Skye Bridge Limited

Directors' Report and Financial Statements

31 December 2004
Registered Number SC120665

Directors' Report and Financial Statements

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Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2004.

Activity

The principal activity of the company is the financing and the supervision of the operating and maintenance contract for a tolled crossing between mainland Scotland and the Isle of Skye.

Business Review

This company is a single purpose company which, under a Concession granted by the Secretary of State for Scotland, and transferred to the Scottish Ministers, operates and maintains Skye Bridge. Toll revenue in the period was in line with expectations. The operation and maintenance of the Bridge is carried out on the company's behalf by a joint venture between Miller (Buidheann) Limited and Dywidag International Gmbh. During the period traffic flow, even at high season peaks, has been accommodated with minimum delay and restrictions due to adverse weather conditions have been negligible.

Post balance sheet events

At the request of the Scottish Ministers, the Concession was terminated prematurely on 1 January 2005 and from this date the company's principal activities of toll collecting, operating and maintaining the bridge ceased.

Results and Dividends

The profit for the financial year amounted to £936,801 *(2003 - £579,198)*. The directors do not recommend *the payment of a dividend and propose that the profit for the year be carried to reserves.*

Charitable Donations

During the year the company made payments of £1,580 *(2003 - £1,468)* to local charities.

Directors

The directors of the company who held office during the year were:

H R Douglas
P M Anderson
D J McMullan
I Murdoch (alternate director)
R B Trapp (alternate director)
S Clowes (alternate director)

The directors had no interests in the shares of the company during the year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Ian Murdoch

Ian Murdoch
Secretary **24 January 2005**

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Skye Bridge Limited

We have audited the financial statements on pages 4 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
Edinburgh

24 January 2005

Profit and Loss Account
for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover		**4,425,631**	4,137,522
Cost of sales		**(1,761,326)**	(1,706,629)
Gross profit		**2,664,305**	2,430,893
Administrative expenses		**(203,684)**	(226,812)
Operating profit		**2,460,621**	2,204,081
Interest receivable	*2*	**307,566**	214,854
Interest payable and similar charges	*3*	**(1,831,386)**	(1,839,737)
Profit on ordinary activities before taxation	*4*	**936,801**	579,198
Tax on profit on ordinary activities	*5*	**-**	-
Retained profit for the financial year	*13*	**936,801**	579,198

Other than the profit for the year and the preceding financial year there are no recognised gains or losses.

Balance Sheet
at 31 December 2004

	Note	**2004**	2003
		£	£
Fixed assets			
Intangible assets	*7*	**15,548,064**	17,316,284
Current assets			
Debtors	*8*	**341,141**	130,495
Cash at bank		**8,117,835**	7,170,663
		8,458,976	7,301,158
Creditors: amounts falling due within one year	*9*	**(1,676,562)**	(1,767,696)
Net current assets		**6,782,414**	5,533,462
Total assets less current liabilities		**22,330,478**	22,849,746
Creditors: amounts falling due after more than one year	*10*	**(19,533,331)**	(20,299,360)
Deferred income	*11*	**(6,073,978)**	(6,764,018)
Net liabilities		**(3,276,831)**	(4,213,632)
Capital and reserves			
Called up share capital	*12*	**1,000**	1,000
Profit and loss account	*13*	**(3,277,831)**	(4,214,632)
Equity shareholders' funds	*14*	**(3,276,831)**	(4,213,632)

These financial statements were approved by the board of Directors on 24 January 2005 and were signed on its behalf by:

Peter M Anderson
Director

Cash Flow Statement
for the year ended 31 December 2004

	Note	2004 £	2003 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**2,460,621**	2,204,081
Depreciation		**1,768,220**	1,768,220
Deferred income		**(690,040)**	(690,040)
Increase in debtors		**(245,766)**	(59,268)
(Decrease) /increase in creditors		**(148,861)**	64,046
Net cash inflow from operating activities		**3,144,174**	3,287,039
Cash flow statement			
Net cash inflow from operating activities		**3,144,174**	3,287,039
Return on investments and servicing of finance	*15*	**(1,197,087)**	(1,404,821)
Cash inflow before financing		**1,947,087**	1,882,218
Financing	*15*	**(999,915)**	(921,323)
Increase in cash in the period		**947,172**	960,895
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period		**947,172**	960,895
Cash outflow from repayment of bank loan		**999,915**	921,323
Loan indexation		**(321,025)**	(269,978)
Movement in net debt in the period	*16*	**1,626,062**	1,612,240
Net debt at the start of the period	*16*	**(14,128,612)**	(15,740,852)
Net debt at the end of the period	*16*	**(12,502,550)**	(14,128,612)

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of preparation and post balance sheet events

The financial statements have been prepared under the historical cost basis of accounting and in accordance with applicable Accounting Standards.

On 1 January 2005, the Concession was terminated. The company has received compensation from the Scottish Ministers to enable it to meet its debts as they fall due.

Intangible fixed assets

The company's main asset is being amortised over its estimated useful economic life as follows:

Right to charge tolls - 18 years

Deferred income

Amounts received in connection with the construction of the crossing between the Scottish mainland and the Isle of Skye are included in deferred income in the balance sheet and will be credited to the profit and loss account over the estimated economic lives of the completed assets to which they relate.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Turnover

Turnover represents the amount of tolls collected at the Skye Bridge crossing. By second Minute of Variation of the Concession Agreement, it was agreed by the company and the Scottish Ministers that, with effect from 1 January 1998, the Scottish Ministers would make payments to the company to recompense the company in respect of reductions made by the Scottish Ministers to the cost of discounted tolls and, with effect from 1 January 2000, for the freezing of tolls at 1999 tariffs.

2. Interest receivable and similar income

	2004	2003
	£	£
Bank interest	**307,566**	214,854

3. Interest payable and similar charges

	2004	2003
	£	£
On bank loans	**871,836**	945,019
On other loans	**638,525**	624,740
Indexation of debenture stock (see note 10)	**321,025**	269,978
	1,831,386	1,839,737

4. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging(crediting)	**2004** **£**	2003 £
Operating and maintenance costs	**683,146**	628,449
Auditors' remuneration	**5,250**	5,500
Amortisation	**1,768,220**	1,768,220
Release of deferred income	**(690,040)**	(690,040)

5. Tax on profit on ordinary activities

There is no tax charge in the year.

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (*2003: lower*) than the standard rate of corporation tax in the UK (30%) (*2003: 30%*). The differences are explained below:

	2004 **£**	2003 £
Current tax reconciliation		
Profit on ordinary activities before tax	**936,801**	579,198
Current tax at 30% *(2003: nil)*	**281,040**	173,759
Effects of:		
Expenses not deductible for tax purposes	**382**	382
Timing differences	**88,239**	89,371
Utilisation of losses brought forward	**(369,661)**	(263,512)
Total current tax charge	**-**	-

Factors that may affect future tax charges

The company has tax losses of approximately £436,000 (*2003: £1,668,000*) available to carry forward. The company has an unrecorded deferred tax asset at 31 December 2004 of £677,000 *(2003: £955,000)*.

6. Directors' remuneration

	2004 **£**	2003 £
Directors' emoluments		
Fees	**30,000**	30,000

The company has no employees.

7. Fixed assets

	Intangible right to charge tolls £
Cost	
At beginning and end of year	31,599,734
Amortisation	
At beginning of year	14,283,450
Charge to profit and loss during year	1,768,220
At end of year	16,051,670
Net book value	
31 December 2004	**15,548,064**
Net book value	
31 December 2003	17,316,284

8. Debtors

	2004 £	2003 £
Other debtors	**341,141**	59,237
Prepayments and accrued income	**-**	71,258
	341,141	130,495

9. Creditors: Amounts falling due within one year

	2004 £	2003 £
Bank loan	**1,087,054**	999,915
Accruals	**460,115**	520,864
Other taxes and social security	**13,926**	75,407
Deferred income	**115,467**	171,510
	1,676,562	1,767,696

Notes *(continued)*

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

	2004	2003
	£	£
Bank loan	**8,804,099**	9,891,153
6% index-linked debenture stock	**10,229,232**	9,908,207
6% index-linked convertible loan stock 2022	**500,000**	500,000
	19,533,331	20,299,360
Analysis of debt:		
Debt can be analysed as falling due:		
In one year or less, or on demand	**1,087,054**	999,915
Between one and two years	**1,180,960**	1,087,054
Between two and five years	**6,746,253**	3,856,117
In five or more years	**11,606,118**	15,356,189
	20,620,385	21,299,275

The bank loan is repayable in 22 half yearly instalments commencing 15 January 2001. Interest is charged at 7.45% to 8.9%.

The debenture stock is repayable in instalments from 30 June 2007. The principal is £7,500,000 and is index-linked by reference to the retail price index, as is the rate of interest payable on £7,500,000, currently 8.13%.

Each nominal £1 of loan stock is convertible into a single £1 non-voting share on 31 December 2022. The rate of interest payable is index-linked by reference to the retail prices index, currently 8.13%. Conversion is at the option of the holder.

The security over the assets of the company is administered by Banc of America Securities Limited, as agent for the syndicate of lenders, in the form of a floating charge over all chargeable assets of the company, assignment of cash flows and relevant insurance policies and a first floating charge over the shares of the company.

11. Deferred income

	£
Amounts received from Highland Regional Council	
At beginning of year	6,764,018
Credited to profit and loss during the year	(690,040)
At end of year	**6,073,978**

Notes *(continued)*

12. Share capital

	2004 £	2003 £
Authorised		
Ordinary shares of £1 each	**1,000**	1,000
Non-voting shares of £1 each	**500,000**	500,000
	501,000	501,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**1,000**	1,000

13. Profit and loss account

	£
At 31 December 2003	(4,214,632)
Retained profit for the financial year	936,801
At 31 December 2004	**(3,277,831)**

14. Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Profit for the financial year	**936,801**	579,198
Opening shareholders' funds - deficit	**(4,213,632)**	(4,792,830)
Closing shareholders' funds - deficit	**(3,276,831)**	(4,213,632)

15. Notes to the cash flow statement

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	**342,686**	200,637
Interest paid	**(1,539,773)**	(1,605,458)
	(1,197,087)	(1,404,821)
Financing		
Repayment of bank loan	**(999,915)**	(921,323)

Notes *(continued)*

16. Analysis of net debt

	At beginning of year	Loan Indexation	Cash flows	Other Non Cash Changes	**At end of year**
	£	£	£	£	**£**
Cash at bank	7,170,663	-	947,172	-	**8,117,835**
Bank loan due within 1 year	(999,915)	-	999,915	(1,087,054)	**(1,087,054)**
Bank and other loans due after more than 1 year	(20,299,360)	(321,025)	-	1,087,054	**(19,533,331)**
	(14,128,612)	(321,025)	1,947,087	-	**(12,502,550)**

17. Transactions with related parties

During the year the company paid operating and maintenance costs (as disclosed in note 4) to Miller Dywidag, a joint venture between Miller (Buidheann) Limited and Dywidag International Gmbh; and received interest net of bank charges of £18,903 from Bank of America, N.A. as agent for the syndicate of lenders.

At the year end the company had loans of £250,000 each due to Miller (Buidheann) Limited and Dywidag Systems International Limited. Details of these loans are noted at note 10. In addition the company was due £200,292 from Bank of America, N.A. in respect of bank deposit and current accounts.

Miller (Buidheann) Limited and Dywidag Systems International Limited each control 40.5% of the company's voting rights. BankAmerica International Financial Corporation controls 19% of the company's voting rights.