Registered number: 06555665

Inteq Services (Holdings) Ltd

Annual Report and Financial Statements

for the year ended 31 March 2019

INTEQ SERVICES (HOLDINGS) LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

CONTENTS **PAGE**

Officers and professional advisers	**1**
Strategic report	**2**
Directors' report	**5**
Directors' responsibilities statement	**6**
Independent auditor's report	**7**
Independent auditor's report	**8**
Consolidated statement of comprehensive income	**9**
Consolidated statement of financial position	**10**
Company statement of financial position	**11**
Consolidated statement of changes in equity	**12**
Company statement of changes in equity	**13**
Consolidated cash flow statement	**14**
Notes to the financial statements	**15**

INTEQ SERVICES (HOLDINGS) LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

I D Lamerton
H O'Gorman
J S Gordon

COMPANY SECRETARY:

R Keen (resigned 18 May 2018)
L A Mitchell (appointed 20 June 2019)

REGISTERED OFFICE:

C/O Albany SPC Services Limited, 3rd Floor,
3-5 Charlotte Street,
Manchester,
England,
M1 4HB
United Kingdom

AUDITOR

Deloitte LLP
Statutory Auditor
London
United Kingdom

BANKER

Commerzbank
London Branch

INTEQ SERVICES (HOLDINGS) LTD

STRATEGIC REPORT

The directors present their strategic report for the group for the year ended 31 March 2019. These financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company is a holding company, owned by its ultimate parent companies, with one wholly owned subsidiary undertaking, Inteq Services Ltd.

Inteq Services Ltd's principal activity is to undertake a Private Finance Initiative (PFI) concession contract with the Ministry of Defence, to design, build, finance and operate communication facilities at Basil Hill, Corsham. The contract was signed on 1 August 2008. Building activities commenced from that date and were substantially completed at the end of October 2011. Interim service operations on the existing buildings commenced in November 2008 and increased in stages to reach full-service operations for the whole site from November 2011. The contract is scheduled to complete in July 2033.

There have not been any changes in the group's activities in the period under review, and the directors are not aware, at the date of this report, of any likely changes in the next year.

The group's profit after taxation for the year is £876,000 (2017: £1,837,000) and the net liabilities of the company are £23,471,000, (2017: £24,314,000). As shown in the group's consolidated statement of comprehensive income on page 9, the group's turnover increased by £0.47 million in the year (2018 - £0.11m). The turnover increase was due to an increase in unitary charge in the year and adjustments in accordance with group's revenue recognition policy. The profit after tax decreased by £0.96 million (2018 – increased by £1.32m). In previous year, the increase was mainly due to a decrease in provision for lifecycle works and a similar adjustment has not been made in this financial year

The group's operations are managed under the supervision of its shareholders and lenders and are largely determined by the detailed terms of the PFI contract. For this reason, the directors believe that other key performance indicators for the group are not necessary or appropriate for an understanding of the performance or financial position of the business.

The PFI contract and related subcontracts are fixed for the life of the contract and this enables the group to have reasonable certainty over its income and expenditure for this period. In addition, the group has a Facilities Agreement in place with its lenders which fixes the levels of borrowing and repayments due until the loans are fully repaid in 2032.

On the 22nd December 2018, Inteq Services Limited changed its management services subcontractor from Interserve Investments Limited to Albany SPC Services Limited.

Following the UK's decision to leave the EU after the referendum held on 23 June 2016, directors have considered the nature and extent of risks and uncertainties arising from the result of the referendum and the impact on the future performance and financial position of the business. The directors do not consider the referendum vote gives rise to solvency, liquidity or other risks that may threaten the long-term viability of the business.

PRINCIPAL RISKS AND UNCERTAINTIES

The group's principal activity as detailed above is risk averse as its trading relationships with its customer, lenders and subcontractors are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section.

One of the risks of the group is that services may not be able to continue due to the financial failure of one of the group's subcontractors. The financial stability of the facilities management company is being monitored. The directors have reviewed the benchmarking information on the facilities management contract fee and are comfortable that this is a market rate which would enable replacement of the subcontractor for a similar fee.

FINANCIAL RISK MANAGEMENT

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on performance. The Board of Directors has policies for managing each of these risks and they are summarised below:

INTEQ SERVICES (HOLDINGS) LTD

STRATEGIC REPORT (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The group hedged its interest rate risk at the inception of the project by swapping its variable rate debt into fixed rate by the use of an interest rate swap*Inflation risk*

Inflation risk

The group's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk

The group adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Credit risk

The group receives the bulk of its revenue from a government department and therefore is not exposed to significant credit risk.

Cash investments and the interest rate swap arrangement are with institutions of a suitable credit quality.

OWNERSHIP

The company and group is owned by its ultimate parent companies Coral Projects Investment LP and Dalmore Capital Fund LP, acting by their general manager, Dalmore Capital Limited, and operates in the United Kingdom.

GOING CONCERN

On 15th March 2019 Interserve Plc, the parent company of Interserve (Defence) Limited, went into administration and all its subsidiaries were sold to Interserve Group Limited, a newly incorporated private company controlled by its lenders. Interserve (Defence) Limited with which the company's subsidiary Inteq Services Limited has a contractual relationship to deliver facilities management services, is continuing business as usual within the newly formed group of Interserve Group Limited. Interserve Plc is classed as a Major Project Party under the Facilities Agreement with its lenders as it provides a parent company guarantee for the facilities management subcontractor. Under this Facilities Agreement, if any Major Project Party enters administration, this triggers an Event of Default. Once Interserve Plc entered administration an Event of Default occurred. The directors are working with legal advisors, Interserve Group Limited and the lenders to find a remedy for this default.

Services have not been affected by these changes in Interserve's structure.

The directors have prepared a detailed model forecasting the performance of the project to completion incorporating the relevant terms of all relevant contracts and reasonably prudent economic assumptions. This forecast, which is updated regularly, predicts that the group will be profitable and will have sufficient cash resources to operate within the terms of the contract, facilities management subcontract and Facilities Agreement. Therefore, the directors, having considered the financial position of the group and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or group or cease trading as they consider they have realistic alternatives to doing so.

INTEQ SERVICES (HOLDINGS) LTD

STRATEGIC REPORT (CONTINUED)

GOING CONCERN (CONTINUED)

In reaching this conclusion, the directors have specifically considered the matters above in respect of the Event of Default under the terms of the group's Facilities Agreement. The directors are working on finding a resolution of the Event of Default under the Facilities Agreement and do not believe this will affect the viability of the company or the group. The directors acknowledge that the non-waiver of the Event of Default indicates the existence of a material uncertainty, which may cast significant doubt of the group's and company's ability to continue as a going concern, and, therefore that it maybe unable to realise its assets and discharge its liabilities in the normal course of business. Also, as a consequence, the senior loan creditor is shown as being due in less than one year.

The group is in a deficit position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind over the term of the hedge to zero.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

The directors, in preparing this group strategic report, have complied with s414C of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board

I D Lamerton
Director

Date: 27 September 2019

INTEQ SERVICES (HOLDINGS) LTD

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

Financial risk management objectives and policies

Details of the principal risks, uncertainties, and financial risk management, are included in the strategic report and includes information related to the going concern assumptions.

Strategic report

The information that fulfils the Companies Act requirements of the business review is included in the strategic report. This includes a review of the development of the business of the group during the year, of its position at the end of the year including a going concern statement, and of the likely future developments in its business.

Environment

The group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies via its sub-contractors to reduce any damage that might be caused by the group's activities.

Results

The results of the group are as set out in the consolidated statement of comprehensive income on page 9.

Dividends

The directors recommended and paid dividends of £0.44 million in the year (2018: £1.84 million). As at the date of signing this report no dividends are proposed (2018 – None).

Directors

The directors who served during the year at the date of this report, except as noted, are set out below:

I D Lamerton	
A D Clapp	resigned 4 July 2018
J S Gordon	appointed 19 January 2019
H O'Gorman	

Information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor.

Approved by the Board of Directors and signed on behalf of the Board.

I D Lamerton
Director

Date: 27 September 2019

INTEQ SERVICES (HOLDINGS) LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 company and group and of the comprehensive income of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTEQ SERVICES (HOLDINGS) LTD

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Inteq Services (Holdings) Ltd (the 'parent company') and its subsidiaries (the "Group"):

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2019 and the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "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.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company's statement of financial position;
- the consolidated and parent company's statement of changes in equity;
- the consolidated statement of cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 of the financial statements concerning the group's and the company's ability to continue as a going concern. The company's subsidiary, Inteq Services Limited, is in default as an Event of Default has been triggered under its Facilities Agreement at the date of signing the financial statements and the lenders have not waived the breach. As stated in Note 1 of the financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is material misstatement in the financial statements or a material misstatement of other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTEQ SERVICES (HOLDINGS) LTD (CONTINUED)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Use of our report

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.

Jacqueline Holden FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: 27 September 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
TURNOVER	2	14,101	13,630
Cost of sales		(12,224)	(10,511))
GROSS PROFIT		1,877	3,119
Administrative expenses		(801)	(815)
OPERATING PROFIT	3	1,076	2,304
Interest receivable and similar income	4	7,336	7,600
Interest payable and similar expenses	5	(7,332)	(7,636)
PROFIT BEFORE TAXATION		1,080	2,268
Tax on profit	6	(205)	(431)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO SHAREHOLDERS		875	1,837
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Fair value movement of derivatives		490	6,645
Deferred tax relating to fair value movement of derivatives	7	(82)	(1,128)
TOTAL COMPREHENSIVE INCOME		1,283	7,354

All activities derive from continuing operations.

INTEQ SERVICES (HOLDINGS) LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
CURRENT ASSETS			
Debtors: amounts falling due within one year	10	5,400	5,202
Debtors: amounts falling due after more than one year	11	108,153	112,796
Cash at bank and in hand		7,743	6,170
		121,296	124,168
CREDITORS: amounts falling due within one year	12	(110,580)	(19,199)
NET CURRENT ASSETS BEING TOTAL ASSETS LESS CURRENT LIABILITIES		10,716	104,969
CREDITORS: amounts falling due after more than one year	13	(34,187)	(129,283)
NET LIABILITIES		(23,471)	(24,314)
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Profit and loss account		536	101
Hedge reserve	15	(24,008)	(24,416)
SHAREHOLDERS' DEFICIT		(23,471)	(24,314)

The financial statements of Inteq Services (Holdings) Ltd, registered number 06555665 were approved by the Board of Directors and authorised for issue on 27 September 2019.

Signed on behalf of the Board of Directors

I D Lamerton
Director

INTEQ SERVICES (HOLDINGS) LTD

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
FIXED ASSETS			
Investments	9	10,183	10,339
TOTAL ASSETS		10,183	10,339
CREDITORS: amounts falling due after more than one year	13	(10,182)	(10,338)
NET ASSETS		1	1
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Profit and loss account		-	-
SHAREHOLDERS' FUNDS		1	1

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own statement of comprehensive income. The retained profit of the company in the year was £0.44 million (2018: £1.84 million). Subsequently dividends of £0.44 million (2018: £1.84 million) were paid to the shareholders.

The financial statements of Inteq Services (Holdings) Ltd, registered number 06555665 were approved by the Board of Directors and authorised for issue on 27 September 2019.

Signed on behalf of the Board of Directors

I D Lamerton
Director

INTEQ SERVICES (HOLDINGS) LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	Called up share capital £'000	Profit and loss account £'000	Hedge reserve £'000	Total equity £'000
At 1 April 2017		1	100	(29,933)	(29,832)
Profit for the year		-	1,837	-	1,837
Fair value movement on derivatives		-	-	6,645	6,645
Deferred tax on FV movement of derivatives	7	-	-	(1,128)	(1,128)
Deferred tax movement due to change in tax rate	7	-	-	-	-
Total comprehensive income		-	1,837	5,517	7,354
Dividends paid on equity shares	8	-	(1,836)	-	(1,836)
At 31 March 2018		1	101	(24,416)	(24,314)
Profit for the year		-	875	-	875
Fair value movement on derivatives		-	-	490	490
Deferred tax on FV movement of derivatives	7	-	-	(82)	(82)
Deferred tax movement due to change in tax rate	7	-	-	-	-
Total comprehensive income		-	875	408	1,283
Dividends paid on equity shares	8	-	(440)	-	(440)
At 31 March 2019		1	536	(24,008)	(23,471)

INTEQ SERVICES (HOLDINGS) LTD

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

		Called up share capital £'000	Profit and loss account £'000	Hedge reserve £'000	Total Equity £'000
At 1 April 2017		1	-	-	1
Profit for the year		-	1,837	-	1,837
Other comprehensive income		-	-	-	-
Total comprehensive income		-	1,837	-	1,837
Dividends paid on equity shares	8	-	(1,837)	-	(1,837)
At 31 March 2018		1	-	-	1
Profit for the year			440	-	440
Other comprehensive income			-	-	-
Total comprehensive income		--	440	-	440
Dividends paid on equity shares	8	-	(440)	-	(440)
At 31 March 2019		1	-	-	1

INTEQ SERVICES (HOLDINGS) LTD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
CASH FLOWS FROM OPERATING ACTIVITIES	17	6,351	6,738
Tax paid		(211)	(106)
Interest paid		(6,627)	(7,636)
Interest received		7,336	7,600
NET CASH GENERATED FROM OPERATING ACTIVITIES		6,849	6,596
CASH FLOWS FROM INVESTING ACTIVITIES			
Management of longterm deposits		-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		-	-
CASH FLOWS FROM FINANCING ACTIVITES			
Dividends paid		(438)	(1,837)
Repayment of secured senior loans		(4,681)	(4,423)
Repayment of subordinated loan stock		(157)	(288)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(5,276)	(6,548)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,573	48
Cash and cash equivalents at the beginning of the year		6,170	6,122
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		7,743	6,170
RECONCILIATION TO CASH AT BANK AND IN HAND:			
Cash at bank and in hand		7,743	6,170
Cash equivalents		-	-
CASH AND CASH EQUIVALENTS		7,743	6,170

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. ACCOUNTING POLICIES

Inteq Services (Holdings) Ltd (the parent company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The addresss of the company's registered office is shown on page 1.

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted by the directors are described below and have been applied consistently throughout the current and prior year except as noted below.

The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern

On 15th March 2019 Interserve Plc, the parent company of Interserve (Defence)Limited, went into administration and all its subsidiaries were sold to Interserve Group Limited, a newly incorporated private company controlled by its lenders. Interserve (Defence) Limited with which the company's subsidiary, Inteq Services Limited, has a contractual relationship to deliver facilities management services, is continuing business as usual within the newly formed group of Interserve Group Limited. Interserve Plc is classed as a Major Project Party under the Facilities Agreement with its lenders as it provides a parent company guarantee for the facilities management subcontractor. Under this Facilities Agreement, if any Major Project Party enters administration, this triggers an Event of Default. Once Interserve Plc entered administration an Event of Default occurred. The directors are working with legal advisors, Interserve Group Limited and the lenders to find a remedy for this default.

Services have not been affected by these changes in Interserve's structure.

The directors have prepared a detailed model forecasting the performance of the project to completion incorporating the relevant terms of the contract, subcontracts, Facilities Agreement and reasonably prudent economic assumptions. This forecast, which is updated regularly, predicts that the group will be profitable and will have sufficient cash resources to operate within the terms of the contract, facilities management subcontract and Facilities Agreement. Therefore, the directors, having considered the financial position of the group and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or group or cease trading as they consider they have realistic alternatives to doing so.

In reaching this conclusion, the directors have specifically considered the matters above in respect of the Event of Default under the terms of the group's Facilities Agreement. The directors are working on finding a resolution of the Event of Default under the Facilities Agreement and do not believe this will affect the viability of the company or the group. The directors acknowledge that the non-waiver of the Event of Default indicates the existence of a material uncertainty, which may cast significant doubt of the group's and company's ability to continue as a going concern, and, therefore that it maybe unable to realise its assets and discharge its liabilities in the normal course of business. Also, as a consequence, the senior loan creditor is shown as being due in less than one year.

On the 22nd December 2018, Inteq Services Limited changed its management services subcontractor from Interserve Investments Limited to Albany SPC Services Limited.

The group is in a deficit position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind over the term of the hedge to zero.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. ACCOUNTING POLICIES (CONTINUED)

Accounting convention

These financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value (see Derivative Financial Instruments below) and in accordance with FRS 102.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, mainly in relation to the presentation of a cash flow statement and financial instruments.

The company's parent undertaking has been notified and did not object to the use of these disclosure exemptions.

Accounting for PFI contracts

The group has taken advantage of exemptions made available under section 35 10 (i) of FRS 102, and as such there has been no substantial change to the treatment of the financial asset receivable due to the adoption of the standard.

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing the facilities, including finance costs, are capitalised and shown as work in progress. On completion, credit is taken for the deemed sale, which is recorded within turnover. The construction expenditure and associated costs are reallocated to cost of sales. Amounts receivable are classified as a financial asset receivable (PFI debtor).

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue

Group financial statements

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking. As a consolidated statement of comprehensive income is published, a separate statement of comprehensive income for the parent company is omitted from the group financial statements by virtue of section 408 of the companies Act 2006. The profit for the financial year of the parent company was £438,000 (2018: £1,837,000).

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

1. ACCOUNTING POLICIES (CONTINUED)

Investments

Cash investments are stated at cost excluding any accrued interest and with no provision for impairment in value.

Investment in subsidiary undertakings

Investment in the subsidiary undertaking is held at the cost of the shares and the face value of the loan less any provision for impairment in value.

Borrowing costs

It is group policy to capitalise borrowing costs during the construction phase. Cumulative borrowing costs of £2.613 million have been 100% capitalised.

No borrowing costs have been capitalised since commencement of the operational phase.

Interest

The group has hedged its interest rate risk at the inception of the project by swapping its variable debt into fixed rate by the use of an interest rate swap. Interest is recognised on an accruals basis at the appropriate rate.

Lifecycle costs

Under the terms of the PFI contract, the company has a programme of expenditure for the maintenance of and replacement of non-moveable assets in the facilities. In recognition of this obligation, the company has created a lifecycle expenditure accrual to record the difference between the annual charge for maintenance prescribed by the contract terms and that actually incurred.

Financial instruments

Derivative financial instruments

The company holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract. The company also holds a derivative financial instrument to hedge its exposure to inflation risk. Amounts payable or receivable are recognised in the statement of comprehensive income in the period in which they are payable or receivable.

Other 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 statement of financial position when the company 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 trade and other receivables 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 rate 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.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Interest is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial. The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or 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. The impairment loss is recognised in statement of comprehensive income.

De-recognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

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.

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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 receipts discounted at a market rate of interest.

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

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts 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 payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in statement of comprehensive income in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligation specified in the contract is discharged, cancelled, or expires.

Share capital

Share capital recognised at amortised cost represents the amount of equity in the form of shares invested by the shareholders.

Profit and loss account

The profit and loss reserve represents cumulative profits and losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

The group holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract.

See Hedge Accounting below for how the derivative is accounted for.

Service Concession

The group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10 (i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed.

Under the terms of the arrangement, the group has the right to receive a baseline contractual payment stream for the provision of the services from the grantor (the Authority), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

Revenue is recognised from the supply of services, which represents the timing of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

Hedge accounting

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the fair value of the derivative financial instrument is recognised directly in the statement of comprehensive income as other comprehensive income or expense. Any ineffective portion of the hedge is recognised immediately in statement of comprehensive income.

Where hedge accounting recognises a liability then an associated deferred tax asset is also recognised.

Cash flow hedges

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in statement of comprehensive inocme. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified in statement of comprehensive income in the periods in which the hedged item affects statement of comprehensive income, or when the hedging relationship ends.

Critical accounting judgements and key sources of estimation

As at 15 March 2019, an Event of Default under the Facilities Agreement was notified to the lenders. This is described further in note 1 and as a consequence the bank loan was classified as due within one year at the balance sheet date.

Hedge accounting has continued to be adopted for the group's derivative. This is due to the payments under the loan repayment schedule remaining highly probable, as the expectation is that the matters that give rise to the event of default will be resolved in the near future. This is matter is as described in Note 1. All remaining instalments are anticipated to continue to be settled in line with the payment schedule per the initial bank agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

1. ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation (continued)

The preparation of the financial statements in conformity with FRS 102 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 result 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.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note 1).

Turnover, which is attributable to one geographical market, the United Kingdom, can be analysed as follows

	2019 £'000	2018 £'000
Turnover comprises:		
Turnover from operations	14,101	13,630
Total Sales	14,101	13,630

3. OPERATING PROFIT

	2019 £'000	2018 £'000
This is stated after charging:		
Auditor's remuneration		
– audit services for the audit of the company's and its subsidiary's annual financial statements	17	14
Non audit tax services - compliance	7	6

The group had no employees during the year (2018: nil).

Service fees payable to the group's ultimate shareholders, for the directors' services to the group during the year, were £43,462 to Dalmore Capital 2 GP Ltd (on behalf of Dalmore Capital Fund LP) and and £14,658 to Dalmore Capital 18 GP Limited (on behalf of Coral Project Investments LP).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Bank interest receivable	33	25
Finance debtor interest receivable	7,303	7,575
	7,336	7,600

5. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Swap interest	(4,213)	(4,775)
Senior debt interest	(1,745)	(1,452)
Subordinated debt interest	(1,231)	(1,264)
Commitment fees	(37)	(37)
Other financing fees	(106)	(108)
	(7,332)	(7,636)

6. TAX CHARGE

	2019 £'000	2018 £'000
Current taxation charge comprises:		
United Kingdom corporation tax at 19% (2018: 19%)	205	431
Prior year adjustment	-	-
	205	431
Deferred taxation:		
Timing difference, origination and reversal	-	-
Adjustment in respect of prior years	-	-
Total tax charge for the year	205	431
Factors affecting the tax charge in the year:		
Profit before tax	1,080	2,268
Tax on profit at standard rate of 19% (2018: 19%)	205	431
Prior year adjustment	-	-
Tax losses relieved/unrelieved	-	-
Total tax charge for the year	205	431

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

7. DEFERRED TAXATION

	2019 £'000	2018 £'000
Deferred taxation provided for at 17% (2018: 17%) in the financial statements is set out below:		
Deferred tax (charge) comprises:		
Deferred tax charge to other comprehensive income relating to movement in fair value	(83)	(1,128)
Deferred tax charge to other comprehensive income relating to change in tax rate	-	-
	(83)	(1,128)
Deferred tax asset:		
Balance at 1 April	5,000	6,128
Deferred tax charge to other comprehensive income relating to movement in fair value	(83)	(1,128)
Deferred tax charge to other comprehensive income relating to change in tax rate	-	-
Balance at 31 March	4,917	5,000

The deferred tax asset will unwind over the life of the derivative. The impact of deferred tax on corporation tax at 31st March 2020 is expected to be £(245,000).

8. DIVIDENDS

	2019 £'000	2018 £'000
Dividend paid on ordinary shares	438	1,836
	438	1,836

Since the year end nil dividends have been proposed and paid.

9. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Company	
	2019 £'000	2018 £'000
1,000 ordinary shares at cost	1	1
Subordinated loan stock	10,182	10,338
	10,183	10,339

The company's subsidiary undertaking, Inteq Services Ltd. is wholly-owned and incorporated in Great Britain. The registered address is C/O Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester, England, M1 4HB.

Its activity is to provide design, build, finance and operational services under a Private Finance Initiative concession contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2019 £'000	Group 2018 £'000
Trade debtors	2	3
Other debtors	27	25
Financial asset receivable (PFI contract)	4,655	4,362
Deferred tax asset	716	812
	5,400	5,202

11. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Financial asset receivable (PFI contract)	103,952	108,607
Deferred tax asset	4,201	4,189
	108,153	112,796

The company has taken advantage of exemptions made available under section 35 10(i) of FRS 102, and as such there has been no change to the treatment of the financial asset receivable when this standard was adopted in 2016.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Trade creditors	(1)	68
Accruals	10,284	8,632
Other tax payable	400	453
Senior secured loan	95,098	4,680
Interest rate swap liability (see note 15)	4,213	4,775
Retention funds	32	32
Corporation tax payable	554	559
	110,580	19,199

The secured senior loan represents amounts borrowed under a facility agreement with Commerzbank. The loan bears interest at a 0.9% margin over LIBOR and is repayable in six-monthly instalments between 2012 and 2033. The loan is secured by fixed and floating charges over the property, assets and rights of Inteq Services Ltd, and has certain covenants attached.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'0000	Company 2018 £'000
Borrowings are repayable as follows:				
Senior secured loan:				
between one and two years	-	-	4,743	-
between two and five years	-	-	14,984	-
after five years	-	-	75,372	-
	-	-	95,099	-
Less: unamortised issue costs	(708)	-	(796)	-
Interest rate swap liability (see note 15)	24,713	-	24,641	-
Subordinated unsecured loan stock	10,182	10,182	10,339	10,338
	34,187	10,182	129,283	10,338

As a consequence of the Event of Default as described on page 3 of Strategic Reort, the senior loan has been classified as being due within one year. In addition to the utilised term loan facility detailed above the company also has the following facility arrangements in place, all of which bear non utilisation costs at 0.40% per annum and have not been drawn:

Change of Law £2,408,686; Senior Debt Service Reserve £6,469,526; Working Capital £250,000.

In order to hedge against interest variations on the loan, Inteq Services Ltd has entered into an interest rate swap agreement with a bank whereby at six monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount.

The subordinated unsecured loan stock was subscribed by the shareholders on 25 October 2011 and bears interest at 12% per annum payable six-monthly in March and September each year. The stock is subordinated until all of the secured obligations of the company have been repaid or discharged in full.

14. FINANCIAL INSTRUMENTS

The group and company have the following financial instruments measured at fair value:

Group and Company	Group 2019 £'000	Company 2019 £'000	Group 2018 £'0000	Company 2018 £'000
Financial liabilities at fair profit or loss:				
Derivative financial instruments	28,926	-	29,416	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

15. HEDGE RESERVE

Derivatives that are designated and effective as hedging instruments carried at fair value.

	Group 2019 £'000	Group 2018 £'000
Fair value of interest rate swap liability at year end	(28,926)	(29,416)
Deferred tax on above	4,917	5,000
Net liability	(24,009)	(24,416)

In August 2008 the group entered into a 25year fixed interest rate swap arrangement to hedge its exposure to the effect of interest rate fluctuations. The interest rate swap contract is designated as a hedge of variable interest rate risk of the group's floating rate borrowings. The hedged cash flows are expected to occur and to affect statement of comprehensive income over the period to maturity of the swap.

The swap was affected by Inteq Services Limited, a subsidiary of the company, on a maximum notional amount of £137.6 million payable in monthly amounts between August 2008 and October 2011, and then sixmonthly from March 2012 to January 2033.

The fair value of the interest rate swap liability in the current and prior year has been determined by Commerzbank, which has used relevant market data to determine its valuations.

16. CALLED UP SHARE CAPITAL

	Group and Company 2019 £'000	Group and Company 2018 £'000
Authorised, called up and fully paid		
1,000 ordinary shares of £1 each	1	1

The company has one class of ordinary shares which carry no rights to fixed income.

17. RECONCILIATION OF OPERATING PROFIT TO CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2019 £'000	Group 2018 £'000
Operating profit	1,075	2,304
Decrease in debtors	4,362	4,058
Increase in creditors	914	376
Cash flows from operating activities	6,351	6,738

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

18. CONTROLLING PARTIES

During the year the immediate parent companies were PFI 2005 Limited and Dalmore Capital (Corsham 1) Limited.

In the directors' opinion there was no ultimate controlling party and the ultimate parent companies during the year and at year end were Coral Projects Investment LP and Dalmore Capital Fund LP, acting by their general manager Dalmore Capital Limited (whose registed office is 1 Park Row, Leeds, LS1 5AB).

All companies are incorporated in Great Britain and registered in England and Wales. All companies and limited partnerships are domiciled in the United Kingdom.

These group financial statements are the smallest and largest that are prepared of which the company is a member. No other group financial statements are prepared.

The registered address is C/O Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester, England, M1 4HB.

19. RELATED PARTY TRANSACTIONS

The following disclosures are required by FRS 8 "Related Party Disclosures":

Parties	Services	Paid during the year to 31 March 2019 £'000	Amounts payable at 31 March 2019 £'000	Paid during the year to 31 March 2018 £'000	Amounts payable at 31 March 2018 £'000
Interserve Plc and its subsidiary undertakings	Operational and Management services	-	-	11,068	127
	Loan stock interest	-	-	-	-
	Loan stock principal	-		-	-
	Dividends		-	-	-
Dalmore Capital Fund LP and its associates	Operational and Management services	43	15	28	14
	Loan stock interest	467	-	947	-
	Loan stock principal	117	5,101	216	5,179
	Dividends	328	-	1,377	-
Coral Project Investments and its associates	Loan stock interest	155	-	71	-
	Loan stock principal	40	5,081	144	5,159
	Dividends	110	-	458	-

Amounts payable at 31 March 2019 are included within trade creditors and accruals, deferred income, subordinated debt and dividends.