COMPANY REGISTRATION NUMBER 8780140

MERSEYLINK (HOLDINGS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 MARCH 2019

MERSEYLINK (HOLDINGS) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

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MERSEYLINK (HOLDINGS) LIMITED
STRATEGIC REPORT
YEAR ENDED 31 MARCH 2019

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is that of a holding company with one direct subsidiary, Merseylink (Finance) Limited, which itself has two subsidiaries, Merseylink Limited and Merseylink (Issuer) plc. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

The principal activity of the group during the year was the provision of design, build and finance services on the Mersey Gateway Project in England, in accordance with a Project Agreement the group entered into with Halton Borough Council and the Mersey Gateway Crossings Board Limited.

The group is currently running the design, build and finance services for a 30 year period, providing a full range of design, build and finance services under a contractual agreement that provides a regular future income stream which is subject to deductions for performance adjustments and journey time of the Mersey Gateway Project.

The group commenced trade on 28 March 2014, when the Project Agreement was signed. Construction work on the Mersey Gateway Project started in March 2014, with the bridge opened to the public during 2017.

The group operates in a PFI market under strict contractual obligations. The industry is highly competitive and so companies have to differentiate themselves on affordability, innovation (both design and funding solutions) as well as identifying and satisfying the needs of all stakeholders.

The group's loss for the financial year amounted to £309,000 (2018 - Profit £2,115,000) and the group's net liabilities at 31 March 2019 were £36,228,000 (2018 - £35,579,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the group's strategy are subject to a number of risks.

The key business risks affecting the group are considered to relate to supply chain failure of the building contractor, treasury management and control, review of the insurance cover and lifecycle profile.

The risk of supply chain failure of the building contractor is mitigated by the use of performance bonds provided by the building contractor and parent company guarantees provided by Samsung C&T Corporation, Fomento de Construcciones y Contratas, S.A and Kier Group plc. Construction is monitored by a technical adviser who reports on the progress of the contract.

At the start of the PFI contract the group negotiated debt facilities with external parties to ensure that the group has sufficient funds to finance construction.

The risk of inadequate insurance cover is mitigated by a review of the insurances by an insurance broker.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

The risk of inadequate lifecycle funds is mitigated by the building contractor's requirement to provide a design that meets the requirements of the UK Design Manual for Roads and Bridges and construct the project in accordance with the Specification for Highway Works.

The board formally reviews risks and appropriate processes are put in place to mitigate them.

KEY PERFORMANCE INDICATORS

The group has modelled the anticipated financial performance of its concession across its full term. Management meetings are held on a regular basis to monitor actual financial performance against a budget derived from the financial model. At 31 March 2019 performance against such measures was satisfactory. The project company is required to maintain the network to a specified level and ensure that traffic movements meet contractual requirements. The performance against these requirements is closely monitored and reported to the board on a monthly basis. The board has reviewed the operational performance of the network, together with the actual and projected financial performance, as shown by the detailed financial model. At 31 March 2019, the board consider the performance of the project against such measures to be satisfactory. The substantial reduction in turnover, when compared to the prior year, is a consequence of the completion of the construction phase in 2019 and is in line with expectations.

On behalf of the board of the directors,

Director

9 Howard Court, Manor Park, Runcorn, England, WA7 1SJ

Approved by the board of the directors on 24 October 2019

MERSEYLINK (HOLDINGS) LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2019

The directors present their report and the audited consolidated financial statements of the group for the year ended 31 March 2019. The principal activities and business review are detailed in the Strategic Report.

FUTURE DEVELOPMENTS
Management of the project both logistically and financially remains under control. We remain confident that the project will perform in line with our expectations.

DIVIDENDS
The directors are unable to recommend a dividend (2018: none).

DIRECTORS
The directors who served the group during the year and up to the date of this report are shown below:

V Ellenberg	
J Patrick	(Appointed 1 August 2019)
F Schramm	
I Bahena	
M Bradshaw	(Resigned 27 April 2018)
M Moshiashvili	(Resigned 16 November 2018)
A Kornman	
J Douglas	
M Edwards	
H Lee	(Appointed 29 November 2018/Resigned 1 August 2019)

DONATIONS
The group made no charitable or political donations during the year (2018: none).

FINANCIAL RISK MANAGEMENT
The group's operations expose it to a variety of financial risks that include liquidity risk, interest rate cash flow risk and credit risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs.

The group's financial instruments comprise floating and fixed rate borrowings, the main purpose of which is to raise finance for the group's operations. The group does use derivative financial instruments and has entered into interest rate swaps, the purpose of which are to manage interest rate risk on the group's floating rate borrowings.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board.

Liquidity risk
The group minimises the risk of uncertain funding in its operations by having long-term committed facilities available.

FINANCIAL RISK MANAGEMENT (continued)

Interest rate cash flow risk

The group seeks to minimise its exposure to an upward change in interest rates by both borrowing at fixed rates and by borrowing at floating rates and using interest rate swaps to convert such borrowings from floating to fixed rates. At the year end all the group's floating rate borrowings were at fixed rates after taking account of interest rate swaps.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge its obligation under the contract giving rise to the financial instrument. The group's credit risk is concentrated as its cash flows are generated from the PPP concession asset. The concentration of risk is mitigated as the cash flows are secured under contract with Mersey Gateway Crossings Board Limited and Halton Borough Council, a government body.

GOING CONCERN

The directors have reviewed the group's projected cash flows by reference to a financial model covering the accounting periods up to 31 March 2044. The directors have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the available information, the directors consider that the group will be able to meet its financial obligations on the due dates for the foreseeable future. Accordingly, the directors consider that it is appropriate for the financial statements of the group to be prepared on a going concern basis.

DISCLOSURE OF INFORMATION TO THE AUDITORS

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 auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

INDEPENDENT AUDITORS

A resolution to appoint PricewaterhouseCoopers LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.

On behalf of the board of the directors,

Director

9 Howard Court, Manor Park, Runcorn, England, WA7 1SJ

Approved by the board of the directors on 24 October 2019

MERSEYLINK (HOLDINGS) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 MARCH 2019

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
Signed on behalf of the Board by:

M J Howard

Director

9 Howard Court, Manor Park, Runcorn, England, WA7 1SJ

24 October 2019

Independent auditors' report to the members of Merseylink (Holdings) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Merseylink (Holdings) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2019; the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of directors.

Basis for opinion

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

Independence

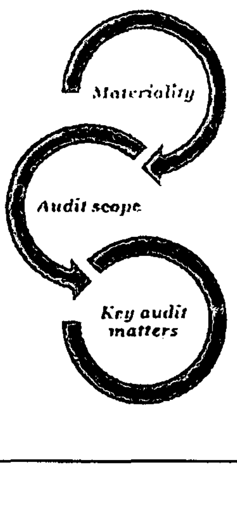
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

We have provided no non-audit services to the group or the company in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview



- Overall group materiality: £69,523 (2018: £779,466), based on 1% of total revenue.
- Overall company materiality: £1,020 (2018: £1,020), based on 2% of total assets, however this is limited to Group materiality.

- Due to the nature of the group we have performed a full scope audit of Merseylink (Holdings) Limited, Merseylink (Finance) Limited, Merseylink (Issuer) plc and Merseylink Limited which provides sufficient coverage across all balances in the Annual Report.

- Risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment.
- Recoverability of the financial asset

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Main Securities Market Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to overstatement of performance and retained earnings, as a method for accelerating dividend payments. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- review of the financial statement disclosures to underlying supporting documentation;
- review of the margin applied to costs
- review of the calculation and allocation of the unitary payment; and
- enquiries of management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Risk of incorrect recognition of turnover as a result of inappropriate calculation and allocation of the unitary payment The group entered into a Project Agreement with Halton Borough Council and the Mersey Gateway Crossings Board Limited, together with an associated construction contract, funding agreements and hard facilities management service contracts. The Project Agreement requires the group to provide design, build and finance services on the Mersey Gateway Project in England, over a 30 year concession term (including construction) under Government's Private Finance Initiative. The group accounts for this concession arrangement as a financial asset with financial income recognised each year at a constant rate as set out in note 5. During construction, turnover is calculated under the agreement as the total of construction costs, operating costs, and a mark-up on operating costs. Financial income is recognised at the rate set out in note 5. Construction income and financial income are capitalised into the financial asset. Once operational, unitary payments are received for the service concession arrangement which are allocated to turnover, financial income and amortisation of the financial asset. The allocation to turnover is based on a mark-up of operating costs and the financial income is calculated by applying the rate as set out in note 5. Any performance deductions are deducted from turnover.	Our audit addressed the risk as follows: - We recalculated the construction income for the year using the terms of the agreement. We did not note any issues from our testing. - We tested a sample of unitary payments received, agreeing to invoice and evidence of cash receipt. We did not note any issues from our testing. - We tested a sample of performance deductions, agreeing to invoices, and reviewed the accounting for these to ensure they were appropriately deducted from turnover. - We tested the underlying operating costs on which the mark-up is performed. - We re-performed the allocation of the unitary payment and checked that the allocated amounts had been recognised consistently. We found the calculations to be performed accurately and recognised consistently across the impacted key accounts.

Key audit matter	*How our audit addressed the key audit matter*
Due to the significant impact that the allocation of the unitary payments has on key accounts: turnover, financial income and the financial, including those most susceptible to fraudulent manipulation, we consider this risk to be a key area of focus.	
Recoverability of the financial asset The group has borrowings in the form of senior bonds listed on the Irish Stock Exchange and other external borrowings. The total amount owed at 31 December 2018 was £436.7m. The group has a financial asset due from Halton Borough Council and the Mersey Gateway Crossings Board of £444.3m as at 31 December 2018, and the repayment of the external borrowings is dependent on the recoverability of these amounts. Because of its significance to the financial statements and to our audit, we identified that the recoverability of the financial asset was a key audit matter.	In order to obtain evidence as to the recoverability of the financial asset, we read the terms of the Project Agreement and considered the ability of the counterparty to make repayments. The Project Agreement clearly outlines that the unitary payments will be received from the Halton Borough Council and the Mersey Gateway Crossings Board for the concession term and all repayments to date have been received in line with the Project Agreement. We also read the terms of the senior bond agreement and other loan agreements to understand the repayment schedule and any terms which might trigger earlier repayment. We found no indications that earlier repayment would be required, and therefore the recovery of the financial asset in line with the Project Agreement is expected to provide the necessary funds to enable the group to meet the loan repayment schedule for the foreseeable future.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The consolidated financial statements are for a group whereby all significant trading activity occurs in a single subsidiary entity, Merseylink Limited. The parent company is a holding company with no transactions during the year, other than dividend transactions that pass through the entity. The group also contains a financing company, which legally holds the group's publicly listed debt.

Due to statutory audit requirements all entities within the group have been subject to full scope audit procedures.

The company is a 'Special Purpose Vehicle' for a 'Private Finance Initiative / Public Private Partnership' ('PFI / PPP') project. The principal activity of the Company is that of a holding company, with that of the group being the provision of design, build and finance services on the Mersey Gateway Project in England. It operates as a single business and we audited the complete financial information of the company, including all material account balances, classes of transactions and financial statement disclosures.

The financial and operational management are sub-contracted to a third party service provider located in Maidenhead UK. We completed the audit of the group from the offices of the third party service provider where all books and records are maintained.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£69,523 (2018: £779,466).	£1,020 (2018: £1,020).
How we determined it	1% of total revenue.	2% of total assets, however this is limited to Group materiality.
Rationale for benchmark applied	We believe that total revenue is the appropriate measure to use, given the group's earnings are at or near breakeven and the profit made by the entity is entirely a product of the pre-determined margin mark up. Hence, the level of revenue recognised in any year is a more appropriate indicator of the level of activity in any given year of the operating phase.	We believe that gross assets is the appropriate measure to use, given there are limited transactions within the company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,020 and £66,047. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Board of directors that we would report to them misstatements identified during our audit above £9,958 (Group audit) (2018: £38,973) and £51 (Company audit) (2018: £51) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the board of directors, we were appointed by the members on 1 April 2014 to audit the financial statements for the period from incorporation to 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2015 to 31 March 2019.

Jonathan Studholme

Jonathan Studholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
18 October 2019

MERSEYLINK (HOLDINGS) LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
TURNOVER	2	6,952	78,587
Cost of sales		(4,093)	(72,584)
GROSS PROFIT		2,859	6,003
Administrative expenses		(2,547)	(2,102)
OPERATING PROFIT	3	312	3,901
Interest receivable and similar income	5	28,770	28,045
Interest payable and similar expenses	6	(29,454)	(29,395)
(LOSS)/PROFIT BEFORE TAXATION		(372)	2,551
Tax on (loss)/profit	7	63	(436)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(309)	2,115

All of the activities of the group are classed as continuing.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(309)	2,115
Fair value of SWAP liability	17	(410)	7,521
Deferred tax in relation to fair value of swap liability	10	70	(1,279)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(649)	8,357

The notes on pages 17 to 29 form part of these financial statements.

MERSEYLINK (HOLDINGS) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2019

	Note	Called up share capital £000	Hedging reserve £000	Profit and loss account £000	Total shareholders' deficit £000
Balance as at 1 April 2017		51	(26,595)	(17,392)	(43,936)
Profit for the financial year	18	-	-	2,115	2,115
Fair value of SWAP liability	17	-	7,521	-	7,521
Deferred tax in relation to fair value of swap liability	10	-	(1,279)	-	(1,279)
Balance as at 31 March 2018		51	(20,353)	(15,277)	(35,579)
Loss for the financial year	18	-	-	(309)	(309)
Fair value of SWAP liability	17	-	(410)	-	(410)
Deferred tax in relation to fair value of swap liability	10	-	70	-	70
Balance as at 31 March 2019		51	(20,693)	(15,586)	(36,228)

COMPANY STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2019

	Called up share capital £000	Total shareholders' funds £000
Balance as at 1 April 2017	51	51
Result for the financial year.	-	-
Balance as at 31 March 2018	51	51
Result for the financial year	-	-
Balance as at 31 March 2019	51	51

The notes on pages 17 to 29 form part of these financial statements.

MERSEYLINK (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2019

	Note	2019 £000	2018 £000
CURRENT ASSETS			
DEBTORS: Amounts falling due after more than one year	9	**414,170**	415,398
DEBTORS: Amounts falling due within one year	9	**49,007**	52,192
Cash at bank and in hand		**20,017**	28,103
		483,194	495,693
CREDITORS: Amounts falling due within one year	12	**(16,372)**	(20,493)
NET CURRENT ASSETS		**466,822**	**475,200**
TOTAL ASSETS LESS CURRENT LIABILITIES		**466,822**	475,200
CREDITORS: Amounts falling due after more than one year	13	**(503,050)**	(510,779)
NET LIABILITIES		**(36,228)**	(35,579)
CAPITAL AND RESERVES			
Called up share capital	16	**51**	51
Hedging reserve	17	**(20,693)**	(20,353)
Profit and loss account	18	**(15,586)**	(15,277)
TOTAL SHAREHOLDERS' DEFICIT	19	**(36,228)**	(35,579)

The financial statements on pages 12 to 29 were approved by the Board of Directors on 24 October 2019 and are signed on their behalf by:

Director

Company Registration Number: 8780140

The notes on pages 17 to 29 form part of these financial statements.

MERSEYLINK (HOLDINGS) LIMITED
COMPANY BALANCE SHEET
AS AT 31 MARCH 2019

	Note	2019 £000	2018 £000
FIXED ASSETS			
Investments	11	51	51
NET ASSETS		51	51
CAPITAL AND RESERVES			
Called up share capital	16	51	51
Profit and loss account brought forward		-	-
Result for the year	18	-	-
TOTAL SHAREHOLDERS' FUNDS	19	51	51

The financial statements on pages 12 to 29 were approved by the Board of Directors on 24 October 2019 and are signed on their behalf by:

MJ Edwards

Director

Company Registration Number: 8780140

The notes on pages 17 to 29 form part of these financial statements.

MERSEYLINK (HOLDINGS) LIMITED
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
(Loss)/profit for the financial year		(309)	2,115
Adjustments for:			
Interest receivable and similar income		(28,770)	(28,045)
Interest payable and similar expenses		29,454	29,395
Tax on (loss)/profit		(63)	436
Changes in:			
Trade and other debtors		4,547	(26,457)
Trade and other creditors		(6,751)	(12,319)
		(1,892)	(34,875)
Cash used in operations			
Interest paid		(27,004)	(23,006)
Interest received		28,770	28,045
Net cash used in operating activities		(126)	(29,836)
Cash flows from financing activities			
Utilisation of loan		-	112,592
Repayment of loan		(4,434)	(68,203)
Repayment of subordinated debt		(3,526)	-
Net cash (used in)/generated from financing activities		(7,960)	44,389
(Decrease)/increase in cash		(8,086)	14,553
Cash and cash equivalents at the beginning of the year		28,103	13,550
Cash and cash equivalents at the end of the year		20,017	28,103

The notes on pages 17 to 29 form part of these financial statements.

1. ACCOUNTING POLICIES

General information

The company is a private company limited by shares incorporated in the United Kingdom, which is registered and domiciled in the United Kingdom at 9 Howard Court, Manor Park, Runcorn, England, WA7 1SJ. The group's principal activities consist solely of the provision of design, build and finance services in respect of the Mersey Gateway Project.
The United Kingdom is due to leave the European Union on 31 October 2019. The terms on which the United Kingdom may withdraw are not clear and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy. However, the group is not affected by the continued uncertainty surrounding the United Kingdom's membership of the European Union, as the cash flows generated from the PFI concession asset are secured under a contract with the client, which is a government body

Basis of accounting

The financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland'. The principal accounting policies, which been applied consistently, are set out below.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings, Merseylink (Finance) Limited, Merseylink (Issuer) plc and Merseylink Limited.

Going concern

The directors have reviewed the group's projected cash flows by reference to a financial model covering the accounting periods up to 31 March 2044. The directors have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the available information, the directors consider that the group will be able to meet its financial obligations on the due dates for the foreseeable future. Accordingly, the directors consider that it is appropriate for the financial statements of the group to be prepared on a going concern basis.

Turnover

Turnover represents the value of services rendered, excluding sales related taxes, and is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Turnover is recognised as contract activity progresses at a mark up on costs related to the provision of services. In line with FRS 102 23.22(a), the mark up is calculated based upon the forecast service revenues and costs over the concession period.

All turnover originates in the United Kingdom.

1. ACCOUNTING POLICIES *(continued)*

Exemptions for qualifying entities under FRS 102

The parent company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemption available under FRS 102 in respect of the following disclosure:

- Cash Flow Statement and related notes.

Financial asset

Amounts recoverable under long term Private Finance Initiative contracts will be transferred to a financial asset in accordance with the requirements of section 34 of FRS 102. The amounts receivable are treated as a long-term financial asset. Imputed interest receivable is allocated to the financial asset using a rate to generate a return over the life of the contract. In line with FRS 102 the rate is calculated based upon the forecast service revenues and costs over the concession period.

Investments

Investments in subsidiary undertakings are stated at cost, less an appropriate provision to reflect any impairment in the value of the investments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is recognised on trading losses carried forward and on the fair value of the swap derivative.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

1. ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Restricted cash

The group is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £254,000 at the year end (2018: £87,000).

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

1. ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

The group has entered into interest rate swaps and designated these as hedges for highly probable forecast transactions. The effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

Segment reporting

The group's activities consist solely of the provision of design, build and finance services in respect of the Mersey Gateway Project and are undertaken entirely in the United Kingdom.

Critical judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

The principal estimates involved in the financial statements are considered to be:

- macroeconomic assumptions in the group's underlying financial model
- the spend on future major maintenance involved in asset renewal has judgement around timing and quantum in the group's underlying financial model

2. TURNOVER

The turnover and (loss)/profit before taxation are attributable to the one principal activity of the company. An analysis of turnover by origin and destination is given below:

	2019	2018
	£000	£000
United Kingdom	6,952	78,587

3. OPERATING PROFIT

This is stated after charging:

	2019	2018
	£000	£000
Auditors' remuneration - audit of the company financial statements	1	1
Auditors' remuneration - audit of the consolidated and subsidiary financial statements	19	29
Auditors' remuneration - taxation compliance services	-	23

The audit fees were borne by the subsidiary undertaking, Merseylink Limited, in the current and prior year.

4. PARTICULARS OF EMPLOYEES

The group and parent company had no employees during the financial year (2018: none). The directors have no contract of service with the group and parent company. The directors did not receive any emoluments in the year in respect of their services as directors of the group and parent company (2018: none).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019	2018
	£000	£000
Bank interest receivable	170	54
Interest on financial asset	28,600	27,991
	28,770	28,045

Interest is imputed on the finance asset using the rate of 6.41% (2018: 6.34%).

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019	2018
	£000	£000
Interest payable on bond	12,675	12,573
Loan interest	8,719	8,899
Interest payable on subordinated debt	3,890	1,990
Interest payable on mezzanine debt	4,170	1,945
Other finance costs	-	3,988
	29,454	29,395

Interest payable and similar expenses are recognised using the effective interest rate method.

7. TAX ON (LOSS)/PROFIT

(a) Analysis of (credit) / charge in the year

The tax (credit)/charge in the financial year is made up as follows:

	2019	2018
	£000	£000
Current tax	-	-
Deferred tax:		
- in respect of current financial year	(71)	485
- in respect of changes in tax rates and laws	8	(49)
Total deferred tax (note 10)	(63)	436
Tax on (loss)/profit	(63)	436

The aggregate current and deferred tax relating to items recognised as other comprehensive income or equity for the year was a credit of £70,000 (2018: a charge of £1,279,000).

(b) Factors affecting tax (credit) / charge

The current tax assessed on the (loss)/profit for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

	2019	2018
	£000	£000
(Loss)/profit before taxation	(372)	2,551
(Loss)/profit before taxation multiplied by the standard rate of tax in the UK of 19.00% (2018: 19.00%)	(71)	485
Changes in tax rates and laws	8	(49)
Total tax (credit) / charge (note 7(a))	(63)	436

7. TAX ON (LOSS)/PROFIT *(continued)*

(c) Factors that may affect future tax charges

The UK corporation tax rate will reduce to 17% on 1 April 2020.

This will reduce the group's future current tax charge accordingly. The deferred tax asset at 31 March 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY

The result dealt with in the financial statements of the company was £nil (2018: £nil).

9. DEBTORS

Amounts falling due within one year:	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Trade debtors	-	-	1,672	-
Other debtors	10,101	-	12,115	-
Financial asset	37,560	-	37,059	-
Prepayments and accrued income	1,346	-	1,346	-
	49,007	-	52,192	-

Amounts falling due after more than one year:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Financial asset	406,757	-	408,118	-
Deferred tax (note 10)	7,413	-	7,280	-
	414,170	-	415,398	-

10. DEFERRED TAX

The deferred tax included in the Balance Sheet is as follows:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Included in debtors (note 9)	7,413	-	7,280	-

The movement in the deferred tax account during the year was:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Balance brought forward	7,280	-	8,995	-
Profit and loss account movement arising during the year (note 7(a))	63	-	(436)	-
Deferred tax in relation to fair value of swap liability	70	-	(1,279)	-
Balance carried forward	7,413	-	7,280	-

The balance of the deferred tax account consists of the tax effect of timing differences in respect of:

	2019 £000	2018 £000
Trading losses carried forward	3,174	3,111
Deferred tax in relation to fair value of swap liability	4,239	4,169
Balance carried forward	7,413	7,280

There is no (2018: none) unrecognised deferred tax asset or liability for the group.

11. INVESTMENTS

	Company 2019 £000	Company 2018 £000
COST		
Balance brought forward and carried forward	51	51
NET BOOK VALUE		
Balance brought forward and carried forward	51	51

The company owns 100% of the issued share capital (£51,000) of Merseylink (Finance) Limited, which owns 100% of the issued share capital (£50,000) of Merseylink (Issuer) plc and 100% of the issued share capital (£1,000) of Merseylink Limited, all of which are registered and domiciled in the United Kingdom at 9 Howard Court, Manor Park, Runcorn, England, WA7 1SJ.

12. CREDITORS: Amounts falling due within one year

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Trade creditors	1,165	-	151	-
Taxation and social security	68	-	573	-
Loan including interest	6,610	-	4,484	-
Subordinated debt (including accrued interest)	700	-	1,990	-
Retentions	6,879	-	11,763	-
Accruals and deferred income	950	-	1,532	-
	16,372	-	20,493	-

13. CREDITORS: Amounts falling due after more than one year

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Bond	253,799	-	253,691	-
Construction loan	127,526	-	133,414	-
Subordinated debt	48,047	-	51,272	-
Mezzanine debt	48,746	-	47,880	-
SWAP liability	24,932	-	24,522	-
	503,050	-	510,779	-

Offsetting within the Bond liability are unamortised issue costs amounting to £3,360,000 (2018: £3,468,000). Offsetting within the Construction loan liability are unamortised issue costs amounting to £4,010,000 (2018: £ 4,678,000). Offsetting within the Subordinated debt liability are unamortised issue costs amounting to £1,112,000 (2018: £1,220,000). Offsetting within the Mezzanine debt liability are unamortised issue costs amounting to £1,798,000 (2018: £1,750,000). The amortisation of the issue costs forms part of the Interest Payable and similar expenses for each facility in Note 6

Borrowings include £257,159,000 of 3.842% Bonds listed on the Irish Stock Exchange due 2043, of which all were issued (2018: £257,159,000). The Bonds have the benefit of a payment guarantee of scheduled interest and principal provided by HM Treasury. The Bond is repayable in twenty two six-monthly instalments between September 2032 and March 2043.

13. CREDITORS: Amounts falling due after more than one year *(continued)*

The Bond, Construction loan are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

Interest is charged on the Construction loan at a variable rate of LIBOR + 2.100%. As at 31 March 2019 the total amount outstanding on the Construction loan is £138,091,000 (2018: £142,525,000). The Construction loan relates to senior secured funding granted by a group of lenders. The Construction loan facility is for a total value of £143,228,000. The Construction loan is repayable in twenty nine instalments between March 2018 and March 2032.

Interest is charged on the Mezzanine debt at a fixed rate of 8.3% and a 5.4% index linked rate. As at 31 March 2018 the total amount outstanding on the Mezzanine debt is £50,545,000 (2018: £49,630,000). The Mezzanine debt is repayable in forty three instalments between March 2022 and March 2043.

Subordinated debt represents a £49,159,000 (2018: £52,491,000) unsecured subordinated loan facility due to the shareholders of the group. The subordinated loan facility bears interest at a fixed rate of 7.561% and is fully repayable by 2044.

The group has also entered into swap arrangements with Crédit Agricole Corporate and Investment Bank, Sumitomo Mitsui Banking Corporation, Lloyds Bank plc, KFW IPEX-Bank and Macquarie Bank Limited in order to fix the base interest rate (LIBOR) on the loan facilities. The fair value of the swap arrangements at the year end was a negative £24,932,000 (2018: negative £24,522,000). Market values have been used to determine the fair value of the swap arrangements.

14. FINANCIAL INSTRUMENTS

Carrying amount of financial instruments	Group 2019 £000	Group 2018 £000
Financial assets		
Financial assets measured at amortised cost - financial asset, trade and other debtors	454,418	458,964
Other financial assets - cash and cash equivalents	20,017	28,103
Financial liabilities		
Financial liabilities measured at fair value - interest rate swap	(24,932)	(24,522)
Financial liabilities measured at amortised cost - trade and other payables, bank loans and bond	(486,594)	(492,882)

The fair value of the bond is £ 258,361,000 using a discounted cashflow at 3.842%.

14. FINANCIAL INSTRUMENTS *(continued)*

The following table indicates the years in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102.29(a) for the cash flow hedge accounting models.

	Carrying Amount	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	5 years and over
	£000	£000	£000	£000	£000
31 March 2019					
Interest rate SWAPs	(24,932)	(3,346)	(2,506)	(5,745)	(7,610)
31 March 2018					
Interest rate SWAPs	(24,522)	(3,975)	(3,173)	(6,323)	(9,376)

15. CONTINGENCIES AND COMMITMENTS

Under the terms of a contract dated 28 March 2014 with FCC Construcción S.A., Samsung C&T ECUK Limited and Kier Infrastructure & Overseas Limited, the group is committed to payments totalling £455,103,000 in respect of design and construction services. Construction is nearly finished and final payments will be due in 2019. Payments are made as the design and construction work progresses. The capital commitments contracted but not provided for as at 31 March 2019 totalled £1,257,000 (2018: £5,471,000).

16. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid:	Group 2018 and 2019	Group 2018 and 2019
	No	£000
Ordinary shares of £1 each	51,000	51

Allotted, called up and fully paid:	Company 2018 and 2019	Company 2018 and 2019
	No	£000
Ordinary shares of £1 each	51,000	51

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

17. HEDGING RESERVE

	Group 2019 £000	Group 2018 £000
Balance brought forward	(20,353)	(26,595)
Movement in fair value of cash flow hedges	(410)	7,521
Deferred tax in relation to fair value of swap liability	70	(1,279)
Balance carried forward	(20,693)	(20,353)

18. PROFIT AND LOSS ACCOUNT

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Balance brought forward	(15,277)	-	(17,392)	-
(Loss)/profit for the financial year	(309)	-	2,115	-
Balance carried forward	(15,586)	-	(15,277)	-

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT) / FUNDS

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
(Loss)/profit for the financial year	(309)	-	2,115	-
Movement in fair value of cash flow hedges	(340)	-	6,242	-
Movement in shareholders' deficit/funds	(649)	-	8,357	-
Opening shareholders' deficit/funds	(35,579)	51	(43,936)	51
Closing shareholders' deficit/funds	(36,228)	51	(35,579)	51

20. RELATED PARTIES

During the year the group entered into the following transactions with related parties:

	Transactions with related parties		Payables to related parties	
	2019	2018	2019	2018
	£000	£000	£000	£000
FCC Mersey Gateway Limited	972	691	11,973	13,320
MG Bridge Investments Limited	1,459	1,037	17,958	19,980
Wigg Investments Limited	1,459	1,037	18,826	19,973

At 31 March 2019, 25% of the share capital in Merseylink (Holdings) Limited was held by FCC Mersey Gateway Limited, 37.5% of the share capital was held by MG Bridge Investments Limited and 37.5% of the share capital was held by Wigg Investments Limited.

21. CONTROLLING PARTIES

At 31 March 2019, 25% of the share capital in Merseylink (Holdings) Limited was held by FCC Mersey Gateway Limited, 37.5% of the share capital was held by MG Bridge Investments Limited and 37.5% of the share capital was held by Wigg Investments Limited.

The largest and smallest group in which the results of the Company are consolidated is that headed by Merseylink (Holdings) Limited, incorporated in the United Kingdom. Copies can be obtained from: Companies House, Crown Way, Cardiff, CF14 3UZ. No other financial statements consolidate the results of the group.

The ultimate controlling party is the board of the directors.