

# **STAG PCT (PROJECTCO) LIMITED**

## **Annual report and financial statements**

**For the year ended 31 December 2016**

**Registered number 06574638**



# STAG PCT (PROJECTCO) LIMITED

<b>Contents</b>	<b>Page</b>
Company information	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' report and the financial statements	6
Independent auditors' report to the members of STAG PCT (Projectco) Limited	7
Profit and loss account	9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13

# STAG PCT (PROJECTCO) LIMITED

## Company Information

### Directors

B Cashin (resigned 23 February 2016)  
J Haan (resigned 23 February 2016)  
J L Crouch (appointed 23 February 2016)  
P J Sheldrake (appointed 23 February 2016)

### Company Secretary

J MacKreth  
A C Ramsay

### Registered Office

Carillion House  
84 Salop Street  
Wolverhampton  
WV3 0SR

### Auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU

# **STAG PCT (PROJECTCO) LIMITED**

## **Directors' report**

The directors present their report and the financial statements for the year ended 31 December 2016.

The Directors' report has been prepared in accordance with the special provisions relating to small companies under s415a of the Companies Act 2006.

## **Principal activities and business review**

The principal activities of the company are the design, construction, financing and operation of a Primary Care and Community Centre (the "Centre") for a period of twenty-five years pursuant to and in accordance with the terms of an agreement with NHS Property Services Limited (formerly with the South Tyneside Primary Care Trust). This agreement together with a loan facilities agreement, a construction contract, a facilities management contract and other related contracts was signed on 29 July 2008. A further agreement, dated 16 March 2010, was entered into in respect of a major variation relating to the internal configuration of the property. This was funded by the South Tyneside Primary Care Trust. Construction of the facility commenced in July 2008 and was completed in June 2010.

With effect from 1 April 2013, Primary Care Trusts ceased to exist and a statutory transfer order transferred all assets, liabilities and obligations to a new body, NHS Property Services Limited. This transfer has had no effect on the operation of the Centre or STAG PCT (Projectco) Limited.

The profit and loss account is set out on page 9 and relates to the operating activities during the year. A final dividend of £64,000 was paid in 2016 (2015: £258,000).

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

## **Going Concern**

The company has net liabilities of £2,956,000 (2015: net liabilities of £1,374,000) which includes the fair value of the interest rate swaps of £8,104,000 (2015: £6,565,000) within liabilities and RPI swap of £3,232,000 (2015: £3,779,000) within assets and net current assets of £24,429,000 (2015: £24,876,000) including cash of £393,000 (2015: £496,000) at 31 December 2016.

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long-term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, despite the current economic conditions the directors believe the company will be able to meet its liabilities as they fall due.

The directors have a reasonable expectation that the company has adequate resources and financial support from its parent undertakings to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

# STAG PCT (PROJECTCO) LIMITED

## Directors' report (*continued*)

### Principal risks and uncertainties

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

#### *Credit risk*

The company receives its revenue from a UK government body and therefore is not exposed to significant credit risk. The company draws funding, invests cash and enters into interest rate swap agreements with financial institutions. The credit quality of these institutions is reviewed by the directors on a regular basis. As such the company's exposure to credit risk is reduced. Credit risk is generated through the overall performance risk of the project, deterioration of which might result in non-payment from the counterparty. The performance risk is mitigated via monitoring the progress of the project.

#### *Inflation risk*

The company's project revenue, operating and lifecycle costs are linked to a base RPI inflation indexation number at the inception of the project. An RPI hedge is in place to fix indexation on an element of the company's project revenue. This is a swap agreement based on a fixed RPI of 3.73% per annum from 30 September 2010 until 31 March 2035. The fair value of this financial instrument at 31 December 2016 was an asset of £3,232,000 (2015: asset of £3,779,000).

#### *Insurance risk*

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

#### *Interest rate risk*

The company hedges its interest rate risk at the inception of the project by swapping its variable rate debt into a fixed rate by the use of an interest rate swap. This swap agreement is based on a fixed at 5.03% per annum 29 July 2008 until 31 March 2035. The fair value of this financial instrument at 31 December 2016 was a liability of £8,104,000 (2015: liability of £6,565,000)

#### *Lifecycle risk*

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

#### *Liquidity risk*

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

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

The solvency and performance of key-subcontractors is regularly monitored by the directors.

# STAG PCT (PROJECTCO) LIMITED

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

### **Key performance indicators**

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

#### ***Progress of the operations***

The company monitors the operational performance by comparing it with the operational financial model. In respect of the year ended 31 December 2016 the company's operational performance against this measure was considered to be satisfactory.

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

The company has modelled the anticipated financial outcome of the project across its full term. The company monitors actual financial performance against anticipated performance. Income and expenditure for the year ended 31 December 2016, which are based on fixed long-term contracts, have been in line with the directors' expectations.

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

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

During the year ended 31 December 2016 the safety performance of the company's sub-contractors was considered satisfactory.

## **Strategic Report**

A strategic report has not been prepared as the company is entitled to the small companies exemption.

## **Directors**

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

B Cashin	Resigned	23 February 2016
J Haan	Resigned	23 February 2016
J L Crouch	Appointed	23 February 2016
P J Sheldrake	Appointed	23 February 2016

## **Qualifying third party indemnity provisions**

The directors of STAG PCT (Projectco) Limited have qualifying third party indemnity provisions put in place through other companies of which they are also directors.

## **Disclosure of information to the auditor**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

# STAG PCT (PROJECTCO) LIMITED

## Directors' report (*continued*)

### Auditor

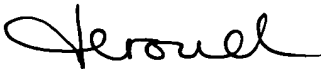
Each of the persons that is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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.

BDO LLP are deemed to be reappointed under section 487 of the Companies Act 2006 and will therefore continue in office.

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

Approved by the Board on 12 June 2017 and signed on its behalf by:



J Crouch  
Director

# **STAG PCT (PROJECTCO) LIMITED**

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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). 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 of the profit or loss of the company for that period. In preparing these 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; 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 transactions and disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAG PCT (PROJECTCO) LIMITED**

We have audited the financial statements of STAG PCT (Projectco) Limited for the year ended 31 December 2016 which comprise profit and loss account, statement of comprehensive income, the balance sheet, statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Councils website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
STAG PCT (PROJECTCO) LIMITED (continued)**

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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; or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies' regime and from the requirement to prepare a strategic report.

BDO LLP

Paul Bailey (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
W1U 7EU

13 June 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# STAG PCT (PROJECTCO) LIMITED

## Profit and Loss account for the year ended 31 December 2016

		Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
	<i>Notes</i>		
Turnover	2	456	494
Other operating charges		(292)	(318)
<b>Operating profit</b>	3	<u>164</u>	<u>176</u>
Interest receivable and similar income	4	1,308	1,331
Interest payable and similar charges	5	(1,237)	(1,247)
<b>Profit on ordinary activities before taxation</b>		<u>235</u>	<u>260</u>
Taxation on profit on ordinary activities	7	(42)	(170)
<b>Profit on ordinary activities after taxation for the financial year</b>		<u><u>193</u></u>	<u><u>90</u></u>

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

The notes from pages 13 to 24 form part of these financial statements.

# STAG PCT (PROJECTCO) LIMITED

## Statement of Comprehensive Income for the year ended 31 December 2016

		Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
	<i>Note</i>		
<b>Profit for the financial year</b>		<b>193</b>	<b>90</b>
Movement in cash flow hedges		<b>(2,087)</b>	<b>1,686</b>
Deferred tax on movement in cash flow hedges	<b>7</b>	<b>376</b>	<b>(393)</b>
<b>Total comprehensive (loss)/income for the period</b>		<b><u>(1,518)</u></b>	<b><u>1,383</u></b>

The notes from pages 13 to 24 form part of these financial statements.

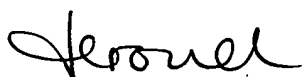
# STAG PCT (PROJECTCO) LIMITED

## Balance Sheet at 31 December 2016

	Notes	2016 £000	2015 £000
<b>Current assets</b>			
Deferred Tax	8	362	28
Debtors: Amounts falling due within one year	9	2,180	1,969
Debtors: Amounts falling due after more than one year	10	22,397	23,242
Cash at bank		393	496
		<u>25,332</u>	<u>25,735</u>
<b>Current liabilities</b>			
Creditors: Amounts falling due within one year	11	(903)	(859)
		<u>24,429</u>	<u>24,876</u>
<b>Net current assets</b>			
Creditors: Amounts falling due after more than one year	12	(27,385)	(26,250)
		<u>(2,956)</u>	<u>(1,374)</u>
<b>Capital and reserves</b>			
Called up share capital	14	700	700
Profit and loss account		338	209
Hedging reserve		(3,994)	(2,283)
		<u>(2,956)</u>	<u>(1,374)</u>
<b>Equity shareholder's deficit</b>			

The notes from pages 13 to 24 form part of these financial statements.

These financial statements were approved and authorised for issue by the board of directors on 12 June 2017 and were signed on its behalf by:



J L Crouch  
Director

These accounts have been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

Registered number 6574638

# STAG PCT (PROJECTCO) LIMITED

## Statement of changes in equity for the year ended 31 December 2016

	Issued Share Capital £000	Cash flow Hedge reserve £000	Profit and loss account £000	Total 2016 £000
<b>As at 31 December 2014</b>	<b>700</b>	<b>(3,576)</b>	<b>377</b>	<b>(2,499)</b>
<b>Comprehensive Income for the year</b>				
<b>Profit for the year</b>	-	-	90	90
Hedge effective portion of change in fair value of designated hedging	-	1,686	-	1,686
Taxation in respect of other comprehensive income	-	(393)	-	(393)
<b>Other comprehensive income for the year</b>	-	<b>1,293</b>	-	<b>1,293</b>
<b>Total comprehensive income for the year</b>	-	<b>1,293</b>	<b>90</b>	<b>1,383</b>
<b>Contributions by and distributions to owners</b>				
Dividends	-	-	(258)	(258)
<b>Total contributions by and distributions to owners</b>	-	-	(258)	(258)
<b>As at 31 December 2015</b>	<b>700</b>	<b>(2,283)</b>	<b>209</b>	<b>(1,374)</b>
<b>Comprehensive Income for the year</b>				
<b>Profit for the year</b>	-	-	193	193
Hedge effective portion of change in fair value of designated hedging	-	(2,087)	-	(2,087)
Taxation in respect of other comprehensive income	-	376	-	376
<b>Other comprehensive income for the year</b>	-	<b>(1,711)</b>	-	<b>(1,711)</b>
<b>Total comprehensive income for the year</b>	-	<b>(1,711)</b>	<b>193</b>	<b>(1,518)</b>
<b>Contributions by and distributions to owners</b>				
Dividends	-	-	(64)	(64)
<b>Total contributions by and distributions to owners</b>	-	-	(64)	(64)
<b>As at 31 December 2016</b>	<b>700</b>	<b>(3,994)</b>	<b>338</b>	<b>(2,956)</b>

The notes from pages 13 to 24 form part of these financial statements.

# STAG PCT (PROJECTCO) LIMITED

## Notes

### *(forming part of the financial statements)*

Stag PCT (Projectco) Limited is incorporated in England and Wales. The registered office is Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR.

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### *a) Basis of accounting*

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) the financial reporting standard applicable in the United Kingdom and the Republic of Ireland.

### *b) Going concern*

The company has net liabilities of £2,956,000 (2015: net liabilities of £1,374,000) which includes the fair value of the interest rate swaps of £8,104,000 (2015: £6,565,000) within liabilities and RPI swap of £3,232,000 (2015: £3,779,000) within assets and net current assets of £24,429,000 (2015: £24,876,000) including cash of £393,000 (2015: £496,000) at 31 December 2016.

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long-term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, despite the current economic conditions the directors believe the company will be able to meet its liabilities as they fall due.

The directors have a reasonable expectation that the Company has adequate resources and financial support from its parent undertakings to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

### *c) Service concessions*

The service concession of the company has been assessed to be within the scope of Section 34 of FRS 102. As the company has the unconditional right to receive a specified or determinable amount of cash or another financial asset from or at the direction of the grantor, the asset provided under the concession arrangement is accounted for as a financial asset.

### *d) Financial instruments*

The company has chosen to adopt the recognition and measurement provisions of Section 11 and 12 of FRS 102 for financial instruments. The financial assets including PFI receivables held by the company are basic financial instruments as defined by Section 11 of FRS 102 and they are classified as loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

The financial asset is stated at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating 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 financial asset.

# STAG PCT (PROJECTCO) LIMITED

## Notes (*continued*)

### 1 Accounting policies (*continued*)

#### *d) Financial instruments (continued)*

Loans and receivables are subsequently measured at amortised cost.

The company derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have been transferred.

#### *e) Financial liabilities*

Financial liabilities are classified as other financial liabilities and arise from the purchase of goods or services and loans in the normal course of the company's business and those which, not having commercial substance, cannot be classified as derivative financial instruments.

Other financial liabilities are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

The company derecognises financial liabilities when the obligations giving rise to them cease to exist.

#### *f) Equity instruments*

An equity instrument represents a residual interest in the assets of the company after deducting all of its liabilities.

Capital instruments issued by the company are recognised in equity at the proceeds received, net of issue costs.

#### *g) Revenue and expense recognition*

Construction phase – Revenue is recognised based on the fair value of work completed in the period in accordance with Section 23 of FRS 102. This has been determined to be historical cost.

Operational phase – Income received in respect of the service concession is allocated between revenue, and capital repayment of and interest income on the PFI financial asset using the effective interest rate method, which is determined to be 6.20% per annum. This estimate has been based on the WACC of the project and is applied to the carrying value on a quarterly basis.

Additional third party revenue arising are recognised in accordance with the contractual terms as services are performed.

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

#### *h) Interest payable and similar charges*

Interest payable on bank borrowings and similar charges are expensed to profit or loss as incurred.



# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### Accounting policies (continued)

#### *i) Interest receivable and similar income*

Interest receivable on the PFI financial asset is determined using the effective interest rate method and interest receivable on bank and deposit account is credited to profit or loss as earned.

#### *j) Taxation*

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the period in which differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are not discounted.

#### *k) Finance costs*

Financing costs are calculated using the effective interest method as described in Section 11 "Basic Financial Instruments" of FRS 102.

#### *l) Cash flow information*

In preparing the financial statements of the company, advantage has been taken of the following disclosure exemption available in FRS 102, as a result of the company being a small entity:

- No cash flow statement has been presented for the company

#### *m) Derivative financial instruments*

The Company uses derivative financial instruments to reduce exposure interest and RPI rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### *n) Fair value measurement*

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good

# STAG PCT (PROJECTCO) LIMITED

## Notes (*continued*)

### 1 Accounting policies (*continued*)

#### *n) Fair value measurement (continued)*

estimate of fair value, an entity estimates the fair value by using a valuation technique.

#### *o) Hedge accounting*

The Company designates certain derivatives as hedging instruments in respect of variable interest rate risk of the cash flows associated with recognised debt instruments measured at amortised cost. The company has also entered into RPI Swaps to hedge the potential volatility in future revenue cash flow arising from movements in RPI.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with the clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge and on an ongoing basis the Company assesses whether the hedging instrument is highly effective in offsetting the designated hedged risk.

The effective portion of changes in the fair value of the designated hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

#### *p) Critical accounting estimates and judgements*

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The critical accounting judgements and key sources of estimation uncertainty are namely revenue recognition accounted for in line with Section 23 of FRS 102 as described at note 1 g), the accounting for the PFI asset as financial asset in line with Section 34 of FRS 102 as described at note 1 c), the accounting for the PFI financial asset as basic financial instruments in line with Section 11 of FRS 102 as described at note 1 d), the fair value measurement of derivatives as described at note 13) and the application of hedge accounting as described at note 1 n). 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 reviewed if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

RPI swaps and interest rate swaps are valued by a third party using a pricing model. The values were calculated at the mid-point of the relevant yield curve and do not reflect (i) any bid/offer spread customary for these transactions, and (ii) other factors which may affect value, including, without limitation, or portfolio configuration, credit policies and prevailing market factors as well as general business consideration. The RPI-linked swap is a structured product and valuations of this type of product can differ significantly between different valuers (market-makers/banks and third party valuation firms) due to variations in the subjective market data inputs.

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### 2 Turnover

Turnover in the year is analysed as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cost recoveries	279	299
Service margin	164	172
Pass through income	13	23
	<u>456</u>	<u>494</u>

### 3 Operating Profit

The following costs were incurred during the year.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
The audit fees for the company	<u>10</u>	<u>12</u>

### 4 Interest receivable and similar income

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
<b>Interest receivable</b>		
Financial asset interest receivable	1,308	1,331
<b>Interest receivable and similar income</b>	<u>1,308</u>	<u>1,331</u>

### 5 Interest payable and similar charges

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
<b>Interest payable and similar charges</b>		
Bank borrowings	1,070	1,074
Bank commitment fees	4	3
Amortisation of issue costs	6	7
Loan Stock interest costs	157	163
<b>Interest payable and similar charges</b>	<u>1,237</u>	<u>1,247</u>

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### 6 Staff costs

There were no employees during the year (2015: none). The directors have no contract of service with the company (2015: none). Amounts payable to third parties in respect of directors' services totalled £23,000 (2015: £24,000).

### 7 Taxation on profit on ordinary activities

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

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Current tax:		
Corporation tax	-	-
Deferred tax:		
Timing Differences	(42)	(102)
Adjustment in respect of prior period deferred taxes	-	(121)
Adjustment in respect of change in rate	-	53
Total Taxation Charge	<u>(42)</u>	<u>(170)</u>

#### Corporation tax recognised in other comprehensive income

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Deferred tax recognised on derivative financial instruments	<u>376</u>	<u>(393)</u>

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

The UK standard rate of corporation tax for the year is 20% (2015 20.25%). The actual tax rate above is lower than (2015: higher than) the standard rate for the reasons set out below:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit on ordinary activities before tax	<u>235</u>	<u>260</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	47	53
Permanent differences	(5)	49
Adjustment in respect of previous period deferred taxes	-	121
Adjustment in respect of change in rate	-	(53)
Total tax charge for the year	<u>42</u>	<u>170</u>

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### 7 Taxation on profit on ordinary activities (continued)

#### c) Factors affecting the tax charges in future years

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the company's future current tax charge accordingly.

### 8 Deferred tax assets

The elements of the deferred tax asset are as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Accelerated capital allowances	(381)	(370)
Tax losses carried forward	-	31
Derivative financial instruments	877	501
Capital (gains)	(134)	(134)
Deferred tax asset	<u>362</u>	<u>28</u>

There are no unrecognised deferred tax assets or liabilities. Deferred tax assets are provided in compliance with Section 29 of FRS 102 and it is expected that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The deferred tax asset at 31 December 2016 has been calculated using the rate of 17% substantively enacted at the balance sheet date.

#### Movement in deferred tax during the period

	31 December 2015 £'000	Recognised in income £'000	Recognised in equity £000	31 December 2016 £000
Accelerated capital allowances	(370)	(11)	-	(381)
Tax losses carried forward	31	(31)	-	-
Derivative financial instruments	501	-	376	877
Capital (gains)	(134)	-	-	(134)
	<u>28</u>	<u>(42)</u>	<u>376</u>	<u>362</u>

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### 8 Deferred tax assets (continued)

	31 December 2014 £'000	Recognised in income £'000	Recognised in equity £000	31 December 2015 £000
Accelerated capital allowances	(419)	49	-	(370)
Tax losses carried forward	116	(85)	-	31
Derivative financial instruments	894	-	(393)	501
Capital (gains)	-	(134)	-	(134)
	<u>591</u>	<u>(170)</u>	<u>(393)</u>	<u>28</u>

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

	2016 £000	2015 £000
Trade debtors	192	-
Prepayments and accrued income	35	48
Financial asset	<u>1,953</u>	<u>1,921</u>
	<u>2,180</u>	<u>1,969</u>

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

	2016 £000	2015 £000
Financial asset	19,165	19,463
Derivative fair value (inflation/RPI swap)	<u>3,232</u>	<u>3,779</u>
	<u>22,397</u>	<u>23,242</u>

The company has entered into a RPI swap contract to hedge its exposure to inflation. Receipts and payments on RPI instruments are recognised on an accrual basis, over the life of the instrument. The RPI swap matures in March 2035. The fair value of the RPI swap as at 31 December 2016 gives rise to an asset of £3,232,000 (2015: gave rise to an asset of £3,779,000). The change in fair value in the period was a decrease of £547,000 (2015 increase of £1,087,000) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which the instruments involved are traded.

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

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

	2016 £000	2015 £000
Bank borrowings (see note 12)	350	325
Trade creditors	21	23
Other creditors	315	310
Other borrowings (including accrued interest)	58	56
Accruals and deferred income	159	145
	<u>903</u>	<u>859</u>

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

	2016 £000	2015 £000
Bank borrowings	17,987	18,337
Less: unamortised issue costs	(128)	(133)
	<u>17,859</u>	<u>18,204</u>
Other borrowings	1,422	1,481
Derivative fair value (interest rate swap)	8,104	6,565
	<u>27,385</u>	<u>26,250</u>

The bank borrowings are repayable by instalments as follows:

Within one year (see note 11)	350	325
Between one and two years	375	350
Between two and five years	1,840	1,480
Greater than five years	15,773	16,508
	<u>18,337</u>	<u>18,663</u>

2016 £000	2015 £000
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The other borrowings are repayable by instalments as follows:

Within one year (see note 11)	58	56
Between one and two years	65	58
Between two and five years	333	262
Greater than five years	1,024	1,161
	<u>1,480</u>	<u>1,537</u>

The senior term loan is repayable in six-monthly instalments commencing on 30 September 2010 and ending on 30 September 2034. The RV facility is repayable on 11 April 2035. Interest is charged on amounts drawn under the banking facilities based on floating LIBOR. The company has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. The hedging agreement in respect of the term loan fixed the interest rate at 5.025% until 31 March 2035.

# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

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

The derivative is accounted for as a hedge of variable interest rate risks, in accordance with FRS102 and has a fair value of a liability of £8,104,000 (2015: liability of £6,565,000) as at the year end date. The cash flows arising from the interest rate swaps will continue until their maturity in 2035, coincidental with the repayment of the term loans.

Bank borrowings relate to term loan facilities granted by the bank on 29 July 2008. The loan facility is for a total value of £23,079,000 comprising of a £14,772,000 senior term loan facility, a £4,580,000 RV facility, a £2,381,000 equity bridge facility, a £1,030,000 debt service reserve facility and a £316,000 change in law facility. As at 31 December 2016 £18,337,000 (2015: £18,663,000) has been drawn comprising £13,757,000 (2015: £14,082,000) senior term loan, £4,580,000 (2015: £4,580,000) RV facility, £nil (2015: £nil) equity bridge loan, £nil (2015: £nil) debt service reserve facility and £nil (2015: £nil) change in law facility. Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the bank borrowings and are being amortised over the years of the facilities as part of the finance costs.

The fair values of the interest rate swap and the RPI swap have been determined by reference to prices available from the markets on which the instruments involved are traded.

The facilities are secured, by way of first fixed charge, over all of the assigned rights which the company and its parent, STAG PCT (Holdco) Limited, now has, its present and future interest in the securities and all other stocks, shares, debentures, bonds and other securities, all account monies, all benefits in respect of insurances, all book and other debts and other monies due, its present and future goodwill and its present and future uncalled capital. They are also secured by way of a floating charge over the whole of the charged assets being the whole of the property (including uncalled capital) which is or may be from time to time comprised in the property and undertaking of the chargor.

The company's parent company STAG PCT (Holdco) Limited has subscribed to £1,691,000 of Loan Stock. This loan is due for repayment, in instalments, on or before September 2034 and carries interest at a fixed rate of 10.5%.

### 13 Financial instruments

The carrying values of the company's financial assets and liabilities are summarised by category below:

	2016 £'000	2015 £'000
<b>Financial assets</b>		
Measured at fair value and designated in an effective hedging relationship		
• Derivative financial assets (see note 10)	3,232	3,779
Debt instruments measured at amortised cost		
• Financial asset (see note 9 and 10)	21,118	21,383
Cash at bank	393	496
Trade and other debtors (see note 9)	222	20
	<u>24,965</u>	<u>25,678</u>



# STAG PCT (PROJECTCO) LIMITED

## Notes (continued)

### 13 Financial instruments (continued)

#### Financial liabilities

Measured at fair value and designated in an effective hedging relationship

• Derivative financial liabilities	8,104	6,565
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Measured at undiscounted amount payable

• Bank borrowings (see note 11 and 12)	18,337	18,663
• Trade and other creditors (see note 11)	406	333
• Other borrowings (see note 11 and 12)	1,480	1,537
	<u>28,327</u>	<u>27,098</u>

### 14 Called up Share capital

	2016 £000	2015 £000
<b>Allotted, called up and fully paid</b>		
700,490 ordinary shares of £1 each	<u>700</u>	<u>700</u>

### 15 Dividends

	2016 £000	2015 £000
Dividends paid £0.0914 per share (2015: £0.3683 per share)	<u>64</u>	<u>258</u>
	<u>64</u>	<u>258</u>

### 16 Reserves

The following describes the nature of each reserve within equity:

Reserve	Description and purpose
Cashflow hedge	Gains or losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge.

Profit and loss account All other net gains or losses and transactions with owners not recognised elsewhere.

### 17 Transaction with related parties

As a 100% subsidiary of STAG PCT (Holdco) Limited, the Company has taken advantage of the exemption under Section 33.1A of FRS 102 not to provide information on related party transactions with other undertakings within the STAG PCT (Holdco) Limited Group. The company does not have any other balances or transactions with other related parties.

# STAG PCT (PROJECTCO) LIMITED

## Notes (*continued*)

### 18 Parent undertakings

The Company's immediate parent company is STAG PCT (Holdco) Limited, a company incorporated in the United Kingdom and registered in England and Wales.

The Company's ultimate parent and controlling entity is Equitix Fund II LP, an English limited partnership.