Exchequer Partnership (No 2) Plc

Directors' report and financial statements

for the year ended 31 December 2007

Registered Number 4426513

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for the year ended 31 December 2007

Contents

Exchequer Partnership (No 2) Plc

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

Principal activities and business review
The company was established to bid for, and subsequently to complete, a 35-year contract with HM Customs and Excise and Inland Revenue to renovate and then manage the facilities at the East End of the main Treasury building formerly Government Offices, Great George Street, Whitehall, London The renovations were completed in November 2004 and H M Customs and Excise and Inland Revenue then moved into the refurbished accommodation Management of the facilities commenced from this time

The project agreement with HM Customs and Excise and Inland Revenue was signed on 13 December 2002 and Financial Close for the project was achieved on 15 January 2003

Development and performance of the business
The business has operated smoothly with minimal deductions from availability fee payments The facilities maintenance service has been closely monitored throughout the year This takes the form of full-time representation on site through the Company's management services agent and periodic reporting by the independent Technical Assessor A number of contract variations have been successfully implemented

Principal risks and uncertainties
The availability fee and the majority of the costs are contractually linked to the RPI index A relatively small proportion of total costs is not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios The most significant of these costs is insurance, though claims history so far is good and current premium renewals are within budgeted amounts

Key performance indicators
The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator These are reported monthly to the Board and have been extremely small in relation to total availability fee payments

Another key indicator is the ratio of operating cash flow to the senior debt service amount This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider

Results and dividends
The costs incurred in respect of bid development, design and construction prior to the occupational availability of the Treasury building have been accumulated within a finance receivable as the costs are to be recovered over the contract period

The company achieved a profit of £27,000 in the year (2006 loss as restated £246,000) No dividend is proposed (2006 £nil)

Directors and their interests
The directors who held office during the year are given below

T D Anderson
S Hockaday (resigned 20 September 2007)
J McDonagh
M Ryan
L Tennant (appointed 20 September 2007)
T Dickie alternate to L Tennant (appointed 20 September 2007)

The directors have no interest in the share capital of the company according to the Register maintained by the company under Section 325 of the Companies Act 1985

Directors' report for the year ended 31 December 2007 (continued)

Creditor payment policy
The company's policy is to agree terms of payments with key suppliers For all other suppliers, terms are agreed for each transaction The company endeavours to abide by the terms of payment agreed with suppliers As at 31 December 2007 the creditor days represented by the closing creditors balance were 27 (2006 45)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 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 UK 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, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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 1985 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

Disclosure of information to auditors
Each director at the date of the approval of the financial statements has confirmed

(a) that so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) that they have taken steps that to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors
PricewaterhouseCoopers LLP have indicated their willingness to act as auditors, and a resolution concerning their appointment will be proposed at the Annual General Meeting

By order of the Board

Director
30 April 2008

Independent auditors' report to the shareholders of Exchequer Partnership (No 2) Plc

We have audited the financial statements of Exchequer Partnership (No 2) Plc for the year ended 31 December 2007 which comprise the profit and loss Account, the statement of total recognised gains and losses, the balance sheet, the accounting policies and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
30 April 2008

Exchequer Partnership (No 2) Plc

Profit and loss account for the year ended 31 December 2007

	Notes	2007 £'000	2006 as restated £'000
Turnover		**8,957**	8,294
Cost of sales		**(6,022)**	(5,804)
Gross profit		**2,935**	2,490
Administrative expenses		**(2,404)**	(2,281)
Operating profit	1	**531**	209
Interest payable and similar charges	2	**(11,187)**	(11,201)
Interest receivable and similar income	3	**10,836**	10,714
Profit /(Loss) from ordinary activities before taxation		**180**	(278)
Taxation charge/(credit) for the year	4	**(153)**	32
Profit /(Loss) from ordinary activities after taxation	10	**27**	(246)

The result for each year relates solely to continuing activities in a single class of business conducted within the United Kingdom

The result is stated on the historical cost basis

The notes on pages 6 to 13 form part of these financial statements

Statement of total recognised gains and losses

	Notes	2007 £'000	2006 as restated £'000
Profit /(Loss) from ordinary activities after taxation		**27**	(246)
Prior year adjustment	5	**(706)**	
Total gains and losses recognised since last annual report		**(679)**	

Exchequer Partnership (No 2) Plc

Balance sheet as at 31 December 2007

	Note	2007 £'000	2006 as restated £'000
Current assets			
Debtors due within one year	5	**2,316**	858
Debtors due after more than one year	5	**161,303**	163,211
		163,619	164,069
Cash at bank and in hand		**18,550**	18,893
		182,169	182,962
Current liabilities			
Creditors amounts falling due within one year	6	**(8,662)**	(7,944)
Net current assets		**173,507**	175,018
Creditors amounts falling due after more than one year	7	**(171,294)**	(173,910)
Provision for liabilities and charges	8	**(3,229)**	(2,151)
Net liabilities		**(1,016)**	(1,043)
Capital and reserves			
Called up share capital	9	**50**	50
Profit and loss account	10	**(1,066)**	(1,093)
Total equity shareholders' deficit	11	**(1,016)**	(1,043)

The financial statements on pages 4 to 13 were approved by the board of directors on 30 April 2008 and signed on its behalf by

Director

Exchequer Partnership (No 2) Plc

Accounting policies

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout the year, except as detailed, is set out below

Basis of preparation
The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with applicable UK Financial Reporting Standards and the Companies Act 1985 They include the results of the activities described in the Directors' Report, all of which are continuing

Turnover
Turnover represents amounts due from HM Customs and Excise and Inland Revenue in respect of the company's trading activities All turnover originates in the United Kingdom and is stated exclusive of value added tax

Taxation
Corporation tax is provided on taxable profits at the applicable rate

Finance receivable
The costs incurred in respect of bid development, design and construction prior to the occupational availability of the Treasury building have been accumulated within a finance receivable in accordance with FRS 5 as the costs are to be recovered over the contract period

Occupational availability payments from HM Customs and Excise and Inland Revenue are allocated between turnover in relation to the service element of the contract, reimbursement of the finance receivable and interest on the finance receivable so as to generate a constant rate of return over the contract period

Finance charges
Arrangement fees and certain costs directly relating to the issuing of the facilities have been offset against the related loans and are being amortised over the duration of each respective financial instrument as part of the finance cost, in accordance with FRS 4 The directors have determined this to be 34 5 years for the bonds and 29 years for the mezzanine loan

Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

Deferred tax assets are recognised when it is more likely than not they will be recovered The deferred tax assets and liabilities are discounted, they were previously not discounted, and the effect of this change of deferred taxation accounting policy is set out in note 5

Cash flow statement
The company is a wholly owned subsidiary of Exchequer Partnership (No 2) Holdings Limited and the results of the company are included within the accounts of that company Consequently, Exchequer Partnership (No 2) Plc is exempt under FRS 1 (revised) from publishing a cash flow statement

Provisions
Provisions are made in accordance with FRS 12 where an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated

Notes to the financial statements for the year ended 31 December 2007

1 Operating profit

Operatıng profit ıs stated after chargıng

	2007 £'000	2006 £'000
Dırectors' remuneratıon	**52**	-
Audıtors' remuneratıon	**10**	10

The audıtors also receıved remuneratıon for other servıces totallıng £10,000 (2006 £14,000) durıng the year The dırectors receıved no salary, fees or other benefits ın the performance of theır dutıes dırectly from the company Dırectors' fees totallıng £52,000 (2006 nıl) were charged by certaın related partıes (see note 13) The company had no employees throughout the year Management and admınıstratıve staffing resources are provıded by secondee staffs that are employed by certaın related partıes (see note 13) The employment costs relatıng to the secondees are recharged to the company wıthın a management servıce charge

2 Interest payable and similar charges

	2007 £'000	2006 £'000
Interest payable on bond	**8,782**	8,848
Interest payable on other loans	**832**	733
Interest payable to group companıes	**1,085**	1,128
Other charges	**488**	492
	11,187	11,201

Interest payable and sımılar charges of £11,187,000 (2006 £11,201,000) relates to ınterest charges, commıtment fees and credıt enhancement fees, wıth respect to the borrowıngs, totallıng £10,951,000 (2006 £10,960,000), plus the amortısatıon of loan ıssue costs of £236,000 (2006 £241,000) ın accordance wıth FRS 4

3 Interest receivable and similar income

	2007 £'000	2006 £'000
Interest receıvable from bank	**837**	603
Statutory ınterest receıvable	-	4
Fınance ıncome	**9,999**	10,107
	10,836	10,714

Interest receıvable and sımılar ıncome of £10,836,000 (2006 £10,714,000) relates to finance ıncome generated on finance receıvable of £9,999,000 (2006 £10,107,000) together wıth ınterest ıncome from the company's bank accounts and statutory ınterest of £837,000 (2006 £607,000)

4 Taxation

	2007 £'000	2006 as restated £'000
UK Corporation tax payable at 30%		
- current year	-	-
- adjustment to prior years	-	-
Deferred taxation charge / (credit) at 30%		
- current year	375	32
- adjustment to prior years	(528)	-
Total tax charge / (credit) for the year	(153)	32

Factors affecting the tax charge for the year

The current tax charge for the year is lower than the standard rate of Corporation Tax in the UK The differences are explained below

	2007 £'000	2006 £'000
Profit/(Loss) before tax	180	(278)
UK Corporation Tax at 30%	54	(83)
Effects of:		
Expenses not deductible for tax purposes	(2)	-
Capital allowances in excess of depreciation and other timing differences	(2,517)	(52)
Tax losses carried forward	2,465	135
Total current tax charge (see above)	-	-

5 Debtors

	2007 £'000	2006 as restated £'000
Trade debtors	**2,040**	562
Amounts due from related party undertakings	**1**	1
Other debtors	**275**	295
	2,316	858
Amounts due after more than one year		
Finance receivable	**157,415**	159,170
Deferred tax asset	**3,888**	4,041
	161,303	163,211

Finance receivable		
Balance at 1 January	**159,170**	160,818
Finance income reimbursed	**(11,754)**	(11,755)
Finance income recognised	**9,999**	10,107
Balance at 31 December	**157,415**	159,170

Deferred tax asset		
Balance at 1 January – originally £4,747,000 (2006 £4,899,000) before deducting a prior year adjustment of £706,000 / (2006 £890,000)	**4,041**	4,009
Charge / (Credit) to the profit and loss account in the year	**(153)**	32
Balance at 31 December	**3,888**	4,041

At 31 December 2007 the company had a deferred tax asset of £8,078,000 (2006 as restated £3,807,000) in respect of tax losses brought and carried forward and deferred tax liabilities (2006 deferred tax asset) of £4,190,000 (2006 as restated £234,000) in respect of accelerated/deferred capital allowances and other timing differences Previously the company had a policy of not discounting the deferred tax asset recognised, as the discounting effect would not have been material During the year the company has made capital allowances claims in respect of the financial years 2006 and 2007, which have added to the losses carried forward and generated a significant deferred tax liability in respect of accelerated capital allowances Discounting is considered appropriate as the losses are forecast to be utilised over the short term, the next 7-8 years, whereas the deferred tax liabilities are forecast to take up to 30 years to reverse The effect of the change in accounting policy to adopt was to reduce the loss for the financial year by £3,511,000 (2006 £184,000)

6 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	404	459
Amounts due to related party undertakings	593	686
Tax and social security	443	422
Accruals	4,665	4,652
Related party loan	1,101	522
Mezzanine loan	93	84
Bonds	1,363	1,119
	8,662	7,944

7 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Related party loan	5,615	6,774
Mezzanine loan	8,799	8,892
Bonds	156,880	158,244
	171,294	173,910

	2007			2006		
	Related Party Loan £'000	Mezzanine Loan £'000	Bonds £'000	Related Party Loan £'000	Mezzanine Loan £'000	Bonds £'000
Repayable within one year	1,101	115	1,575	522	106	1,333
Repayable between two and five years	5,615	566	9,141	3,837	522	7,829
Repayable after five years	-	8,580	151,664	2,937	8,739	154,551
Total loans outstanding	6,716	9,261	162,380	7,296	9,367	163,713
Loan issue costs	-	(369)	(4,137)	-	(391)	(4,350)
Total	6,716	8,892	158,243	7,296	8,976	159,363

Related party loan
The amounts due to related party undertakings include £6,716,000 (2006 £7,296,000) unsecured Loan Notes bear interest at 0% to 31 December 2005 and at 15% per annum thereafter The Loan Notes are redeemed at par in accordance with a deed poll dated 21 January 2003 Any outstanding Loan Stock will be redeemed by 13 January 2037 but they may be redeemed before that date at the company's option on giving notice of no more than 5 days

7 Creditors: amounts falling due after more than one year (continued)

Mezzanine loan facility

The mezzanine loan facility is scheduled to be repaid by 13 January 2033 Interest charged on the amount drawn under the facility is based on floating LIBOR rate

As at 31 December 2007, £9,261,000 (2006 £9,367,000) has been drawn under the Mezzanine facility The total facility is for a maximum of £10 3 million

Bonds

On 15 January 2003, Exchequer Partnership (No2) plc issued £165,145,000 of 5 39% guaranteed secured bonds due to be repaid in fixed instalments over the period 13 July 2005 to 13 July 2036

The bonds are secured by charges over all the assets of the company

8 Provisions for liabilities and charges

	Lifecycle costs £'000
At 1 January 2007	2,151
Charged to the profit and loss account in the year	1,387
Utilised during the year	(309)
At 31 December 2007	**3,229**

The provision for lifecycle costs is established to provide for replacement costs of significant items of both revenue and capital nature during the concession period

9 Share capital

	2007 £'000	2006 £'000
Authorised		
10,000,000 ordinary shares of £1 each	**10,000**	10,000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	**50**	50

10 Reserves

	2007 Profit and loss account £'000	2006 Profit and loss account £'000
At 1 January as previously stated	(387)	43
Prior year adjustment	(706)	(890)
At 1 January as restated	**(1,093)**	(847)
Profit / (Loss) for the year	27	(246)
At 31 December	**(1,066)**	(1,093)

11 Movement in equity shareholders' deficit

	Share capital £'000	Retained loss £'000	Total £'000
Carrying amount at the beginning of the period (originally a deficit of £337,000 before deducting a prior year adjustment of £706,000)	50	(1,093)	(1,043)
Profit for the year	-	27	27
Carrying amount at the end of the period	**50**	**(1,066)**	**(1,016)**

12 Capital commitments

Under the terms of the contract with the First Secretary of State dated 21 January 2003, the company is committed to payments of approximately £37 4 million

13 Related party disclosures

The following companies, together with undertakings within their individual groups of companies, are considered to be related parties to the company, as defined in FRS 8

Exchequer Partnership (No 2) Holdings Limited
Catalyst Lend Lease Holdings Limited
Infrastructure Investors LLP (shareholder)
Exchequer Partnership Plc (common shareholders and directors)

Facilities Management contracts
Vita Lend Lease Limited, a subsidiary of Catalyst Lend Lease Holdings Limited, is contracted with Exchequer Partnership (No 2) Plc in respect of the hard facilities management contract The costs charged by Vita Lend Lease Limited in this regard in the year ended 31 December 2007 totalled £ 2,779,000 (2006 £2,808,000)

Catalyst Lend Lease Limited, a subsidiary of Catalyst Lend Lease Holdings Limited, provided the SPV Management Services The cost charged by Catalyst Lend Lease Limited in the year totalled £ 398,000 (2006 £382,000)

16 Related party disclosures continued

Directors' Fees

From 1 January 2007 Catalyst Lend Lease Limited and Infrastructure Investors LLP charged directors' fees equally totalling £52,000 (2006 nil)

Amounts owed to related parties

	2007 £'000	2006 £'000
Exchequer Partnership (No 2) Holdings Limited	**6,716**	7,296
Vita Lend Lease Limited	**593**	686

Amounts owed from related parties

	2007 £'000	2006 £'000
Vita Lend Lease Limited (recovery of costs)	**1**	1

All transactions with related parties were carried out on arms length terms

14 Parent undertaking and ultimate controlling party

The company is a wholly owned subsidiary of Exchequer Partnership Holdings (No 2) Limited, a company which is incorporated in England and Wales In the opinion of the directors, the ultimate controlling party comprises Catalyst Investment Holdings Limited and Infrastructure Investors LLP acting together