the results for the year to be satisfactory.

BY CHELMER (HOLDINGS) LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

The balance sheet shows the carrying value of the Group's net liabilities at year end was £15,864,000 (2017: £14,769,000). This includes the profit and loss reserve of £15,914,000 (2017: £14,819,000). The directors consider it reasonable to assume that the company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. See Going Concern accounting policy for further information.

Key performance indicators

1. Performance deductions under the service contract

Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. These deductions are passed on to the service provider. In the year ended 31 December 2018, deductions of £19,660 (2017: £34,085) had been levied which represents 0.279% (2017: 0.490%) of revenue. The materiality of deductions is considered to be low. However, Directors are working with the Trust and service providers to reduce the level of deductions going forward.

2. Financial performance

The directors have modelled the anticipated financial outcome of the Project across its full term. The directors monitor actual financial performance against this anticipated performance. As at 31 December 2018, the Group's performance against this measure was satisfactory.

The Group completed the construction phase of the contract on 5 August 2010. In the opinion of the directors the operating phase of the Project is performing satisfactorily, to the standard of the contract.

Principal risks and uncertainties

The Trust is the sole client of the Group but the directors consider that no strategic risk arises from such a small client base since the client is a central government organisation.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

The Group is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due.

The most important components of financial risk are credit risk and the liquidity risk.

The Group will continue to provide and support the Trust in its expansion of the Hospital under the PFI scheme.

Brexit risk

The Group is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

On behalf of the board



Mr J Heath
Director

20/6/19

BY CHELMER (HOLDINGS) LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr J C Heath

(Appointed 5 October 2018)

Mr M C Wayment

Mr M G D Holden

Ms E G Wegener

Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid (2017: £nil). The directors do not recommend payment of a final dividend.

Directors Indemnity

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Financial instruments

The Group's principal financial instruments comprise of short term bank deposits, index-linked and fixed rate bonds. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Group does not undertake financial instrument transactions which are speculative or unrelated to the Group's trading activities. Board approval is required for the use of any new financial instrument and the Group's ability to do so is restricted by covenants in its existing funding agreements.

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Group's business. Further details relating to these risks are given below:

Interest-bearing bank loans and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Treasury operations and financial instruments

The Group's financial instruments result in the Group's exposure to liquidity, credit and interest rate risks. Further information on the financial instruments employed by the company can be seen in the notes to these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the Group.

BY CHELMER (HOLDINGS) LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Interest rate risk

The Group is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured bonds and unsecured subordinated loan notes both have a fixed rate until 2043, thus there is no interest rate risk associated with these financial liabilities.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trust is the sole client of the Group. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the financial asset of £146,647,000 (2017: £149,059,000) is the maximum credit exposure.

Auditor

In accordance with section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to credit, liquidity and interest rate risk are described above.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware: and each Director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given pursuant to Section 418(2) of the Companies Act 2006 and should be interpreted in accordance therewith.

The directors confirm that:

- (a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- (b) the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principle risks and uncertainties that they face.

BY CHELMER (HOLDINGS) LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial reporting risk and internal control

The company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the board members of the company. HCP reports regularly to the board of the company. The Board receives quarterly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company operates. The board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

On behalf of the board



.....
Mr J Heath

Director

Date: 20/6/19

BY CHELMER (HOLDINGS) LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Strategic Report, 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 the directors 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 each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company intends to cease operations, or they have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

BY CHELMER (HOLDINGS) LTD

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BY CHELMER (HOLDINGS) LTD

Opinion

We have audited the financial statements of By Chelmer (Holdings) Ltd (the 'Company') for the year ended 31 December 2018 which comprise the Group Profit And Loss Account, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

BY CHELMER (HOLDINGS) LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF BY CHELMER (HOLDINGS) LTD

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our work and to whom we owe our responsibilities

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.



Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
United Kingdom

27 June 2019

BY CHELMER (HOLDINGS) LTD

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Turnover	3	7,037	7,003
Cost of sales		(4,502)	(4,704)
Gross profit		2,535	2,299
Administrative expenses		(790)	(774)
Operating profit		1,745	1,525
Interest receivable and similar income	7	9,653	9,833
Interest payable and similar expenses	8	(12,717)	(13,774)
Loss before taxation		(1,319)	(2,416)
Tax on loss	9	224	411
Loss for the financial year		(1,095)	(2,005)

Loss for the financial year is all attributable to the owners of the parent company.

The notes on pages 15 to 27 form an integral part of these financial statements.

All recognised gains and losses are shown in the Profit and Loss account above. Therefore, a statement of other comprehensive income has not been prepared.

BY CHELMER (HOLDINGS) LTD

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Current assets			
Debtors	13	156,575	160,480
Cash at bank and in hand		13,637	10,909
		<u>170,212</u>	<u>171,389</u>
Creditors: amounts falling due within one year	14	(9,139)	(8,742)
Net current assets		161,073	162,647
Creditors: amounts falling due after more than one year	15	(176,937)	(177,416)
Net liabilities		<u>(15,864)</u>	<u>(14,769)</u>
Capital and reserves			
Called up share capital	18	50	50
Profit and loss reserves		(15,914)	(14,819)
Total equity		<u>(15,864)</u>	<u>(14,769)</u>

The notes on pages 15 to 27 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 20/6/19
and are signed on its behalf by:

.....
Mr J C Heath
Director

20/6/19

BY CHELMER (HOLDINGS) LTD

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

		2018		2017	
	Notes	£000	£000	£000	£000
Fixed assets					
Investments	10		50		50
Current assets					
Debtors	13	16,098		15,701	
Creditors: amounts falling due within one year	14	(589)		(115)	
Net current assets			15,509		15,586
Total assets less current liabilities			15,559		15,636
Creditors: amounts falling due after more than one year	15		(15,509)		(15,586)
Net assets			50		50
Capital and reserves					
Called up share capital	18		50		50

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £nil (2017: £nil).

The notes on pages 15 to 27 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 11/6/19 and are signed on its behalf by:


.....
Mr J C Heath
Director

20/6/19

Company Registration No.

05494495

BY CHELMER (HOLDINGS) LTD

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2017	50	(12,814)	(12,764)
Year ended 31 December 2017:			
Loss and total comprehensive loss for the year	-	(2,005)	(2,005)
Balance at 31 December 2017	50	(14,819)	(14,769)
Year ended 31 December 2018:			
Loss and total comprehensive loss for the year	-	(1,095)	(1,095)
Balance at 31 December 2018	50	(15,914)	(15,864)

The notes on pages 15 to 27 form an integral part of these financial statements.

BY CHELMER (HOLDINGS) LTD

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000
Balance at 1 January 2017	50
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Year ended 31 December 2017:	
Profit and total comprehensive income for the year	-
	<hr/>
Balance at 31 December 2017	50
	<hr/>
Year ended 31 December 2018:	
Profit and total comprehensive income for the year	-
	<hr/>
Balance at 31 December 2018	50
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The notes on pages 15 to 27 form an integral part of these financial statements.

BY CHELMER (HOLDINGS) LTD

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Cash generated from operations	21	5,596	2,113
Net cash inflow from operating activities		<u>5,596</u>	<u>2,113</u>
Investing activities			
Interest received		<u>9,653</u>	<u>9,833</u>
Net cash generated from investing activities		9,653	9,833
Financing activities			
Repayment of subordinated debt		(49)	(1,574)
Repayment of bonds		(6,282)	(6,060)
Interest paid		<u>(6,190)</u>	<u>(8,906)</u>
Net cash used in financing activities		<u>(12,521)</u>	<u>(16,540)</u>
Net increase/(decrease) in cash and cash equivalents		2,728	(4,594)
Cash and cash equivalents at beginning of year		<u>10,909</u>	<u>15,503</u>
Cash and cash equivalents at end of year		<u><u>13,637</u></u>	<u><u>10,909</u></u>

The notes on pages 15 to 27 form an integral part of these financial statements.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

By Chelmer (Holdings) Ltd ("the Company") is a private limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG

The group consists of By Chelmer (Holdings) Ltd and all of its subsidiaries.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

The company is a qualifying entity for the purpose of FRS 102, being a member of a group where the parent of that group, By Chelmer (Holdings) Limited, prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 7 Statement of cash Flows' - Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 Basic Financial Instruments' and Section 12 Other Financial Instruments Issues' - Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;

1.2 Basis of consolidation

The consolidated financial statements incorporate those of By Chelmer (Holdings) Ltd and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2018. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.3 Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to credit, liquidity and interest rate risk are described in the Directors' Report.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.4 Turnover

Turnover in relation to service revenue is recognised in accordance with the finance debtor and service income accounting policy. Turnover in relation to pass-through revenue is recognised when the services are performed.

1.5 Fixed asset investments

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.6 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Restricted cash

The company is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £9,112,000 at the year end (2017: £8,947,000).

1.7 Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Finance debtor and service income

The Company is an operator of a PFI contract. As the company entered into the contract prior to the date of transition to FRS102, the company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. The underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

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 Company 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.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Basic financial liabilities, including creditors, bonds, loans from fellow group companies are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.8 Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Group.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.10 Expenses

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated ongoing financing fees.

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. It also includes ineffective portion of changes in fair value of cash flow hedges.

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the 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 company's accounting policies are described below:

Key sources of estimation uncertainty

Service concession accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract.

3 Turnover and other revenue

	2018	2017
	£000	£000
Turnover analysed by class of business		
Services revenue	6,587	6,244
Pass through & variation income	450	759
	<u>7,037</u>	<u>7,003</u>

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4 Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	3	3
Audit of the financial statements of the company's subsidiaries	21	18
	<u>24</u>	<u>21</u>

5 Employees

The Group had no employees during the year (2017: none).

6 Directors' remuneration

During the year, By Chelmer plc, a subsidiary undertaking, paid for directors services on behalf of the By Chelmer Group, including services to By Chelmer (Holdings) Ltd, of £112,000 (2017: £108,000) to InfraRed Infrastructure Yield Holdings Limited, the parent company of By Chelmer (Holdings) Limited.

7 Interest receivable and similar income

	2018 £000	2017 £000
Interest income		
Interest on bank deposits	35	64
Finance debtor interest	9,618	9,769
Total income	<u>9,653</u>	<u>9,833</u>

8 Interest payable and similar expenses

	2018 £000	2017 £000
Interest on financial liabilities measured at amortised cost:		
Indexation on index linked bonds	5,986	5,186
Monoline guarantee premium	290	292
Interest payable on bonds	3,912	3,886
Interest payable on subordinated debt	2,529	4,397
Other financing costs	-	13
	<u>12,717</u>	<u>13,774</u>

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Taxation

	2018 £000	2017 £000
Deferred tax		
Other adjustments	(224)	(411)

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

	2018 £000	2017 £000
Loss before taxation	(1,319)	(2,416)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(251)	(465)
Effect of change in corporation tax rate	27	54
Taxation credit	(224)	(411)

10 Fixed asset investments

	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
Unlisted investments	-	-	50	50

Movements in fixed asset investments Company

	Investments other than loans £000
Cost or valuation	
At 1 January 2018 and 31 December 2018	50
Carrying amount	
At 31 December 2018	50
At 31 December 2017	50

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking	Registered office	Class of shares held	% Held	
			Direct	Indirect
By Chelmer PLC	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG	Ordinary	99.998%	-
BY NOM Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG	Ordinary	100%	-

12 Financial instruments

	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
Carrying amount of financial assets				
Debt instruments measured at amortised cost	146,675	150,984	16,098	15,701
Instruments measured at cost less impairment	-	-	50	50
Carrying amount of financial liabilities				
Instruments measured at amortised cost	186,076	186,159	16,098	15,701

An explanation of the Company's objectives, policies and strategies for the role of the financial instruments in creating and changing the risks of the Company in its activities can be found in the Strategic Report. The details relating to credit, liquidity and interest rate risks are explained below:

Credit risk

Although the Trust is the only customer of the Company, the directors are satisfied that the Trust will be able to fulfil its obligations under the PFI contract as their obligations are underwritten.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The company's financial obligations, including the repayment of its borrowings which are provided on a long term basis, have been structured to be met from the income which under normal operating conditions, will be earned from its long term concession contract with the Authority as their obligations under the Project Agreement are underwritten.

Interest rate risk

The company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings (index-linked bonds). Except for the index-linked guaranteed secured bonds which subject to bi-annual indexation calculated from an agreed formula based on the change in the Retail Prices Index, all the other interest-bearing assets and liabilities are primarily of fixed rate. The indexation risk is also offset by turnover being subject to similar indexation terms.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Financial instruments

(Continued)

Capital risk management

The company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

Risk analysis

In managing interest rate risks the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. The index-linked bonds' indexation variations are offset by indexation on future income from the Trust. The Company's exposure to interest rate fluctuations is therefore restricted to amounts that can be earned on cash deposits. This risk is not considered to have a significant impact on overall returns.

13 Debtors

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	28	1,925	-	-
Gross amounts owed by contract customers	5,393	5,296	-	-
Finance debtor	2,574	2,412	-	-
Prepayments and accrued income	1,721	1,638	-	-
Subordinated debt receivable	-	-	589	115
	<u>9,716</u>	<u>11,271</u>	<u>589</u>	<u>115</u>
Amounts falling due after more than one year:				
Finance debtor	144,073	146,647	-	-
Deferred tax asset (note 17)	2,786	2,562	-	-
Subordinated debt receivable	-	-	15,509	15,586
	<u>146,859</u>	<u>149,209</u>	<u>15,509</u>	<u>15,586</u>
Total debtors	<u>156,575</u>	<u>160,480</u>	<u>16,687</u>	<u>15,816</u>

The subordinated unsecured loan stock is receivable from the Companies subsidiary undertaking, By Chelmer plc. The loan stock bears interest at 9.5% and is fully redeemable by 2042.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

14 Creditors: amounts falling due within one year

	Notes	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
Subordinated debt		77	49	-	-
2.2212% index-linked guaranteed secured bonds due 2043	16	6,480	6,286	-	-
Interest on subordinated debt	16	512	66	589	115
Trade creditors		47	152	-	-
Interest on bonds		950	943	-	-
Other creditors		247	240	-	-
Accruals and deferred income		826	1,006	-	-
		<u>9,139</u>	<u>8,742</u>	<u>589</u>	<u>115</u>

15 Creditors: amounts falling due after more than one year

	Notes	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
2.2212% index-linked guaranteed secured bonds due 2043	16	161,428	161,830	-	-
Subordinated debt	16	15,509	15,586	15,509	15,586
		<u>176,937</u>	<u>177,416</u>	<u>15,509</u>	<u>15,586</u>

Amounts included above which fall due after five years are as follows:

Payable by instalments	<u>150,612</u>	<u>174,916</u>	<u>15,637</u>	<u>15,001</u>
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16 Loans and overdrafts

	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
2.2212% index linked guaranteed secured bonds due 2043	167,908	169,059	-	-
Other loans	16,097	15,702	16,098	15,701
	<u>184,005</u>	<u>184,761</u>	<u>16,098</u>	<u>15,701</u>
Payable within one year	8,019	7,345	589	115
Payable after one year	<u>175,986</u>	<u>177,416</u>	<u>15,509</u>	<u>15,586</u>

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

16 Loans and overdrafts

(Continued)

2.2212% index-linked guaranteed secured bonds are secured by a fixed charge over the assets of the Group.

The index-linked guaranteed secured bonds are fixed at an interest rate of 2.2212% which, together with the principal payments, are indexed by the charge in Retail Price Index using an agreed ratio. The index-linked bonds' repayments commenced in March 2011 and the bond will be fully redeemed by 2043.

The index-linked subordinated unsecured loan stock issued to the Group's immediate parent company, Infrared Infrastructure Yield Holdings Limited, bears interest at 9.5% and is fully redeemable by 2042.

17 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the group and company, and movements thereon:

	Assets	Assets
	2018	2017
	£000	£000
Group		
Tax losses	2,786	2,562
	<u> </u>	<u> </u>
	Group	Company
	2018	2018
	£000	£000
Movements in the year:		
Liability/(asset) at 1 January 2018	(2,562)	-
Credit to profit or loss	(224)	-
	<u> </u>	<u> </u>
Liability/(asset) at 31 December 2018	(2,786)	-
	<u> </u>	<u> </u>

The deferred tax asset set out above is not expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period.

The Group has accumulated losses of £16,377,000 (2017: £15,067,000) which have been carried forward and will be offset against future taxable profits. A deferred tax asset has been recognised for the tax losses.

The deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Group. The future profits of the Group have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was 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, and an additional reduction to 17% (effective 1 April 2021) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18 Share capital

	Group and company	
	2018	2017
	£000	£000
Ordinary share capital		
Issued and fully paid		
Ordinary 'A' shares 42,500 of £1	43	43
Ordinary 'B' shares 7,500 of £1	7	7
	<u>50</u>	<u>50</u>

The A and B shares rank pari-passu for the purposes of voting, distributions and return of capital.

19 Related party transactions

During the year payments were made by the Group to InfraRed Infrastructure Yield Holdings Limited, a 100% shareholder in the Company's immediate parent undertaking, detailed as below. As a wholly owned subsidiary of By Chelmer (Holdings) Limited, the company has taken advantage of the exemption under FRS102 - paragraph 33.1A of the requirement to disclose transactions between it and other group companies.

At the balance sheet date the Group owed £15,586,000 (2017: £15,635,000) of subordinated loan notes and £512,000 (2017: £66,000) of interest on the subordinated loan stock to their parent company InfraRed Infrastructure Yield Holdings Limited. During the year the Group made principal repayments relating to this borrowing of £49,000 (2017: £1,574,000) and interest of £2,084,000 (2017: £4,397,000).

During the year, the Group also paid their parent company InfraRed Infrastructure Yield Holdings Limited for Directors fees, to the value of £112,000 (2017: £108,000).

20 Ultimate parent company and parent company of larger group

The group is a subsidiary undertaking of InfraRed Infrastructure Yield Holdings Limited which is incorporated in England and Wales, with registered office at 12 Charles II street, St James', London, SW1Y 4QU.

The ultimate controlling party is InfraRed Infrastructure Yield Limited Partnership with registered offices at 12 Charles II Street, St. James's, London, SW1Y 4QU.

The largest and smallest group in which the results of the Group are consolidated is that headed by By Chelmer (Holdings) Limited. The consolidated accounts of this group are available to the public and may be obtained from 8 White oak Square, London Road, Swanley, Kent, BR8 7AG

BY CHELMER (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

21 Cash generated from group operations

	2018 £000	2017 £000
Loss for the year after tax	(1,095)	(2,005)
Adjustments for:		
Taxation credited	(224)	(411)
Finance costs	12,717	13,774
Investment income	(9,653)	(9,833)
Movements in working capital:		
Decrease in debtors	4,129	38
(Decrease)/increase in creditors	(278)	550
Cash generated from operations	<u>5,596</u>	<u>2,113</u>