Registered number: 06574638

STAG PCT (PROJECTCO) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

STAG PCT (PROJECTCO) LIMITED

COMPANY INFORMATION

Directors	Charlotte Sophie Ellen Douglass (appointed 21 September 2017) Jennifer Louise Crouch (resigned 17 July 2017) Peter John Sheldrake (resigned 25 April 2018) Robert Alistair Martin Gillespie (appointed 25 April 2018)
Company secretary	Amit Thakrar
Registered number	06574638
Registered office	10 - 11 Charterhouse Square London EC1M 6EH

STAG PCT (PROJECTCO) LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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 a 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 related to the operating activities during the year. A final dividend of £147,000 was paid in 2017 (2016: £64,000).

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 £2,435,000 (2016: £2,956,000) which includes the fair value of the interest rate swaps of £7,456,000 (2016: £8,104,000) within liabilities and RPI swap of £3,197,000 (2016: £3,232,000) within assets and net current assets of £23,880,000 (2016: 24,429,000) including cash of £649,000 (2016: £393,000) at 31 December 2017.

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 their review and the future business prospects of the company, despite the current economic conditions the directors believe the company will be able to meets 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 operations existence for the foreseeable future. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

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 2017 was an asset of £3,197,000 (2016: £3,232,000).

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 rate at 5.03% per annum 29 July 2008 until 31 March 2035. The fair value of this financial instrument at 31 December 2017 was a liability of £7,456,000 (2016: £8,104,000).

Lifecycle risk

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

Solvency and performance of sub-contractors

The main supplier to the SPV is in relation to the Facilities Management contract. The risks associated with this contract are mitigated as it is on a fixed term at a fixed cost per annum, only increasing in line with inflation. Additionally the credit and performance risk of the Facilities Management contract supplier is monitored on a regular basis to ensure that the services are delivered on a continuing timely basis to the appropriate standard. Should service issues develop, the SPV would seek to resolve through contractual provisions and ultimately the SPV has the right to terminate the contract by serving notice and consequently putting in place an alternative contract supplier.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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 2017, which are based on 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. 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 2017 the safety performance of the company's sub-contractors was considered satisfactory.

This report was approved by the board on 29 June 2018 and signed on its behalf.

Robert Alistair Martin Gillespie
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to 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.

Directors

The directors who served during the year were:

Charlotte Sophie Ellen Douglass (appointed 21 September 2017)
Jennifer Louise Crouch (resigned 17 July 2017)
Peter John Sheldrake (resigned 25 April 2018)
Robert Alistair Martin Gillespie (appointed 25 April 2018)

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 auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Auditors

Under section 487(2) of the Companies Act 2006, BDO will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 29 June 2018 and signed on its behalf.

Robert Alistair Martin Gillespie
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF STAG PCT (PROJECTCO) LIMITED

Opinion

We have audited the financial statements of STAG PCT (Projectco) Limited (the 'Company') for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. 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).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 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.

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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly 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 a material misstatement in the financial statements or a material misstatement of the 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 this regard.

Opinion 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.

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 Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 in accordance with the small companies regime.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF STAG PCT (PROJECTCO) LIMITED (CONTINUED)

Auditors' 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 Auditors' 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of 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 Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Paul Bailey (Senior Statutory Auditor)

for and on behalf of
BDO LLP

55 Baker Street
London
W1U 7EU

29 June 2018

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	*2016 £000*
Turnover	2	**493**	*456*
Gross profit		**493**	*456*
Administrative expenses		**(318)**	*(292)*
Operating profit	3	**175**	*164*
Interest receivable and similar income	5	**1,273**	*1,308*
Interest payable and expenses	6	**(1,188)**	*(1,237)*
Profit before tax		**260**	*235*
Tax on profit	7	**(50)**	*(42)*
Profit for the financial year		**210**	*193*
Other comprehensive income for the year			
Movement in cash flow hedges		**611**	*(2,087)*
Deferred tax on movement in cash flow hedges		**(153)**	*376*
Other comprehensive income for the year		**458**	*(1,711)*
Total comprehensive income for the year		**668**	*(1,518)*

The notes on pages 13 to 27 form part of these financial statements.

All amounts above related to ongoing activities.

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note		2017 £000		*2016 £000*
Current assets					
Debtors: amounts falling due after more than one year	9	**23,761**		*22,759*	
Debtors: amounts falling due within one year	9	**439**		*2,180*	
Cash at bank and in hand	10	**649**		*393*	
		24,849		*25,332*	
Creditors: amounts falling due within one year	11	**(969)**		*(903)*	
Net current assets			**23,880**		*24,429*
Total assets less current liabilities			**23,880**		*24,429*
Creditors: amounts falling due after more than one year	12		**(26,315)**		*(27,385)*
Net liabilities			**(2,435)**		*(2,956)*
Capital and reserves					
Called up share capital	16		**700**		*700*
Profit and loss account	17		**401**		*338*
Hedging reserve	17		**(3,536)**		*(3,994)*
			(2,435)		*(2,956)*

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 June 2018.

Robert Alistair Martin Gillespie
Director

The notes on pages 13 to 27 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2017	700	(3,994)	338	(2,956)
Comprehensive income for the year				
Profit for the year	-	-	210	210
Taxation in respect of items of other comprehensive income	-	(153)	-	(153)
Hedge effective portion of change in fair value designated hedging	-	611	-	611
Other comprehensive income for the year	-	458	-	458
Total comprehensive income for the year	-	458	210	668
Dividends: Equity capital	-	-	(147)	(147)
Total transactions with owners	-	-	(147)	(147)
At 31 December 2017	700	(3,536)	401	(2,435)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2016	700	(2,283)	209	(1,374)
Comprehensive income for the year				
Profit for the year	-	-	193	193
Taxation in respect of items of other comprehensive income	-	376	-	376
Hedge effective portion of change in fair value designated hedging	-	(2,087)	-	(2,087)
Other comprehensive income for the year	-	(1,711)	-	(1,711)
Total comprehensive income for the year	-	(1,711)	193	(1,518)
Dividends: Equity capital	-	-	(64)	(64)
Total transactions with owners	-	-	(64)	(64)
At 31 December 2016	700	(3,994)	338	(2,956)

The notes on pages 13 to 27 form part of these financial statements.

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The Company is a limited liability (by shares) company, with its registered office at 10-11 Charterhouse Square, London, England, incorporated in the United Kingdom.

The Company has taken advantage of its exemption to prepare a Cash Flow statement.

The following principal accounting policies have been applied:

1.2 Going concern

The company has net liabilities of £2,435,000 (2016: £2,956,000) which includes the fair value of the interest rate swaps of £7,456,000 (2016: £8,104,000) within liabilities and RPI swap of £3,197,000 (2016: £3,232,000) within assets and net current assets of £23,880,000 (2016: 24,429,000) including cash of £649,000 (2016: £393,000) at 31 December 2017.

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 their review and the future business prospects of the company, despite the current economic conditions the directors believe the company will be able to meets 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 operations existence for the foreseeable future. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

1.3 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.

1. Accounting policies (continued)

1.4 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 receivable: 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 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.

Loans and receivable 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.

1.5 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.

1.6 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.

1. Accounting policies (continued)

1.7 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 estimated 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.

1.8 Interest payable and similar charges

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

1.9 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.

1.10 Finance costs

Finance costs are charged to the Profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1. Accounting policies (continued)

1.11 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit or loss, except that a charge attributable to an item of income and 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.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax asset balances are not discounted.

1.12 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 re-measured 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.

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

1. Accounting policies (continued)

1.14 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 instruments. 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 revoked 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.

1.15 Critical accounting estimates

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 amount 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 1.7, the accounting for the PFI asset as financial asset in line with Section 34 of FRS 102 as described at note 1.3, the accounting for the PFI financial asset as basic financial instruments in line with Section 11 of FRS 102 as described at note 1.4, the fair value measurement of derivatives as described at note 13 and the application of hedge accounting as described at note 1.14. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2. Turnover

	2017 £000	2016 £000
Turnover	269	279
Service margin	174	164
Pass through income	50	13
	493	456

	2017 £000	2016 £000
United Kingdom	493	456
	493	456

3. Operating profit

The following costs were incurred during the year.

	2017 £000	2016 £000
The audit fees for the company	11	10

4. Employees

There were no employees during the year (2016: none). The directors have no contract of service with the company (2016: none). Amounts payable to third parties in respect of directors' services totalled £23,000 (2016: £23,000).

5. Interest receivable

	2017 £000	2016 £000
Financial asset interest receivable	1,273	1,308
	1,273	1,308

6. Interest payable and similar charges

	2017 £000	2016 £000
Bank borrowings	1,022	1,070
Bank commitment fees	3	4
Amortisation of issue costs	7	6
Loan stock interest costs	156	157
	1,188	1,237

7. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	50	-
	50	-
Total current tax	50	-
Deferred tax		
Origination and reversal of timing differences	-	47
Permanent differences	-	(5)
Total deferred tax	-	42
Taxation on profit on ordinary activities	50	42

Corporation tax recognised in other comprehensive income

Deferred tax charge recognised on derivative financial instruments in the year amounted to £153,000 (2016: tax credit £376,000) which is included in other comprehensive income.

7. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as *(2016 - the same as)* the standard rate of corporation tax in the UK of 19.25% *(2016 - 20%)* as set out below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	**260**	*236*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	**50**	*42*
Effects of:		
Total tax charge for the year	**50**	*42*

Factors that may affect future tax charges

8. Dividends

	2017 £000	2016 £000
Dividends paid £0.2098 per share (2016: £0.0914 per share)	**147**	*64*
	147	*64*

9. Debtors

	2017 £000	2016 £000
Due after more than one year		
Financial asset	**20,355**	*19,165*
Deferred tax asset	**209**	*362*
Derivative fair value (inflation/RPI swap)	**3,197**	*3,232*
	23,761	*22,759*

9. Debtors (continued)

The company has entered into an 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 2017 gives rise to an asset of £3,197,000 (2016: £3,232,000). The change in fair value in the period was a decrease of £35,000 (2016: decrease of £547,000) 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.

	2017	*2016*
	£000	*£000*
Due within one year		
Trade debtors	**-**	*192*
Other debtors	**36**	*35*
Financial asset	**403**	*1,953*
	439	*2,180*

10. Cash and cash equivalents

	2017	*2016*
	£000	*£000*
Cash at bank and in hand	**649**	*393*
	649	*393*

11. Creditors: Amounts falling due within one year

	2017 £000	*2016 £000*
Bank borrowings	**375**	*350*
Trade creditors	**21**	*21*
Corporation tax	**53**	*-*
Social security and other taxes	**92**	*85*
Other borrowings (including accrued interest)	**64**	*58*
Less: unamortised issue costs	**(7)**	*-*
Accruals and deferred income	**371**	*389*
	969	*903*

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

	2017 £000	*2016 £000*
Bank borrowings	**17,613**	*17,987*
Less: unamortised issue costs	**(112)**	*(128)*
Other loans	**1,358**	*1,422*
Derivative fair value	**7,456**	*8,104*
	26,315	*27,385*

13. Loans

Analysis of the maturity of loans is given below:

	2017 £000	*2016* *£000*
Amounts falling due within one year		
Bank loans	**375**	*350*
Other loans	**64**	*58*
	439	*408*
Amounts falling due 1-2 years		
Bank loans	**484**	*375*
Other loans	**85**	*65*
	569	*440*
Amounts falling due 2-5 years		
Bank loans	**2,075**	*1,840*
Other loans	**390**	*333*
	2,465	*2,173*
Amounts falling due after more than 5 years		
Bank loans	**15,054**	*15,772*
Other loans	**883**	*1,025*
	15,937	*16,797*
	19,410	*19,818*

13. (continued)

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.

The derivative is accounted for as a hedge of variable interest rate risks, in accordance with FRS 102 and has a fair value of a liability of £7,456,000 (2016: liability of £8,104,000) 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 £4,850,000 RV facility, a £2,381,000 equity bridge facility, £1,030,000 debt service reserve facility and a £316,000 change in law facility. As at 31 December 2017 £17,988,000 (2016: £18,337,000) has been drawn comprising of £13,408,000 (13,757,000) senior term loan, £4,580,000 (2016: 4,850,000) RV facility, £nil (2016: £nil) equity bridge loan, £nil (2016: £nil) debt service reserve facility and £nil (2016: £nil) change in law facility. Loans 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 in 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 charger.

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 carried interest at a fixed rate of 10.5%.

14. Financial instruments

	2017 £000	*2016 £000*
Financial assets		
Derivative financial assets measured at fair value and designated in an effective hedging relationship	**3,196**	*3,232*
Debt instruments measured at amortised cost	**21,443**	*21,733*
	24,639	*24,965*
Financial liabilities		
Derivative financial liabilities measured at fair value and designated in an effective hedging relationship	**7,456**	*8,104*
Financial liabilities measured at amortised cost	**20,198**	*20,223*
	27,654	*28,327*

Financial assets measured at amortised cost comprise of cash at bank and in hand, trade and other debtors and financial assets.

Financial liabilities measured at amortised cost comprise of trade and other creditors, VAT, accruals, loans and corporation tax.

15. Deferred taxation

	2017 £000	*2016 £000*
At beginning of year	**362**	*(14)*
Charged to other comprehensive income	**(153)**	*376*
At end of year	**209**	*362*

15. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	(381)	(381)
Derivative financial instruments	724	877
Capital (gains)	(134)	(134)
	209	362

16. Share capital

	2017 £000	2016 £000
Shares classified as equity		
Allotted, called up and fully paid		
700,490 Ordinary shares of £1 each	700	700

17. Reserves

The following describes the nature of each reserve within equity:

Other reserves

Gains or losses 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.

18. Related party transactions

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.

19. 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.