Company Registration No. 05515307 (England and Wales)

BY CHELMER PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

BY CHELMER PLC

COMPANY INFORMATION

Directors	Mr M G D Holden	
	Mr A Faulkner	
	Ms E G Wegener	
	Mr M C Wayment	
	Mr J C Heath	(Appointed 5 October 2018)
Company number	05515307	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE	

BY CHELMER PLC

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BY CHELMER PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Fair review of the business
The principal activity of the Company is the finance, design and construction, refurbishment and operation of Broomfield Hospital in Chelmsford (the 'Hospital') under the Government's Private Finance Initiative ('PFI'). The Company continued with these activities throughout the year and will continue in this activity for the foreseeable future.

Development and performance
The Company continued its principal activities throughout the current year as outlined above.

The Company has a project agreement with Mid Essex Hospital Services National Health Service Trust (the 'Trust', together with an associated construction contract, funding agreements, hard services contracts and ancillary project agreements ('the Project Agreement'). The Project Agreement requires the Company to finance, design, develop, construct, maintain and deliver certain non-core services (the 'Project') within Broomfield Hospital in Chelmsford (the 'Hospital') for a primary term of 35 years and 4 months from the date of signing of the Project Agreement to 31 March 2043.

In order to achieve these objectives, the company strategy is to sub contract services to third party providers who hold the relevant technical knowledge and resources to deliver these services.

The results of the company are set out in the attached financial statements.

As reported in the Company's profit and loss account, revenue has increased from £7,003,000 in 2017 to £7,037,000 in 2018. The increase is due to an uplift in the services revenue. The increase in service revenue is due to an increase in costs and the mark-up thereon less a reduction in pass through revenue. Pass through revenue is offset by pass through costs, it is work requested by a third party which is paid for by the company and then recharged onto the third party.

Interest receivable and similar income has declined to £9,653,000 (2017: £9,833,000) mainly due to reduced interest receivable on the Finance Debtor. Interest receivable on the Finance Debtor has reduced in proportion with the reduction in the Finance Debtor balance.

Interest payable and similar expenses has decreased to £12,717,000 (2017: £13,774,000) mainly due to reduced subordinated debt interest in the current year.

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £146,647,000 (2017: £149,059,000). The Finance Debtor amortisation during the year was £2,412,000 (2017: £2,260,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

During the year, the company has repaid £6,283,200 of the Secured Guaranteed Bonds. Scheduled loan repayment dates are 31 March and 30 September each year. In the previous financial year, the company repaid a total of £6,060,000.

During the year the company has repaid £48,700 (2017: £1,574,000) of the subordinated unsecured loan stock.

The loss for the year after taxation was £1,095,000 compared to a Loss in 2017 of £2,005,000. Operations were in line with expectation for the period. The reduction in loss after tax was mainly due to an early redemption of subordinated debt in 2017 whereas the current year has no early redemption.

The directors consider the results for the year satisfactory.

The balance sheet shows the carrying value of the Company's net liabilities at the year end was £15,864,000 (2017: £14,769,000). This includes the profit and loss reserve of £15,914,000 (2017: £14,819,000). The directors consider it reasonable to assume that the company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. See Going Concern accounting policy for further information.

Key performance indicators

1. Performance deductions under the Service contract.

Financial penalties are levied by the Trust in the event of performing standards not being achieved according to detailed criteria set out in the Project Agreement. These deductions are passed on to the service provider. In the year ended 31 December 2018, deductions of £19,660 (2017: £34,085) had been levied which represents 0.27% (2017: 0.490%) of revenue. The materiality of deductions is considered to be low. However, Directors are working with the Trust and service providers to reduce the level of deductions going forward.

2. Financial performance

The directors have modelled the anticipated financial outcome of the Project across its full term. The directors monitor actual performance against this anticipated performance. As at 31 December 2018, the Company's performance against this measure was satisfactory.

The Company completed the construction phase of the contract on 5 August 2010. In the opinion of the directors the operating phase of the Project is performing satisfactorily, to the standard of the contract.

Other information and explanations

Principal risks and uncertainties

The Trust is the sole client of the Company but the directors consider that no strategic risk arises from such a small client base since the client is a central government organisation.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are credit risk and liquidity risk.

The Company will continue to provide and support the Trust in its expansion of the Hospital under the PFI scheme.

Brexit risk

The Company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

On behalf of the board

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Mr J C Heath

Director

20/6/19

The directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities
Principal activity, key performance indicators, principal risks and uncertainties and financial performance during the year are mentioned in the Strategic Report.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr G A Quaife	(Resigned 12 September 2018)
Mr M G D Holden	
Mr A Faulkner	
Ms E G Wegener	
Mr M C Wayment	
Mr J C Heath	(Appointed 5 October 2018)

Results and dividends
The results for the year are set out on page 11.

No ordinary dividends were paid (2017: £nil). The directors do not recommend payment of a final dividend.

Directors indemnity
The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Financial instruments

The Company's principal financial instruments comprise of short term bank deposits, index-linked and fixed rate bonds. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument and the Company's ability to do so is restricted by covenants in its existing funding agreements.

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Company's business. Further details relating to these risks are given below:

Interest-bearing bank loans and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Treasury operations and financial instruments
The company's financial instruments result in the company's exposure to liquidity, credit and interest rate risks. Further information on the financial instruments employed by the company can be seen in the notes to these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the company.

Interest rate risk

The company is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured bonds and unsecured subordinated loan notes both have a fixed rate until 2043, thus there is no interest rate risk associated with these financial liabilities.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trust is the sole client of the company. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the financial asset of £146,647,000 (2017: £149,059,000) is the maximum credit exposure.

Auditor

In accordance with Section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to credit, liquidity and interest rate risk are described above.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418(2) of the Companies Act 2006 and should be interpreted in accordance therewith.

The directors confirm that:

(a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and

(b) the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

Financial reporting risk and internal controls

The company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the board members of the company. HCP reports regularly to the board of the company. The Board receives quarterly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company operates. The board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

The company has constituted an Audit Committee, comprising of an independent chairman (non-executive director) and a further director. The Audit Committee is responsible for satisfying itself that the financial affairs of the group's companies are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the companies in the group and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the company

On behalf of the board

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Mr J C Heath

Director

Date: 20/6/19

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and 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 AUDITOR'S REPORT

TO THE MEMBERS OF BY CHELMER PLC

1. Our opinion is unmodified

We have audited the financial statements of By Chelmer PLC (the 'Company') for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors during the year ended 31 December 2007 The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Service revenue recognition
(£6.6 million; 2017: £6.2 million)

Refer to page 16 (accounting policy) and page 19 (financial disclosures).

The risk

The amount of service revenue recognised is calculated via a mark-up being applied to costs incurred during the year. The mark-up is determined from a long term financial model which acts as a long term forecast of the revenues and costs to be incurred on the project. A significant portion of the service provision and the associated performance risk, are outsourced to subcontractors with costs contractually agreed over the life of the contract.

A fraud risk exists as the Company could manipulate the amount of revenue recognised by amending the future forecast cost assumptions and hence changing the mark-up applied to the costs on which revenue is recognised or by applying the mark-up to costs incurred in the year which are not related to the provision of the services under the concession contract.

Our response

Our procedures included:

- **Service revenue recalculation:** Recalculating service revenue in the year based upon the costs identified as relating to the provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- **Test of details:** Agreeing a sample of costs incurred in the year to invoices received to assess whether these are related to the provision of the services under the concession contract.
- **Historical comparisons:** Assessing the reasonableness of the costs incurred in the year by reference to the agreed historical forecasts. Assessing changes, if any, to agreed forecast cost estimates relating to future years, used in the calculation of the mark-up applied in the year.
- **Our sector experience:** Assessing whether or not cost estimates showed any evidence of management bias, for example in relation to assumptions made and timing of recognition, based on our knowledge of the Company and experience of the industry in which it operates.

Our results

The results of our testing were satisfactory and we considered the amount of revenue recognised to be acceptable (2017: acceptable).

3.Our application of materiality and an overview of the scope of the audit

Materiality for the financial statements as a whole was set at £1.65 million (2017: £1.70 million), determined with reference to a benchmark of total assets of £168.0 million (2017: £170.9 million) of which it represents 1.0% (2017: 1.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £82,000 (2017: £85,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at our offices.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the Strategic report and the Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective' responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/ auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and anti-bribery legislation recognising the nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor'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.

Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

27 June 2019

BY CHELMER PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Turnover	3	7,037	7,003
Cost of sales		(4,502)	(4,704)
Gross profit		2,535	2,299
Administrative expenses		(790)	(774)
Operating profit		1,745	1,525
Interest receivable and similar income	6	9,653	9,833
Interest payable and similar expenses	7	(12,717)	(13,774)
Loss before taxation		(1,319)	(2,416)
Tax on loss	8	224	411
Loss for the financial year		(1,095)	(2,005)

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

All recognised gains and losses are shown in the Profit and Loss account above. Therefore, a statement of other comprehensive income has not been prepared. The notes on pages 15 to 25 form an integral part of these financial statements.

BY CHELMER PLC

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Current assets					
Debtors	10	156,575		160,480	
Cash at bank and in hand		13,637		10,909	
		170,212		171,389	
Creditors: amounts falling due within one year	11	(9,139)		(8,742)	
Net current assets			161,073		162,647
Creditors: amounts falling due after more than one year	12		(176,937)		(177,416)
Net liabilities			(15,864)		(14,769)
Capital and reserves					
Called up share capital	15		50		50
Profit and loss reserves			(15,914)		(14,819)
Total equity			(15,864)		(14,769)

The notes on pages 15 to 25 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 11/6/19 and are signed on its behalf by:

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Mr J C Heath 20/6/19

Director

Company Registration No. 05515307

BY CHELMER PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Profit and loss reserves	Total
	£000	£000	£000
Balance at 1 January 2017	50	(12,814)	(12,764)
Year ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(2,005)	(2,005)
Balance at 31 December 2017	50	(14,819)	(14,769)
Year ended 31 December 2018:			
Loss and total comprehensive income for the year	-	(1,095)	(1,095)
Balance at 31 December 2018	50	(15,914)	(15,864)

The notes on pages 15 to 25 form an integral part of these financial statements.

BY CHELMER PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017	
	Notes	**£000**	**£000**	**£000**	**£000**
Cash flows from operating activities					
Cash generated from operations	**18**		5,596		2,113
Net cash inflow from operating activities			5,596		2,113
Investing activities					
Interest received		9,653		9,833	
Net cash generated from investing activities			9,653		9,833
Financing activities					
Repayment of borrowings		(6,331)		(7,634)	
Interest paid		(6,190)		(8,906)	
Net cash used in financing activities			(12,521)		(16,540)
Net increase/(decrease) in cash and cash equivalents			2,728		(4,594)
Cash and cash equivalents at beginning of year			10,909		15,503
Cash and cash equivalents at end of year			13,637		10,909

The notes on pages 15 to 25 form an integral part of these financial statements.

1 Accounting policies

Company information

By Chelmer PLC is a public company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to credit, liquidity and interest rate risk are described in the Directors' Report.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.3 Turnover

Turnover in relation to service revenue is recognised in accordance with the finance debtor and service income accounting policy. Turnover in relation to pass-through revenue is recognised when the services are performed.

1.4 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Restricted cash

The company is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £9,112,000 at the year end (2017: £8,947,000).

1.5 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1 Accounting policies **(Continued)**

Basic financial assets
Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Finance debtor and service income
The Company is an operator of a PFI contract. As the company entered into the contract prior to the date of transition to FRS102, the company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. The underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

1 Accounting policies **(Continued)**

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, index-linked bonds, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.7 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 profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.8 Expenses

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated ongoing financing fees.

Interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. It also includes ineffective portion of changes in fair value of cash flow hedges.

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. 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 revision and future periods if the revision affects both current and future periods. Certain critical accounting judgements in applying the company's accounting policies are described below:

Key sources of estimation uncertainty

Service concession accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract.

3 Turnover and other revenue

	2018	2017
	£000	£000
Turnover analysed by class of business		
Services revenue	6,587	6,244
Pass through & variation income	450	759
	7,037	7,003

4 Auditor's remuneration

	2018	2017
Fees payable to the company's auditor and associates:	£000	£000
For audit services		
Audit of the financial statements of the company	21	21

5 Directors' remuneration

The company had no employees during the year (2017: Nil).

During the year the company paid for directors services of £112,000 (2017: £108,000) to InfraRed Infrastructure Yield Holdings Limited, a 100% shareholder in the company's immediate parent undertaking.

6 Interest receivable and similar income

	2018	2017
	£000	£000
Interest income		
Interest on bank deposits	35	64
Finance debtor interest	9,618	9,769
Total income	9,653	9,833

7 Interest payable and similar expenses

	2018	2017
	£000	£000
Interest on financial liabilities measured at amortised cost:		
Indexation on index linked bonds	5,986	5,186
Monoline guarantee premium	290	292
Interest payable on bonds	3,912	3,886
Interest payable on subordinated debt	2,529	4,397
Other financing costs	-	13
	12,717	13,774

8 Taxation

	2018 £000	2017 £000
Deferred tax		
Other adjustments	(224)	(411)

All tax has been charged to the Profit and Loss account with none charged through other comprehensive income.

The actual credit for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2018 £000	2017 £000
Loss before taxation	(1,319)	(2,416)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(251)	(465)
Effect of change in corporation tax rate	27	54
Taxation credit for the year	(224)	(411)

9 Financial instruments

	2018 £000	2017 £000
Carrying amount of financial assets		
Debt instruments measured at amortised cost	146,675	150,984
Carrying amount of financial liabilities		
Measured at amortised cost	186,076	186,159

An explanation of the Company's objectives, policies and strategies for the role of the financial instruments in creating and changing the risks of the Company in its activities can be found in the Strategic Report. The details relating to credit, liquidity and interest rate risks are explained below:

Credit risk

Although the Trust is the only customer of the Company, the directors are satisfied that the Trust will be able to fulfil its obligations under the PFI contract as their obligations are underwritten.

9 Financial instruments **(Continued)**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The company's financial obligations, including the repayment of its borrowings which are provided on a long term basis, have been structured to be met from the income which under normal operating conditions, will be earned from its long term concession contract with the Trust as their obligations under the Project Agreement are underwritten.

Interest rate risk

The company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings (index-linked bonds). Except for the index-linked guaranteed secured bonds which subject to bi-annual indexation calculated from an agreed formula based on the change in the Retail Prices Index, all the other interest-bearing assets and liabilities are primarily of fixed rate. The indexation risk is also offset by turnover being subject to similar indexation terms.

Capital risk management

The company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

Risk analysis

In managing interest rate risks the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. The index-linked bonds' indexation variations are offset by indexation on future income from the Trust. The Company's exposure to interest rate fluctuations is therefore restricted to amounts that can be earned on cash deposits. This risk is not considered to have a significant impact on overall returns.

10 Debtors

Amounts falling due within one year:	2018 £000	2017 £000
Trade debtors	28	1,925
Gross amounts owed by contract customers	5,393	5,296
Finance Debtor	2,574	2,412
Prepayments and accrued income	1,721	1,638
	9,716	11,271

10 Debtors (Continued)

Amounts falling due after more than one year:	**2018 £000**	**2017 £000**
Finance Debtor	144,073	146,647
Deferred tax asset (note 14)	2,786	2,562
	146,859	149,209
Total debtors	156,575	160,480

11 Creditors: amounts falling due within one year

	Notes	**2018 £000**	**2017 £000**
Subordinated debt		77	49
2.2212% index-linked guaranteed secured bonds due 2043	13	6,480	6,286
Interest on subordinated debt	13	512	66
Trade creditors		47	152
Interest on bonds		950	943
Other creditors		247	240
Accruals and deferred income		826	1,006
		9,139	8,742

12 Creditors: amounts falling due after more than one year

	Notes	**2018 £000**	**2017 £000**
2.2212% index-linked guaranteed secured bonds due 2043	13	161,428	161,830
Subordinated debt	13	15,509	15,586
		176,937	177,416

Amounts included above which fall due after five years are as follows:

Payable by instalments	150,612	174,916

13 Loans and overdrafts

	2018 £000	2017 £000
2.2212% index-linked guaranteed secured bonds due 2043	168,858	169,059
Subordinated debt	16,097	15,702
	184,955	184,761
Payable within one year	8,969	7,345
Payable after one year	175,986	177,416

2.2212% index-linked guaranteed secured bonds are secured by a fixed charge over the assets of the Company.

The index-linked guaranteed secured bonds are fixed at an interest rate of 2.2212% which, together with the principal payments, are indexed by the change in Retail Price Index using an agreed ratio. The index-linked bonds' repayments commenced in March 2011 and the bond will be fully redeemed by 2043.

The index-linked subordinated unsecured loan stock issued to the Company's immediate parent company bears interest at 9.5% and is fully redeemable by 2042.

14 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

Balances:	Assets 2018 £000	Assets 2017 £000
Tax losses	2,786	2,562

Movements in the year:	2018 £000
Liability/(Asset) at 1 January 2018	(2,562)
Credit to profit or loss	(224)
Liability/(Asset) at 31 December 2018	(2,786)

The deferred tax asset set out above is not expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period.

14 Deferred taxation **(Continued)**

The Company has accumulated losses of £16,377,000 (2017: £15,067,000) which have been carried forward and will be offset against future taxable profits. A deferred tax asset has been recognised for the tax losses.

The deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2021) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

15 Share capital

	2018	2017
	£000	£000
Ordinary share capital		
Issued and fully paid		
50,000 ordinary shares of £1	50	50
	50	50

16 Related party transactions

During the year payments were made by the Company to InfraRed Infrastructure Yield Holdings Limited, a 100% shareholder in the Company's immediate parent undertaking, detailed as below. As a wholly owned subsidiary of By Chelmer (Holdings) Limited, the company has taken advantage of the exemption under FRS102 - paragraph 33.1A of the requirement to disclose transactions between it and other group companies.

At the balance sheet date the Company owed £15,586,000 (2017: £15,635,000) of subordinated loan notes and £512,000 (2017: £66,000) of interest on the subordinated loan stock to their parent company InfraRed Infrastructure Yield Holdings Limited. During the year the Company made principal repayments relating to this borrowing of £49,000 (2017: £1,574,000) and interest of £2,084,000 (2017: £4,397,000).

During the year, the Company also paid their parent company InfraRed Infrastructure Yield Holdings Limited for Directors fees, to the value of £112,000 (2017: £108,000).

17 Controlling party

The Company is a subsidiary undertaking of By Chelmer (Holdings) Limited which is incorporated in England and Wales, with registered office at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The ultimate controlling party is InfraRed Infrastructure Yield Limited Partnership with registered offices at 12 Charles II Street, St. James's, London, SW1Y 4QU.

The smallest and largest group in which the results of the Company are consolidated is that headed by By Chelmer (Holdings) Limited. The consolidated accounts of this group are available to the public and may be obtained from 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

18 Cash generated from operations

	2018 £000	2017 £000
Loss for the year after tax	(1,095)	(2,005)
Adjustments for:		
Taxation credited	(224)	(411)
Finance costs	12,717	13,774
Investment income	(9,653)	(9,833)
Movements in working capital:		
Decrease in debtors	4,129	38
(Decrease)/increase in creditors	(278)	550
Cash generated from operations	5,596	2,113