Company Registration No. 8168976 (England and Wales)

ISLAND ROADS INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

ISLAND ROADS INVESTMENT LIMITED

COMPANY INFORMATION

Directors	W H Snow C H Pitt A F E Judet (appointed 4 January 2017) T P Treharne (appointed 13 January 2017) S I Benmussa (appointed 25 October 2017) H A Le Caignec (resigned 4 January 2017) R Limouzin (resigned 13 January 2017) A J Lawton Wallace (resigned 24 February 2017) C Braunwald (resigned 25 October 2017)
Secretary	Fulcrum Infrastructure Management Limited
Company number	8168976
Registered office	105 Piccadilly London W1J 7NJ
Independent Auditors	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
Bankers	The Bank of Tokyo-Mitsubishi UFJ Ltd Ropemaker Place 25 Ropemaker Street London EC2Y 9AN

ISLAND ROADS INVESTMENT LIMITED

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ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

Island Roads Investment Limited ("the Company") was incorporated on 6 August 2012, and is a limited company incorporated in Great Britain registered and domiciled in England and Wales.

The Company does not trade on its own account, and all activities reported in the financial statements are carried out by its wholly owned subsidiary, Island Roads Services Limited. Island Roads Investment Limited and its wholly owned subsidiaries, Island Roads Services Limited and Island Roads Investment 2 Limited will be referred to in this report as the "Group".

The Isle of Wight Council (the "Authority") entered into a contract with Island Roads Services Limited on 26 September 2012 for works and services relating to the rehabilitation, maintenance, management and operation of the project network in accordance with the Government's Private Finance Initiative (the "Contract").

Under the terms of the Contract the Group is obliged to perform the operation and maintenance of the Isle of Wight's highway network and associated highway assets. The project incorporates all aspects of the existing asset, including but not limited to: carriageway, unclassified roads, footway, footpaths, cycle tracks, bridges, street lighting, drainage, gullies, highway trees, verges, street cleansing, horticulture and arboriculture maintenance.

The project has an initial 7-year core investment period, during which time significant capital work valued at £145 million will be undertaken to the asset to provide a step change in the condition of the asset and the overall highway environment to achieve a pre-defined quality and service level, following which time the Group will provide a sustained level of service for the remaining 18 years of the project. The total duration of the concession is 25 years.

During the period covered by this report, the fourth year of investment works and operation was completed on 31 March 2017 in line with the Contract. On that date, Milestone 8. The period covered also comprised Milestone 9, which was achieved as at 30 September 2017. The Street Lighting Design dispute has also been settled with the IWC, resulting in the certification of Milestone 6 and Capital Contribution 1, and the step-up payment associated with Milestone 6 certification.

Planned progress for 2018 is sufficient to achieve the Milestones 10 and 11 Completion Criteria required at March and September 2018 respectively. Commercial discussions with the Authority on the network condition indexes calculation will postpone the certification of Milestone 10 and Capital Contribution 2 completion, and the Board is confident that this will be settled in the course of 2018. The Board continues to monitor progress closely.

The Group is a special purpose vehicle formed to manage the Highways Maintenance Contract and its non-financial objectives are consistent with the objectives of this Contract. The Group will achieve these objectives by ensuring its compliance with the Contract, good industry practice and legislation.

The Group's objectives are also to ensure compliance with the terms of its Credit Agreement and generate return on investment for its shareholders in a manner consistent with safe operation at all times. The most significant financial criteria under the Credit Agreement are the cover ratios, which will be due to be reported to senior lenders from 2020, once the Core Investment period has been completed.

BUSINESS REVIEW

In the current period the following was achieved:

- the certification of Milestone 8 and Milestone 9;
- the certification of Capital Contribution 1 securing £10,000,000 of capital contributions from the Authority (received in March 2018).
- completion of significant carriageway and geotechnical schemes;

Group operating profit for the year amounted to £807,063 (2016 - £714,915), and net interest income amounted to £1,149,766 (2016 - £686,771). The cash position as at 31 December 2017 amounted to £212,091 (2016 - £2,509,393).

During the year, Health and Safety remained a key focus for the Group. The lost time injury rate has been maintained at nil in the year. Part of this success is ensuring effective communication between all areas and levels of the business. During the year, the Group participated in the island-wide Health & Safety Forum and continues to hold an awareness day for all supply chain partners. The number of near misses reported increased from 517 in 2016 to 744 in 2017. The Group believes that the continuous monitoring and high quality of near miss reporting reduces the risk of accidents happening.

During the year, considerable effort has been expended on the improvement of O&M performance, with recruitment of new staff and implementation of new processes. This has resulted in a more consistent performance level and a significant reduction in the level of service failure items, with the service default termination points rolling balance reduced in line with expectations.

During the year, the Group and its sub-contractor have continued to develop the collaboration and partnership with the Authority contract management team.

An annual customer satisfaction survey is undertaken in February each year and the results are used to identify service improvement and communication issues. The volume of works that has been undertaken since the beginning of the Project is such that the public is now seeing the benefits of the PFI, and positive feedback is regularly received.

PRINCIPAL RISKS AND UNCERTAINTIES

The risk management policy of the Group is designed to identify and manage risk at the earliest point practically possible.

The Group's exposure to inflationary risk, particularly in relation to the investment, operation and maintenance cost base is mitigated by having an index linked Contract with the Authority.

The other principal risk is that maintenance costs exceed those forecast in the financial model agreed at financial close. The risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the asset, and the substantial transfer of the risk and responsibilities to the sub-contractor.

The Group is exposed to construction risk such that if there is a delay to the investment works, the Group might fail to achieve milestone or capital contribution completion criteria on time, which would result in delays to the receipt of payments, and potentially deductions from those payments, from the Authority. The Group may also incur termination points associated with this delay. The Group regularly monitors construction progress against the programme, with the risk mitigated as liquidated damages would be charged to the construction sub-contractor.

Other risks include energy price risk, which is transferred to the sub-contractor and the risk of inclement weather affecting the ability to perform works which is mitigated by the length of the construction programme and the ability to flex resources.

The Group is exposed to lifecycle risk such that the project network has to be maintained at a specified standard. This risk is mitigated by asset survey and inspection and is passed through to the operational sub-contractor.

The Group is finally exposed to interest rate risk on its senior and equity bridge loan. This risk is mitigated through an interest rate swaps agreement.

FINANCIAL RISK MANAGEMENT

The Group's principal assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty, the Authority. The Board of Directors is of the opinion that the risk of default is limited.

To mitigate financial risk and, in order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long term and short-term debt finance with a flexible drawdown schedule.

KEY PERFORMANCE INDICATORS

The Group primarily has non-financial key performance indicators, each of which impacts its results for the year and will impact its future performance.

The key performance indicators of the Group are:

- Progress against the construction schedule. The Group received acknowledgement of certification of Milestones 8 and 9 in the year. The activities of the Group continue to progress in line with plans in order to meet Milestones 10 and 11 during the year 2018. No termination points have been incurred in relation to delays in milestone completion.

- The level of service provided. This is measured through the availability of the asset and the compliance of the service with contractual requirements. Deductions to unitary payments can be levied by the Authority when the asset is partially or completely unavailable for use. Deductions and termination points may also be incurred where the service and/or asset condition fails to meet the minimum contractual standards. Availability adjustments for an amount of £22,011, and performance adjustments for an amount of £69,031 were levied in the year and passed through to the sub-contractor. The thorough review of the annual customer satisfaction survey (leading to the implementation of a yearly improvement plan) and the close monitoring of media activity also enhance service delivery. The termination points are at a satisfactory level and the sub-contractor continues to operate and monitor plans to mitigate the associated risks.

- The quantum of costs incurred as compared to budget. There were no significant cost deviations from budget.

FINANCIAL PERFORMANCE

The Group's profit before taxation for the period amounted to £1,956,829 (2016 - £1,401,686). After taxation of £345,575 (2016 - £260,591), the profit for the period amounted to £1,611,254 (2016 - £1,141,095).

FUTURE DEVELOPMENTS

The Group will continue the core investment works alongside a range of maintenance activities carried out on sections of road which do not require substantial upgrade and sections of road which would have been already renewed and completed in the early part of the core investment period. At the end of the core investment period, the Group will continue to provide planned and reactive maintenance works until the end of the concession in 2038.

CORPORATE AND SOCIAL RESPONSIBILITY

The Group is a member of the Isle of Wight Foundation (the "Foundation"). The aims of the Foundation are to achieve a public benefit on the Isle of Wight, through supporting social inclusion, access to employment by supporting organisations that offer funding and guidance to individuals with no qualifications to enter the working world and encourage good citizenship. The Group has made a £40,000 grant to the Foundation which itself has made eight grants totalling £71,406 to various community projects. Also, as part of the Group's corporate and social responsibility objectives the sub-contractor provides a number of two-year apprenticeship places each year.

GOING CONCERN

The Directors have considered a number of factors in determining whether the Group remains a going concern.

The key factors and related conclusions are summarised below:

- The Directors have considered the ability of the Authority to meet future contractual payments. The Directors have concluded that they do not currently consider this to be a material risk;

- The Directors have considered the impact of changes in the performance of key sub-contractors, and their ability to continue to meet contractual commitments. The Directors do not currently consider this to be a material risk;

- The Group has secured bank facilities totalling £111.8 million, of which £94.8 million had been drawn at the period end. The secured bank facilities are available to be drawn upon request. As at 31 December 2017, an additional shareholder loan of £17.9 million was available to the Group, and has been drawn in March 2018 to replace the equity bridge loan. As at 31 December 2017, the Group had an unutilised Letter of Credit in the amount of £8,949,143 provided by Meridiam Infrastructure Finance II S.a.r.l, and an Equity Guarantee in the amount of £8,949,143 provided by VINCI Concessions S.A.S. The Directors have considered the continued availability of finance from the Group's lenders. During the investment phase of the project, the Directors regularly monitor the creditworthiness of the lenders and derivative providers, and do not currently consider this to be a material risk;

- The Directors note that the Group is reporting a statement of financial position deficit of £11,861,808 as at 31 December 2017. This has resulted from market movements in the valuation of the Group's derivative financial instruments. The Directors do not expect this to crystallise as a liability in the foreseeable future and there are no plans to terminate any derivatives; and

- The Directors have considered the Group's compliance with financial covenant tests and non-financial milestones. The Directors do not consider there to be a material risk that these covenants and milestones will be breached in the foreseeable future.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

This report was approved by the board of Directors on 30 April 2018 and signed on its behalf.

....	....
C H Pitt	**W H Snow**
Director	**Director**

ISLAND ROADS INVESTMENT LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRS as adopted by the European Union. 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- *make an assessment of the company's ability to continue as a going concern.*

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.

Capital structure

Details of the authorised and issued capital, together with details of the movements in the Group's issued share capital during the year are shown in note 15. The Group has one class of ordinary shares which carry no right to fixed income. No person has any special rights of control over the Group's share capital and all issued shares are fully paid.

Directors

The Directors who served throughout the year, except as noted, were as follows:

W H Snow
C H Pitt
A F E Judet (appointed 4 January 2017)
T P Treharne (appointed 13 January 2017)
S I Benmussa (appointed 25 October 2017)
H A Le Caignec (resigned 4 January 2017)
R Limouzin (resigned 13 January 2017)
A J Lawton Wallace (resigned 24 February 2017)
C Braunwald (resigned 25 October 2017)

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

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 that Director is aware, there is no relevant audit information of which the Group's auditors are not aware, and
- that 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 Group's auditors are aware of that information.

Financial risk management

Financial risk management is covered under Financial Risk Management on page 3 of the Strategic Report. Notes 1.7 to 1.9, and note 9 provides further detail on how the Group manages its exposure to financial risks.

Going concern

Although the Group's balance sheet reflects a net liabilities position, this is primarily caused by the recognition of derivative financial instruments at their fair value. The Directors do not expect this to crystallise as a liability in the foreseeable future and there are no plans to terminate any derivatives.

Future developments

Future developments are covered under Future Developments on page 4 of the Strategic Report.

Events after the reporting date

Details of significant events since the reporting date are contained in note 22 to the financial statements.

Independent auditors

PricewaterhouseCoopers LLP were appointed auditors on 1 December 2017.

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP 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.

This report was approved by the board of Directors on 30 April 2018 and signed on its behalf.

....	....
C H Pitt	**W H Snow**
Director	Director

Independent auditors' report to the members of Island Roads Investment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Island Roads Investment Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2017; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- 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 group's and 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Island Roads Investment Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Paul Nott

Paul Nott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol, 30 April 2018

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 as restated £
Revenue	3	37,882,503	37,712,351
Cost of sales		(36,940,086)	(36,835,004)
Gross profit		**942,417**	**877,347**
Administrative expenses		(135,354)	(162,432)
Operating profit	4	**807,063**	**714,915**
Interest receivable and similar income	6	6,272,287	4,893,865
Interest payable and similar charges	7	(5,122,521)	(4,207,094)
Profit before taxation		**1,956,829**	**1,401,686**
Taxation	8	(345,575)	(260,591)
Profit for the financial year	16	**1,611,254**	**1,141,095**

All amounts relate to continuing operations.

The notes on pages 16 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Profit for the year	**16**	1,611,254	1,141,095
Cash flow hedges:			
Profits/(losses) arising during the year	**9**	2,068,673	(9,307,764)
Deferred tax relating to cash flow hedges	**8**	(355,619)	1,246,413
Other comprehensive income/(loss) for the year net of tax		1,713,054	(8,061,351)
Total comprehensive income/(loss) for the year		**3,324,308**	**(6,920,256)**
Total comprehensive income/(loss) attributable to owners of the Group		3,324,308	(6,920,256)

The notes on pages 16 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 £	2016 £
Non-current assets			
Financial asset	10	96,735,217	79,013,224
Deferred taxation	14	3,249,934	3,675,858
		99,985,151	**82,689,082**
Current assets			
Trade and other receivables	11	628,430	1,169,790
Cash and cash equivalents		212,091	2,509,393
		840,521	**3,679,183**
Total assets		**100,825,672**	**86,368,265**
Current liabilities			
Trade and other payables	12	(1,334,879)	(3,568,922)
Borrowings	13	(17,898,286)	-
Net current (liabilities)/assets		**(18,392,644)**	**110,261**
Non-current liabilities			
Borrowings	13	(74,886,763)	(77,349,234)
Derivative financial instruments	9	(18,567,552)	(20,636,225)
Total liabilities		**(112,687,480)**	**(101,554,381)**
Net liabilities		**(11,861,808)**	**(15,186,116)**
Equity			
Called up share capital	15	50,000	50,000
Hedging reserve	16	(15,411,067)	(17,124,121)
Retained earnings	16	3,499,259	1,888,005
Total equity		**(11,861,808)**	**(15,186,116)**

The consolidated financial statements of Island Roads Investment Limited, were approved and authorised for issue by the Board of Directors on 30 April 2018 and were signed on its behalf by:

C H Pitt
Director

W H Snow
Director

The notes on pages 16 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 £	2016 £
Non-current assets			
Investment in subsidiaries	20	50,000	50,000
Total assets		**50,000**	**50,000**
Net assets		**50,000**	**50,000**
Equity			
Called up share capital	15	50,000	50,000
Total equity		**50,000**	**50,000**

The Company reported a result for the financial year ended 31 December 2017 of £nil (2016: £nil).

The financial statements of Island Roads Investment Limited, registered number 8168976 were approved and authorised for issue by the Board of Directors on 30 April 2018 and were signed on its behalf by:

C H Pitt
Director

W H Snow
Director

The notes on pages 16 to 37 form part of these financial statements

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital £	Hedging reserve £	Retained earnings £	Total equity £
Balance at 1 January 2016		50,000	(9,062,770)	746,910	(8,265,860)
Profit for the year	**16**	-	-	1,141,095	1,141,095
Decrease in fair value of hedging derivative net of tax	**16**	-	(8,061,351)	-	(8,061,351)
Balance at 31 December 2016		50,000	(17,124,121)	1,888,005	(15,186,116)
Profit for the year	**16**	-	-	1,611,254	1,611,254
Increase in fair value of hedging derivative net of tax	**16**	-	1,713,054	-	1,713,054
Balance at 31 December 2017		**50,000**	**(15,411,067)**	**3,499,259**	**(11,861,808)**

The Company has no changes in equity in either the current or prior year and therefore a separate company statement of changes in equity has not been prepared.

The notes on pages 16 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Net cash (outflow)/inflow from operating activities	**17**	**(1,160,891)**	**2,130,653**
Investing activities			
Net payments establishing financial asset		(11,450,265)	(15,661,973)
Net cash used in investing activities		**(11,450,265)**	**(15,661,973)**
Financing activities			
New bank loans raised		14,425,276	8,348,803
Finance costs		(4,111,982)	(3,694,037)
Bank interest received		-	21,579
Interest received on corporation tax		560	-
Net cash generated from financing activities		**10,313,854**	**4,676,345**
Net decrease in cash and cash equivalents		**(2,297,302)**	**(8,854,975)**
Cash and cash equivalents at beginning of year		2,509,393	11,364,368
Cash and cash equivalents at end of year		**212,091**	**2,509,393**

The Company has no cash flows and no non-cash movements and therefore a separate company statement of cash flows has not been presented.

The notes on pages 16 to 37 form part of these financial statements.

1 Accounting policies

General information

Island Roads Investment Limited is a special purpose company formed to manage a Highway Maintenance PFI contract with the Isle of Wight Council. It is a limited company incorporated in the United Kingdom and registered in England and Wales.

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, (except as otherwise stated.

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own income statement. The profit for the period dealt with in the accounts of the Company was £nil. The Directors do not recommend the payment of a dividend.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report.

1 Accounting policies (Continued)

1.2 Basis of consolidation

The financial statements consolidate the accounts of Island Roads Investment Limited and all of its subsidiary undertakings ('subsidiaries').

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cashflows relating to transitions between the members of the Group are eliminated on consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

1.3 Presentational changes

Management has decided to show the pass-through income and pass-through costs of £3,649,323 (2016: £1,979,277 separately within the income statement as they feel that this provides better transparency for the users of the financial statements. In addition, prior year comparatives have been restated. Costs of £127,222 have been reclassified for the prior year from cost of sales to administrative expenses as management believe this better reflects their nature. There is no impact on profit for the year as a result of this change.

1.4 Going concern

Although the Group's balance sheet reflects a net liabilities position, this is primarily caused by the recognition of derivative financial instruments at their fair value. The Directors do not expect this to crystallise as a liability in the foreseeable future and there are no plans to terminate any derivatives.

1 Accounting policies (Continued)

1.5 Revenue recognition

During the investment phase, revenue is recognised based on the level of costs incurred plus an appropriate profit margin, to the extent that a profit is reasonably certain in accordance with IAS 11 Construction Contracts. Costs for this purpose include all works carried out and certified by subcontractors, and include all overheads other than those relating to general administration of the special purpose company.

Cash received in respect of the service concession is allocated to operational income based on its fair value, with the remainder being allocated between the capital repayment and interest income, applying the effective interest method. Service revenue is recognised in accordance with IAS 18 as the services are performed.

1.6 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are not taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if 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 assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.7 Accounting for service concession arrangements

The Group is a special purpose vehicle that has been established to undertake the operation and maintenance for the Isle of Wight's highway network and associated highway assets. The Group has subsequently entered into agreements with finance providers and sub-contractors. Based on the contractual arrangements, the Group has classified the project as a service concession arrangement and has accounted for the principal assets of income streams from the project in accordance with IFRIC 12 Service Concession Arrangements.

Under the terms of the arrangement, where the Group has the right to receive unitary payments from the Isle of Wight Council, the asset created and/or provided is accounted for as a financial asset. Revenue will be recognised by allocating a proportion of the unitary payments to investment, operational and maintenance income. The consideration received is allocated by reference to the relative fair value of the services delivered, where the amounts are separately identifiable.

The service concession financial asset is categorised as being held at amortised cost. During the construction phase, the directors estimate the costs incurred and any interest thereon less any monies from the Isle of Wight Council to equal the fair value of the financial asset.

1 Accounting policies (Continued)

1.8 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk. 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 balance sheet 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1.9 Hedge accounting

The Group designates certain hedging instruments, which includes derivatives, as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instruments and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

1.10 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group 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 recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

1.11 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and short-term deposits with original maturity of six months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash and short-term deposits as defined above, net of bank overdrafts.

1 Accounting policies (Continued)

1.12 Bank borrowing

Project specific interest costs incurred in the performance of the service concession contract, including net amounts payable on interest rate swaps, are expensed using the effective interest rate method.

The effective interest method is a method of calculating the amortised costs of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Arrangement fees are netted off against the carrying value of the loan facility and charged to the income statement over the term of the debt.

1.13 Share capital

Ordinary shares are classified as equity instruments on the basis that they evidence a residual interest in the assets of the Group after deducting all of its liabilities.

1.14 Investments

The Group's investments are treated in the financial statements as detailed below:

(i) Subsidiary undertakings
Investments in subsidiaries are valued at cost less provision for impairment.

(ii) Other investments
Investments held as fixed assets are shown at cost less provision for impairment.

1 Accounting policies (Continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under IFRS requires the Company's management to make judgments, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

The Group acts as developer and/or contractor on a number of mixed use schemes. In some instances judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses or upon legal completion. A detailed assessment of the contractual agreements with the customer as well as the substance of the transaction is performed to determine the point at which the risks and rewards of ownership are transferred to the customer. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

Key sources of estimation uncertainty

Derivative valuation

The key source or estimation uncertainty relates to the valuation of derivative financial liabilities at fair value. The measurement of fair value requires an estimate of a number of market variables, including the Group's own credit risk, that could be subject to change within the next financial year, which could cause a material adjustment to the carrying value of the derivative. The estimate of the Group's own credit risk is made by reference to quoted yields on corporate bonds with comparable risk.

There are no other key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notwithstanding this, as a significant portion of the Group's activities are undertaken through service concession arrangements, the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change.

2 Adoption of new and revised standards and changes in accounting policies

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the European Union:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRS 16	*Leases*
IFRS 2 (amendments)	*Classification and Measurement of Share-based Payment Transactions*
IAS 7 (amendments)	*Disclosure Initiative*
IAS 12 (amendments)	*Recognition of Deferred Tax Assets for Unrealised Losses*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments; and
- IFRS 15 may have an impact on revenue recognition and related disclosures.

Management are still evaluating the potential impact of these standards.

3 Revenue

An analysis of the Group's revenue is as follows:

	Group 2017 £	Group 2016 as restated £
Construction income	23,337,756	26,081,752
Service income	10,895,424	9,651,322
Pass through income	3,649,323	1,979,277
	37,882,503	**37,712,351**

All turnover arose within the United Kingdom.

4 Operating profit

	Group 2017 £	Group 2016 £
Operating profit for the year is stated after charging:		
Auditors' remuneration		
Island Roads Services Limited	19,000	19,800
Island Roads Investment Limited	2,000	2,200
Island Roads Investment 2 Limited	-	-
	21,000	**22,000**

During the year, fees of £88,984 (2016 - £88,809) were paid to Fulcrum Infrastructure Management Limited and Vinci Concessions S.A.S in respect of Directors' services to the Group.

The Group is managed by resources from the shareholders under management services agreements.

The Group had no employees during the current or previous year.

5 Profit attributable to the parent company

The profit for the financial year dealt with in the financial statements of the parent company was £nil (2016: £nil). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

6 Interest receivable and similar income

	Group 2017 £	Group 2016 £
Finance income		
Interest on corporation tax	560	-
Bank interest	-	21,579
Financial asset interest	6,271,727	4,872,286
	6,272,287	**4,893,865**

7 Interest payable and similar charges

	Group 2017 £	Group 2016 £
Finance costs		
On the bank loans and overdrafts	2,614,186	2,544,349
Amortisation of arrangement and commitment fees	1,010,539	513,057
Interest rate swaps	1,496,551	1,149,688
Other interest payable	1,245	-
	5,122,521	**4,207,094**

8 Taxation

	Group 2017 £	Group 2016 £
Current year taxation		
Current year	359,328	280,337
Adjustments in respect of prior periods	(84,057)	-
	275,271	280,337
Deferred tax		
Deferred tax (note 14)	20,545	(19,746)
Adjustment in respect of prior periods	49,759	-
	70,304	(19,746)
	345,575	**260,591**

Corporation tax is calculated at 19.25 per cent of the estimated taxable profit for the year.

The charge for the year can be reconciled to the profit in the consolidated income statement as follows:

	2017 £	2016 £
Profit before taxation on continuing operations	1,956,829	1,401,686
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax rate of 19.25% (2016 - 20.00%)	376,689	280,337
Adjustments in respect of prior years	(34,298)	-
Capital allowances timing difference	-	(19,746)
Effect of rate adjustments to deferred tax balances	3,184	-
Tax expense for the year	**345,575**	**260,591**

	2017 £	2016 £
Deferred tax arising on:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges (note 14)	(355,620)	(1,246,413)
Total tax charge/(credit) recognised in other comprehensive income	**(355,620)**	**(1,246,413)**

9 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, and equity of the Group (comprising issued capital, reserves, and retained earnings). The Group has a funding strategy to ensure that there is an appropriate debt to equity ratio as well as an appropriate debt maturity profile.

The Group has to comply with a number of banking covenants which are set out in the agreements for bank loans. There are financial covenants which are measured using the performance of the Group. There are other restrictions in the loan documentation concerning acquisitions, disposals, security, and other issues. The Group has complied with its banking covenants during the period.

Financial risk management objectives

The Group seeks to minimise the effects of cash flow interest rate risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. In the year under review a £2,068,673 gain was recognised in other comprehensive income on cash flow hedges (2016 - £9,307,764 loss).

a) Financial instruments by category

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The Group considers that the fair value of cash and cash equivalents, loans, trade and other receivables, deferred taxation, and trade and other payables are not materially different to their carrying value;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value of the service concession financial asset reflects the carrying amount for the period ended 31 December 2017. The carrying amount of the service concession financial asset for the period comprises construction revenue, service revenue, and interest offset by the unitary charge received from the Isle of Wight Council since incorporation up to the Statement of Financial Position date. The movement in the service concession financial asset for the year can be found at note 10.

9 Financial instruments **(Continued)**

	2017			
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets held at Fair Value through Profit & Loss	-	-	-	-
Derivative financial instruments	-	(18,567,552)	-	(18,567,552)

	2016			
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets held at Fair Value through Profit & Loss	-	-	-	-
Derivative financial instruments	-	(20,636,225)	-	(20,636,225)

9 Financial instruments **(Continued)**

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying Value	Fair Value
	At 31 December 2017	At 31 December 2017
	£	£
Financial assets		
Service concession asset	96,735,217	96,735,217
Trade and other receivables	628,429	628,429
Financial liabilities		
Trade and other payables	1,334,879	1,334,879
Borrowings	92,785,049	92,785,049

	Carrying Value	Fair Value
	At 31 December 2016	At 31 December 2016
	£	£
Financial assets		
Service concession asset	79,013,224	79,013,224
Trade and other receivables	1,169,790	1,169,790
Financial liabilities		
Trade and other payables	3,568,922	3,568,922
Borrowings	77,349,234	77,349,234

The inputs within the service concession asset balance have been reviewed and it has been deemed that there is no material change to the original forecast. As such, it has been concluded that the fair value is not materially different to the carrying value.

9 Financial instruments **(Continued)**

b) Liquidity and interest risk tables

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis. Interest rate swap contracts exchanging fixed interest for floating rate interest are designated and effective as fair value hedges in respect of interest rates. During the period the hedge was 98% effective in hedging the fair value exposure to interest rate movements.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
31 December 2017							
Fixed interest rate instruments	7.40	969,744	1,939,488	9,051,667	42,774,475	132,536,320	187,271,694
Total		**969,744**	**1,939,488**	**9,051,667**	**42,774,475**	**132,536,320**	**187,271,694**

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
31 December 2016							
Fixed interest rate instruments	7.44	678,266	1,356,532	6,761,151	34,527,879	115,786,339	159,110,167
Total		**678,266**	**1,356,532**	**6,761,151**	**34,527,879**	**115,786,339**	**159,110,167**

9 Financial instruments **(Continued)**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
31 December 2017							
Fixed interest rate instruments	6.36	359,520	18,617,326	2,547,009	27,443,699	98,441,303	147,408,857
Total		**359,520**	**18,617,326**	**2,547,009**	**27,443,699**	**98,441,303**	**147,408,857**

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
31 December 2016							
Fixed interest rate instruments	6.28	274,568	549,137	11,580,184	27,779,855	86,407,082	126,590,826
Total		**274,568**	**549,137**	**11,580,184**	**27,779,855**	**86,407,082**	**126,590,826**

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties.

Surplus cash is placed on deposit with banks in accordance with a policy that specifies the minimum acceptable credit rating of the counterparty.

Trade debtors mainly comprise amounts due from Isle of Wight Council. Management consider that as the counterparty is a UK council there is minimal credit risk.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

9 Financial instruments **(Continued)**

d) Fair value of derivatives

The Group is exposed to interest rate risk because it has borrowed funds at floating interest rates. The risk is managed by the use of interest rate swap contracts. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract. The interest rate swaps settle on a monthly basis. No ineffectiveness has been recognised in profit and loss for the period.

Cost or valuation	**2017**	**2016**
	£	**£**
Opening balance	(20,636,225)	(11,328,461)
Fair value movement	2,068,673	(9,307,764)
Closing balance	**(18,567,552)**	**(20,636,225)**

10 Financial assets

	Group	**Company**	**Group**	**Company**
Service concession financial asset	**2017**	**2017**	**2016**	**2016**
	£	**£**	**£**	**£**
Opening balance	79,013,224	-	58,478,965	-
Additions	34,233,180	-	35,733,487	-
Unitary charge	(22,782,914)	-	(20,071,514)	-
Financial asset interest	6,271,727	-	4,872,286	-
Closing balance	**96,735,217**	-	**79,013,224**	-

	2017	**2017**	**2016**	**2016**
	£	**£**	**£**	**£**
Analysed as				
Less than one year	-	-	-	-
Greater than one year	96,735,217	-	79,013,224	-
	96,735,217	-	**79,013,224**	-

11 Trade and other receivables

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Current Assets				
Trade receivables	390,753	-	3,622	-
Other debtors	126,529	-	623,040	-
Prepayments and accrued income	111,148	-	543,128	-
	628,430	-	**1,169,790**	-

12 Trade and other payables

	Group 2017 £	Company 2017 £	Group 2016 £	Company 2016 £
Current Liabilities				
Trade creditors	185,993	-	166,511	-
Accruals and deferred income	952,040	-	3,018,490	-
Corporation tax	196,846	-	383,921	-
	1,334,879	-	**3,568,922**	-

13 Borrowings

	Group	Company	Group	Company
	2017	2017	2016	2016
	£	£	£	£
Bank Loans	-	-	-	-
Bank Loan	76,884,949	-	62,459,673	-
Equity bridge loan	17,898,286	-	17,898,286	-
Capitalised finance costs	(1,998,186)	-	(3,008,725)	-
At 31 December 2017	**92,785,049**	-	**77,349,234**	-

	2017	2017	2016	2016
	£	£	£	£
Analysed as:				
Current	17,898,286	-	-	-
Non-current	74,886,763	-	77,349,234	-
	92,785,049	-	77,349,234	-

The table below details the maturity profile of bank loans repayable by instalments.

	Group	Company	Group	Company
	2017	2017	2016 as restated	2016
	£		£	£
Less than one year	17,898,286	-	-	-
Between one and two years	-	-	17,898,286	-
Between two and five years	12,863,785	-	7,097,936	-
Over five years	64,021,164	-	55,361,737	-
	94,783,235	-	**80,357,959**	-

The Group has the facilities provided by four major banks, in order to finance the construction of the project. The loans are repayable in instalments based on an agreed percentage amount of the total facilities per annum over a certain number of years.

Interest on the facility is charged at rates linked to LIBOR. The Group has entered into fixed interest rate swaps to mitigate its interest rate exposure which have a negative fair value at 31 December 2017 £19,636,315 (2016 - £20,636,225). The Group does not hold or issue derivative financial instruments for speculative purposes. The undrawn facility on bank loans available as at 31 December 2017 is £16,965,661 (2016 - £31,390,936).

14 Deferred taxation

	Group	Company	Group	Company
	2017	2017	2016	2016
	£	£	£	£
Opening balance	(3,675,858)	-	(2,409,699)	-
Unwinding of deferred tax asset due to capital allowances	70,304	-	(19,746)	-
Credit/(charge) to other comprehensive income	355,619	-	(1,246,413)	-
	(3,249,935)	**-**	**(3,675,858)**	**-**

The net deferred tax expected to reverse in the next 12 months is £12,067. This relates to capital allowances to be claimed.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group	Company	Group	Company
	2017	2017	2016	2016
	£	£	£	£
Capital allowances to claim	(93,450)	-	(163,754)	-
Movement in fair value of derivatives	(3,156,485)	-	(3,512,104)	-
	(3,249,935)	**-**	**(3,675,858)**	**-**

15 Share capital

	Group	Company	Group	Company
	2017	2017	2016	2016
	£	£	£	£
Authorised, allotted, called up and fully paid				
50,000 Ordinary Shares of £1 each	50,000	50,000	50,000	50,000
	50,000	**50,000**	**50,000**	**50,000**

16 Reconciliation of movement in shareholders' funds

	2017	2016
	£	£
Group		
Opening shareholders' funds/(deficit)	(15,186,116)	(8,265,860)
Profit/(Loss) for the period	1,611,254	1,141,095
Other comprehensive income	1,713,054	(8,061,351)
Closing shareholders' funds/(deficit)	**(11,861,808)**	**(15,186,116)**

	2017	2016
	£	£
Company		
Opening shareholders' funds	50,000	50,000
Shares issued during the period	-	-
Result for the period	-	-
Closing shareholders' funds/(deficit)	**50,000**	**50,000**

17 Net cash flow from operating activities

	2017	2016
	£	£
Operating profit for the year	807,063	714,915
Operating cash flows before movements in working capital	807,063	714,915
Decrease/(increase) in trade and other receivables	639,495	(448,155)
(Decrease)/increase in trade and other payables	(2,145,101)	1,931,184
	(1,505,605)	1,483,029
Income taxes paid	(462,348)	(67,291)
Net cash (outflow)/inflow from operating activities	**(1,160,891)**	**2,130,653**

18 Related Party Transactions

During the period, the Group carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The Group did not transact in its own right with related parties. The names of the Groups related parties and the total value of transactions are shown below:

	2017 Loan security cost	2016 Loan security cost	2017 Receipt of services	2016 Receipt of services	2017 Payable at year end	2016 Payable at year end	2017 Receivable at year end	2016 Receivable at year end
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Eurovia Group Limited	-	-	-	-	-	-	-	-
Fulcrum Infrastructure Management Limited	-	-	235	180	-	-	-	-
Meridiam Infrastructure Finance II S.a.r.l.	268	268	-	-	-	-	-	-
Ringway Island Roads Limited	-	-	36,806	33,272	19	37	4	73
Vinci Concessions S.A.S	178	178	156	83	84	-	-	-
Vinci Concessions UK Limited	-	-	11	-	11	-	-	-

Vinci Concessions S.A.S is a member of the Vinci Group and has provided an equity guarantee and development services to the Group.

Vinci Concessions UK Limited is a member of the Vinci Group and has provided consultancy services to the Group.

Eurovia Group Limited is a member of the Vinci Group through its parent company Eurovia SA, and is the operating subcontractor through Ringway Island Roads Limited.

Meridiam Infrastructure Finance II S.a.r.l. is a 50% shareholder and subordinated debt provider to the Group.

Fulcrum Infrastructure Management Limited is a related party of Meridiam Infrastructure Finance II S.a.r.l. and provides management services to the Group through a Management Services Agreement.

19 Controlling party

The Group is a joint venture between Meridiam Infrastructure Finance II S.a.r.l. incorporated in Luxembourg (50%), and Vinci Highways S.A.S incorporated in France (50%). The Directors consider there to be no ultimate controlling entity.

20 Principal subsidiaries

Details of the Group's subsidiaries at 31 December 2017 are as follows:

Company name	Principal activities	Place of Incorporation	Proportion of ownership interest	Proportion of Voting Power held
Island Roads Services Limited	Service provider	United Kingdom	100%	100%
Island Roads Investment 2 Limited (Dormant)	Financing company	United Kingdom	100%	100%

The investments in the subsidiaries are all stated at cost.

The registered address of the above companies is 4th Floor, 105 Piccadilly, London W1J 7NJ.

21 Capital commitments

At 31 December 2017 the Group had capital commitments as follows:

The future capital expenditure on the service concession financial asset which is contracted but not provided for in these financial statements amounts to £49,600,772 (2016 - £71,221,352). The total contracted value of the works to be undertaken is £145,371,678 (2016 - £145,371,678).

22 Subsequent events

There have been no subsequent events or transactions 31 December 2017 that require recognition or disclosure in the Group's financial statements.