

Yorkshire Transformations Limited

Financial statements
For the year ended 31 December 2012

Registered number 04768921
England & Wales



YORKSHIRE TRANSFORMATIONS LIMITED

(REGISTERED NUMBER 04768921)

Company Information

Directors	P Dawson TJ Hepton MT Smith C Solley MA Trodd GJ Walsh
Company Number	04768921
Registered Office	24 Birch Street Wolverhampton WV1 4HY
Auditor	KPMG LLP One Snow Hill Snow Hill Queensway Birmingham B4 6GH
Bankers	Bank of Scotland 11 Earl Grey Street Edinburgh EH3 9BN
Legal Advisors	DLA Piper UK LLP Princess Exchange Princess Square Leeds LS1 4BY
Loan Finance	Bank of Scotland Infrastructure Finance Level 2 New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN

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Directors' report for the year ended 31 December 2012

The directors present their report and financial statements for the year ended 31 December 2012

Principal activities

The Company's principal activity is that of a Private Finance Initiative Concessionaire for the Yorkshire Transformations Project, under the terms of a Project Agreement dated 20 April 2005

The Company's Project Agreement required it to finance, refurbish and maintain homes in the Swardcliffe area of Leeds. The concession is intended to continue for a period of 25 years

Work commenced on the refurbishment of the properties in July 2005 and was completed in January 2010

There have not been any changes in the company's activities in the year under review, and the directors are not aware, at the date of this report, of any likely changes in the next year

Principal risks and uncertainties

The company's principal activity as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed contracts. The financial risks and the measures taken to mitigate them are as detailed in the following section

Credit risk

The company will receive its revenue from a government body and therefore is not exposed to significant risk.

Inflation risk

The company's project revenue and operating costs are linked to inflation at the inception of the project

Insurance risk

The company is exposed to the conditions prevailing in the insurance market at each renewal date. The directors manage this through close monitoring of the claims record of the project and through employing experienced broking organisations to obtain competitive insurance terms

Interest rate risk

The company has in place loans on which a fixed rate of interest is paid

Lifecycle risk

The company has contracted out the responsibility for lifecycle costs and these are now at the risk of the sub-contractor. A cash lifecycle fund will be held by the company to cover future anticipated replacement costs and will be utilised in reimbursing the sub-contractor for the profiled costs

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Liquidity risk

The company has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due

Solvency and performance of sub-contractors

The solvency and performance of key sub-contractors is regularly monitored by the directors

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following section

Performance of the services

The client has the ability to levy financial penalties and/or require remedial action in the event that either performance standards are not achieved or accommodation is not available according to detailed criteria set out in the project agreement. The performance of the services is considered satisfactory with limited deductions being made

Financial performance

The company has modelled the anticipated financial outcome of the project across its full term. The company monitors actual financial performance against anticipated performance. Income and expenditure for the year ended 31 December 2012, which are based on fixed long-term contracts, have been in line with the directors' expectations

Safety performance

The company is committed to providing a safe environment for its sub-contractors and those impacted by its activities. Safety reports are provided at each board meeting. These are reviewed by the directors who monitor actual performance against anticipated performance using industry benchmarks. Appropriate action is taken where necessary in order to ensure that all matters raised are fully resolved and are compliant with safety regulations

Results

As shown in the company's statement of comprehensive income on page 8 the company's profit for the year, after taxation, amounted to £481,000 (2011: £299,000). The statement of financial position on page 9 of the financial statements shows the company's financial position at the year end

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract. For this reason the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business

Dividends

Dividends of £510,000 (2011: £1,125,000) were paid in the year, equating to £510,000 per share (2011: £1,125,000 per share). No further dividends have been declared for the year ended 31 December 2012

Directors' report for the year ended 31 December 2012

Financial Instruments

The company has a variety of financial instruments. The company's accounting policy in respect of financial instruments and details of the company's financial instruments are contained in the notes to the financial statements (Note 2.1 and Note 21).

Directors

The directors who served during the year and subsequently were

P Dawson	Appointed	25 February 2013
MA Donn	Resigned	8 October 2012
G Farley	Resigned	26 November 2012
TJ Hepton		
MT Smith		
C Solley	Appointed	8 October 2012
MA Trodd		
GJ Walsh		

Provision of information to auditor

Each of the persons who are directors at the time when this director's report is approved confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing their report and to establish that the company's auditor is aware of the information.

Auditor

KPMG LLP was appointed to fill the vacancy left by PKF LLP as auditor pursuant to Section 485 of the Companies Act 2006.

Pursuant to Section 487 of the companies Act 2006, the Auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The report was approved by the board on 25 July 2013 and signed on its behalf



P Dawson
Director

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing 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 financial statements in accordance with IFRSs as adopted by the EU 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 company and of their profit or loss for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent 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 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 YORKSHIRE TRANSFORMATIONS LIMITED

We have audited the financial statements of Yorkshire Transformations Limited for the year ended 31 December 2012 set out on pages 8 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

R J Pound

Robert Pound (Senior Statutory Auditor)
For and on behalf of KPMG LLP Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

26 July 2013

Statement of comprehensive income
For the year ended 31 December 2012

	<i>Note</i>	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Continuing operations			
Revenue	4	3,870	3,897
Cost of sales		(3,504)	(3,579)
Gross profit	5	366	318
Financial income	7	2,804	2,581
Financial costs	8	(2,533)	(2,492)
Profit before taxation		637	407
Taxation	9	(156)	(108)
Profit for the year	19	481	299
Other comprehensive income			
Net changes in fair value of cash flow hedges transferred to profit and loss		(441)	(4,690)
Income tax on comprehensive income		(102)	1,063
Other comprehensive income	1, 19	(543)	(3,627)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(62)	(3,328)

The notes on pages 12 to 29 form part of these financial statements

**Statement of financial position
as at 31 December 2012**

	Note	2012 £000	2011 £000
Assets			
Non current assets			
Other financial asset	10	29,853	31,508
Deferred tax assets	12	2,441	2,543
		<u>32,294</u>	<u>34,051</u>
Current assets			
Trade receivables	13	33	23
Other receivables	14	2,091	2,769
Cash and cash equivalents	15	5,580	5,121
		<u>7,704</u>	<u>7,913</u>
Total assets		<u>39,998</u>	<u>41,964</u>
Current liabilities			
Trade and other payables	16	(1,190)	(1,086)
Other interest bearing loans and borrowings	17	(1,737)	(1,938)
Other financial liabilities	11	(531)	(484)
		<u>(3,458)</u>	<u>(3,508)</u>
Non current liabilities			
Other interest-bearing loans and borrowings	17	(34,455)	(36,193)
Other financial liabilities	11	(10,082)	(9,688)
		<u>(44,537)</u>	<u>(45,881)</u>
Total liabilities		<u>(47,995)</u>	<u>(49,389)</u>
Net liabilities		<u>(7,997)</u>	<u>(7,425)</u>
Equity attributable to equity holders of the company			
Share capital	18	-	-
Retained earnings	19	175	204
Hedging reserve	19	(8,172)	(7,629)
Total deficit		<u>(7,997)</u>	<u>(7,425)</u>

These financial statements were approved and authorised for issue by the board of directors and were signed on its behalf on 25 July 2013



P Dawson
Director

Company Number : 04768921

**Statement of changes in equity
for the year ended 31 December 2012**

	Attributable to equity holders			
	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	-	(7,629)	204	(7,425)
<i>Changes in equity for 2012</i>				
Profit for the year	-	-	481	481
Net changes in fair value of cash flow hedges transferred to profit and loss	-	(441)	-	(441)
Income tax on comprehensive income	-	(102)	-	(102)
Total comprehensive income for the year	-	(543)	481	(62)
Dividends paid	-	-	(510)	(510)
Balance at 31 December 2012	-	(8,172)	175	(7,997)

	Attributable to equity holders			
	Share capital £000	Hedging reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2011	-	(4,002)	1,030	(2,972)
<i>Changes in equity for 2011</i>				
Profit for the year	-	-	299	299
Net changes in fair value of cash flow hedges transferred to profit and loss	-	(4,690)	-	(4,690)
Income tax on comprehensive income	-	1,063	-	(1,063)
Total comprehensive income for the year	-	(3,627)	299	(3,328)
Dividends paid	-	-	(1,125)	(1,125)
Balance at 31 December 2011	-	(7,629)	204	(7,425)

The notes on pages 12 to 29 form part of these financial statements

Statement of cash flows
for the year ended 31 December 2012

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Cash flows from operating activities		
Profit for the year	481	299
<i>Adjustments for</i>		
Decrease/(increase) in trade and other receivables	3	(52)
Increase/(decrease) in trade and other payables	73	(844)
Decrease in financial asset	2,320	2,613
Finance income	(2,804)	(2,581)
Finance costs	2,533	2,492
Taxation	156	108
Income taxes paid	(107)	(58)
Net cash used in operating activities	2,655	1,977
Cash flows from investing activities		
Interest receipts on financial asset	2,804	2,581
Net cash from investing activities	2,804	2,581
Financing activities		
Interest paid	(2,551)	(2,492)
Repayment of bank loans	(1,769)	(1,744)
Repayment of unsecured loan notes	(170)	(170)
Dividends paid	(510)	(1,125)
Net cash from financing activities	(5,000)	(5,531)
Net increase/(decrease) in cash and cash equivalents	459	(973)
Cash and cash equivalents at the beginning of the year	5,121	6,094
Cash and cash equivalents at the end of the year	5,580	5,121

The notes on pages 12 to 29 form part of these financial statements

Notes to financial statements for the year ended 31 December 2012

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

1. Basis of preparation

These financial statements have been approved by the directors and prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The area involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3.

The functional currency is pounds sterling.

1.1 Standards and interpretations issued but not yet applied

Standards and interpretations that became effective in 2012 are not relevant to the company's operations and do not have a material impact on the financial statements.

1.2 Adopted IFRSs not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2013)
- IFRS 13 Fair Value Measurement (mandatory for year commencing on or after 1 January 2013)
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014)
- Annual Improvements to IFRS 2009-2011 cycle (mandatory for year commencing on or after 1 January 2013)

1.3 Going concern

The directors have considered the company's net liability position at the balance sheet date and reviewed cash flow forecasts and have concluded that preparation of the financial statements on a going concern basis is appropriate. This conclusion was arrived at on the basis of, given the long term contracts in place with Leeds City Council and that the net liabilities of £7,997,000 (2011: £7,425,000) at the year end include the fair value of the interest rate derivatives which has been included in liabilities of £10,613,000 (2011: £10,172,000). The directors have reviewed the financial model which shows that the company will be able to meet its liabilities for the foreseeable future, taking into consideration the interest rates which have been fixed by the cash flow hedges.

Notes to financial statements for the year ended 31 December 2012 (*continued*)

2. Accounting policies

2.1 Financial instruments

2.1.1 *Non-derivative financial assets*

The company initially recognises loans and receivables and deposits on the date that they originated

The company derecognises a financial asset when the contractual rights to the cashflows from the asset expire, or it transfers the rights to receive contractual cashflows on a financial asset in a transaction in which substantially all the risks and reward or ownership of the financial asset are transferred

Financial assets and liabilities are offset and the net amounts presented in the balance sheet when and only when the company has a legal right to offset the amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables

2.1.2 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses

2.1.3 *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement

2.1.4 *Non-derivative financial liabilities*

The company initially recognises debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities (including liabilities designated at fair value through profit or loss statement) are recognised initially on the trade date, which is the date the company becomes party to the contractual provision of the instrument

The company derecognises the liability when its contractual obligations are discharged, cancelled or expire. The company classifies non-derivative financial liabilities into the other liabilities category. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method

2.1.5 *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses

2.1.6 *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method

Notes to financial statements for the year ended 31 December 2012 *(continued)*

2. Accounting policies *(continued)*

2.1.7 *Derivative financial instruments and hedging*

Derivative financial instruments

The company holds derivative financial instruments to hedge its interest rate risk exposure

On initial designation of the derivative as the hedging instrument, the company formally documents the relationship between the hedging instrument and the hedging item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should represent an exposure to variations in cash flows that should ultimately affect reported profit or loss.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivatives are held at fair value and changes therein are described below.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or is a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

If the hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

2.1.8 *Impairment excluding inventories, and deferred tax assets*

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to financial statements for the year ended 31 December 2012 (*continued*)

2. Accounting policies (*continued*)

2.2 Revenue

Services revenue (in accordance with IFRIC 12) represents revenues from the provision of construction services to Private Finance Initiative ("PFI") projects calculated as the fair value of services provided. A margin is recognised on the service provided which is reimbursed to the company along with the value of construction over the duration of the concession by the grantor through payment of a unitary charge in line with the Project Agreement of 20 April 2005.

Service concessions

In accordance with IFRIC 12 and the various provisions of adopted IFRSs, the company has determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions.

Service concessions treated as financial assets

The company recognises a financial asset arising from a service concession arrangement as it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are held at amortised cost.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the construction phase, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, in accordance with IAS 11. Costs for this purpose include valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method.

The finance receivables are held as loan or receivable in accordance with IAS 39 'Financial instruments: Recognition and measurement'. Finance receivables are recognised initially at fair value. Subsequent to initial recognition, finance receivables are measured at amortised cost using the effective interest method less any impairment losses.

Notes to financial statements for the year ended 31 December 2012 (*continued*)

2. Accounting policies (*continued*)

2.3 Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance leases recognised in profit or loss using the effective interest method and, unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested and interest receivable on the financial asset.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

2.4 Taxation and deferred taxation

The company has entered into a composite trade agreement with the HMRC whereby corporation tax is charged on accounting profits using tax rates enacted or substantially enacted at the balance sheet dates.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to those taxes levied by the same tax authority as the same taxable entity or a different tax entity but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.5 Determination of fair values

A number of the company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following method.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

Derivatives

The fair value of interest rate swaps is based on broker quotes, fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the company and counterparties when appropriate.

Notes to financial statements for the year ended 31 December 2012 (*continued*)

2.5 Determination of fair values (*continued*)

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date

2.6 Accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows

3.1 Key sources of estimation uncertainty

There are no significant estimation uncertainties

There are no other estimates and judgements which have a material impact on the financial statements

3. Revenue

	2012 £000	2011 £000
Refurbishment revenue	3,255	3,139
Other	615	3,897
	<u>3,870</u>	<u>3,897</u>

4. Expenses and auditor's remuneration

Auditor's remuneration

	2012 £000	2011 £000
Fees payable to the company's auditor for the audit of the company's Annual accounts	14	11
	<u>14</u>	<u>11</u>

6. Staff numbers and costs

There were no employees during the period (2011 none) The directors have no contract of services with the company Amounts payable to third parties in respect of directors' services were £130,000 (2011 £151,000)

Notes to financial statements for the year ended 31 December 2012 (continued)

7. Finance income

	2012 £000	2011 £000
Interest income on PFI financial asset	2,804	2,581
	<u>2,804</u>	<u>2,581</u>

8. Finance costs

Recognised in profit and loss account

	2012 £000	2011 £000
Interest on bank borrowings	2,092	2,033
Interest on unsecured loan stock	441	459
	<u>2,533</u>	<u>2,492</u>

9. Taxation

	2012 £000	2011 £000
Corporation tax		
Current year	156	108
Total tax expense	<u>156</u>	<u>108</u>

The tax charge for the year can be reconciled to the profit for the year as follows

	2012 £000	2011 £000
Profit before tax	<u>637</u>	<u>407</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	156	108
Total tax expense	<u>156</u>	<u>108</u>

Factors affecting the tax charges in future years

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 31 December 2012 (which has been based on the rate of 23% substantively enacted at the balance sheet date).

Notes to financial statements for the year ended 31 December 2012 (continued)

10. Other financial asset

	2012 £000	2011 £000
PFI financial asset		
Current assets		
Not later than 1 year	<u>1,331</u>	<u>1,996</u>
	1,331	1,996
Non current assets		
Later than 1 year and no later than 5 years	<u>6,057</u>	<u>6,934</u>
Later than 5 years	<u>23,796</u>	<u>254,574</u>
	29,853	31,508
	<u>31,184</u>	<u>33,504</u>

11. Other financial liabilities

	2012 £000	2011 £000
Current liability		
Financial liability designated as fair value through profit and loss account	<u>531</u>	<u>484</u>
Non-current liability		
Financial liability designated as fair value through profit and loss account	<u>10,082</u>	<u>9,688</u>
	<u>10,613</u>	<u>10,172</u>

Notes to financial statements for the year ended 31 December 2012 (continued)

12. Deferred tax assets

Deferred tax assets are attributable to temporary differences relating to the following

	2012 £000	2011 £000
On fair value of financial derivatives (see note 11)	<u>2,441</u>	<u>2,543</u>
	<u>2,441</u>	<u>2,543</u>

There are no unrecognised deferred tax gains or losses. Deferred tax assets are provided in compliance with IAS 12 as it is expected that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The deferred tax asset at 31 December 2012 has been calculated on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 5% rate reduction although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Movement in deferred tax during the year

	31 December 2011 £000	Recognised in equity £000	31 December 2012 £000
Financial assets			
On fair value of financial derivatives	<u>2,543</u>	<u>(102)</u>	<u>2,441</u>
	<u>2,543</u>	<u>(102)</u>	<u>2,441</u>

	31 December 2010 £000	Recognised in equity £000	31 December 2011 £000
Financial assets			
On fair value of financial derivatives	<u>1,480</u>	<u>1,063</u>	<u>2,543</u>
	<u>1,480</u>	<u>1,063</u>	<u>2,543</u>

13. Trade receivables

As at 31 December 2012 and 31 December 2011, the analysis of trade debtors that were past due but not impaired is as follows

	Total £000	Neither past due nor impaired £000	More than 30 days £000	More than 60 days £000	More than 90 days £000	More than 120 days £000
2012	33	-	-	-	10	23
2011	23	-	-	-	-	23

Notes to financial statements for the year ended 31 December 2012 (continued)

14. Other receivables

	2012 £000	2011 £000
Prepayments	50	80
Other receivables	710	693
Other financial assets (note 10)	1,331	1,996
	<u>2,091</u>	<u>2,769</u>

15. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts,

	2012 £000	2011 £000
Cash on hand and balances with banks	5,580	5,121
Cash and cash equivalents	<u>5,580</u>	<u>5,121</u>

16. Trade and other payables

	2012 £000	2011 £000
Accruals	697	739
Amounts due to parent company	100	100
Social security and other taxes	181	73
Trade creditors	55	66
Corporation tax	157	108
	<u>1,190</u>	<u>1,086</u>

Notes to financial statements for the year ended 31 December 2012 (continued)

17. Other interest bearing loans and borrowings

Bank borrowings relate to term loan facilities granted by banks. The below table shows those loan facilities made available to the company and their level of utilisation at the balance sheet date

	2012 £000	2011 £000
Bank borrowings due after more than 1 year	31,027	32,618
Unsecured loan notes due after more than 1 year	3,428	3,575
Non-current borrowings	<u>34,455</u>	<u>36,193</u>
	2012 £000	2011 £000
Bank borrowing due within 1 year	1,591	1,769
Unsecured loan notes due within 1 year	146	169
Current portion of long term borrowings	<u>1,737</u>	<u>1,938</u>

Bank borrowings relate to term loan facilities granted by the bank on 18 March 2005. The loan facility is for a total value of £43,053,000 comprising £37,007,000 term loan facility, £4,002,000 equity bridge facility and £2,044,000 debt service facility. As at 31 December 2012 £32,618,000 (2011 £34,387,000) has been drawn comprising £32,618,000 (2011 £34,387,000) term loan facility.

The term loan is repayable in six-monthly instalments which commenced on 30 September 2010 and end on 31 March 2033. Interest is charged on amounts drawn under the facilities based on floating LIBOR plus 0.90%.

The company has entered into swap agreements fixing the rate at 5.292% until March 2033. The swap has been designated as cash flow hedge. The hedge is 'highly effective'. The fair value of these derivatives is based on quoted prices in active markets, with the movements in fair value each year recognised in the change in fair value of effective cash flow hedges within the statement of comprehensive income. At 31 December 2012 the fair value liability of the interest rate derivatives was £10,613,000 (2011 £10,172,000) the related deferred tax asset of £2,441,000 (2011 £2,543,000) has been recognised in the hedging reserve.

The company's secured creditors have the benefit of first ranking charges granted by the company over the whole of its investments, undertaking, property assets, insurances and rights over certain contracts, both present and future, together with a first ranking charge over all of the ordinary shares of the company and those of its holding company, Yorkshire Transformation Holdings Limited.

Under the terms of the Equity Subscription Agreement dated 18 March 2005, the shareholders of the holding company agreed to subscribe for Loan Stock in Yorkshire Transformations Holdings Limited of up to £4,002,306. £4,002,000 of loan notes were subscribed to in January 2010 in proportion to shareholdings. In turn, on the same date the company's shareholder subscribed to £4,002,000 of loan notes in the company. The loan notes which are unsecured carry interest at 12% and are repayable in instalments on or before 30 September 2035.

Notes to financial statements for the year ended 31 December 2012 (continued)

17. Other interest bearing loans and borrowings (continued)

The unsecured loan notes are repayable as follows	2012	2011
	£000	£000
Within one year	146	169
Between one and two years	120	146
Between two and five years	235	300
Great than five years	3,073	3,129
	3,574	3,744

18. Share capital

	2012	2011
	£	£
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

19. Reserves

The following describes the nature and purpose of each reserve within equity

Reserve	Description and purpose
Hedging reserve	Gains or losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge
Retained earnings	All other net gains or losses and transactions with owners not recognised elsewhere

	Hedging reserve £000	Retained earnings £000	Total £000
Balance brought forward at 1 January 2012	(7,629)	204	(7,425)
Profit for the year	-	481	481
Dividends	-	(510)	(510)
Other comprehensive income (net of deferred tax)	(543)	-	(543)
Balance carried forward at 31 December 2012	(8,172)	175	(7,997)

	Hedging reserve £000	Retained earnings £000	Total £000
Balance brought forward at 1 January 2011	(4,002)	1,030	(2,972)
Profit for the year	-	299	299
Dividends	-	(1,125)	(1,125)
Other comprehensive income (net of deferred tax)	(3,627)	-	(3,627)
Balance carried forward at 31 December 2011	(7,629)	204	(7,425)

Notes to financial statements for the year ended 31 December 2012 (continued)

20. Related parties

The company's parent company is owned jointly by Yorkshire Housing Limited, BoS Infrastructure (No 3) Limited and Carillion Private Finance Limited

On 18 March 2005 the company entered into a £36 855,000 fixed price design and build contract with Carillion JM Limited (formerly Mowlem plc) for the refurbishment of properties in the Swardcliffe area of Leeds. The total value of work completed on the above contract during the year was £5,000 (2011 £129,000). At the year end amounts owed to Carillion JM Limited were £7,000 (2011 £7,000).

On 18 March 2005 the company entered into a contract for the provision of maintenance services for the properties with Yorkshire Housing Limited (formerly Yorkshire Community Housing Limited). The total value of work completed under this contract during the year was £2,090 000 (2011 £2 006 000). At the year end amounts owed to Yorkshire Housing Limited were £nil (2011 £nil).

Under the terms of an Investor's Agreement Yorkshire Housing Limited, BoS Infrastructure (No3) Limited and Carillion JM Limited (formerly Mowlem plc) provide the company with its directors. The value of work undertaken in the year was £130 000 (2011 £151,000). As at 31 December 2012 trade creditors and accruals includes £nil (2011 £52,000) due to the Shareholders.

Yorkshire Transformations Limited has also entered into a Management Services agreement with Carillion Private Finance Limited for the provision of management and technical support services. The value of work undertaken in the year was £241,000 (2011 £240 000). As at 31 December 2012 trade creditors and accruals includes £23 000 (2011 £23,000) due to Carillion Private Finance Limited.

As at 31 December 2012 in addition to the loan notes, there was £100 000 (2011 £100,000) owed to the holding company, Yorkshire Transformations Holdings Limited.

Amounts owed by and to related parties, except those included in note 17, are unsecured, interest-free, and do not have fixed terms of repayment. The balances will be settled in cash. No guarantees have been given or received. No provisions for doubtful debts have been raised against amounts outstanding and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

Notes to financial statements for the year ended 31 December 2012 (continued)

21. Financial instruments

21.1. Categories of financial assets and liabilities

All financial instruments valued at fair value are valued with reference to level two of the fair value hierarchy as set out in IFRS 7 Financial Instruments Disclosures. Fair values are determined based on prices that are observable for the asset and liability, either directly or indirectly.

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2012 Derivative financial liability	<u>-</u>	<u>10,613</u>	<u>-</u>	<u>10,613</u>
2011 Derivative financial liability	<u>-</u>	<u>10,172</u>	<u>-</u>	<u>10,172</u>

Notes to financial statements for the year ended 31 December 2012 (continued)

21.1 Categories of financial assets and liabilities (continued)

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows

	2012 £000 Carrying amount	2012 £000 Fair value	2011 £000 Carrying Amount	2011 £000 Fair value
Financial assets				
Other financial assets	31,184	31,184	33,504	33,504
Other assets				
Cash and cash equivalents	5,580	5,580	5,121	5,121
Trade and other receivables (notes 13 and 14)	793	793	796	796
Deferred tax (note 12)	2,441	2,441	2,543	2,543
Total loans and receivables	<u>8,814</u>	<u>8,814</u>	<u>8,460</u>	<u>8,460</u>
Total financial assets	<u>39,998</u>	<u>39,998</u>	<u>41,964</u>	<u>41,964</u>
Financial liabilities designated as fair value through profit and loss				
Other financial liabilities	(10,613)	(10,613)	(10,172)	(10,172)
Total financial liabilities at fair value through the profit or loss	<u>(10,613)</u>	<u>(10,613)</u>	<u>(10,172)</u>	<u>(10,172)</u>
Financial liabilities measured at amortised cost				
Interest bearing loans	(36,192)	(36,192)	(38,131)	(38,131)
Trade and other payables (note 16)	(1,190)	(1,190)	(1,086)	(1,086)
Total financial liabilities measured at amortised cost	<u>(37,382)</u>	<u>(37,382)</u>	<u>(39,217)</u>	<u>(39,217)</u>
Total financial liabilities	<u>(47,995)</u>	<u>(47,995)</u>	<u>(49,389)</u>	<u>(49,389)</u>
Total financial instruments	<u>(7,997)</u>	<u>(7,997)</u>	<u>(7,425)</u>	<u>(7,425)</u>

Notes to financial statements for the year ended 31 December 2012 (*continued*)

21.2 Financial risk management

The company's operations expose it to a number of financial risks. The board regularly reviews and agrees policies for managing each of these risks and these are summarised below.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able or are unwilling to meet their obligations.

Finance asset receivable and trade receivables primarily comprise of amounts due from Leeds City Council. Management considers the credit quality of this debtor to be good in respect of the amounts outstanding, due to it being a government body, and therefore credit risk is considered to be low. Cash and cash equivalents comprise balances held with banks. To reduce the risk of counterparty default the company only uses approved high quality banks.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Notes to financial statements for the year ended 31 December 2012 (continued)

21.2 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the company has insufficient financial resources available to meet its obligations as they fall due. Management review cashflow forecasts on a regular basis to determine whether the company has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

The financial assets of the company are modelled so as to match the profile of the financial liabilities, the maturity analysis of which is set out below. Management closely monitor performance against the financial models and take action if necessary when performance is not in line with modelled expectations.

The table below summarises the maturity profile of the company's financial liabilities, on an undiscounted basis, at 31 December 2012 and 31 December 2011.

2012	Less than 3 months £000's	3 to 12 months £000's	1 to 5 Years £000's	More than 5 years £000's	Total £000's
Non derivative financial liabilities					
Bank loans	1,865	1,722	12,103	41,890	57,578
Unsecured loan notes	285	285	1,911	7,275	9,756
Trade & other payables	1,090	-	-	100	1,190
	<u>3,240</u>	<u>2,005</u>	<u>14,014</u>	<u>49,265</u>	<u>68,524</u>
Derivative financial liabilities					
Interest rate swaps used for hedging	133	398	2,124	7,958	10,613
	<u>3,107</u>	<u>2,403</u>	<u>16,138</u>	<u>57,223</u>	<u>79,137</u>
2011	Less than 3 months £000's	3 to 12 months £000's	1 to 5 Years £000's	More than 5 years £000's	Total £000's
Non derivative financial liabilities					
Bank loans	2,009	1,876	12,941	44,654	61,480
Unsecured loan notes	308	306	2,055	7,704	10,373
Trade & other payables	986	-	-	100	1,086
	<u>3,303</u>	<u>2,182</u>	<u>14,996</u>	<u>52,458</u>	<u>72,939</u>
Derivative financial liabilities					
Interest rate swaps used for hedging	121	363	1,936	7,752	10,172
	<u>3,424</u>	<u>2,545</u>	<u>16,932</u>	<u>60,210</u>	<u>83,111</u>

Notes to financial statements for the year ended 31 December 2012 (*continued*)

21.2 Financial risk management (*continued*)

Interest rate risk

The company's exposure to market risk for changes in interest rates is considered to be very small, as all bank and other loans are at fixed rates. The risk for changes in interest rates is therefore restricted to the interest earned on bank deposits, which is immaterial to the company. It is the company's policy to settle trade payables within credit terms allowed and the company does therefore not incur interest on overdue balances.

The company manages interest rate risk on its primary borrowings by agreeing fixed interest rates on its unsecured loan notes and through the use of interest rate swaps on its variable rate bank loans. Under the interest rate swap the company agrees with the lender to exchange, at monthly or semi-annual intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

A sensitivity analysis has not been performed on the basis that the majority of the variable interest rates are swapped for fixed rates and the company is not exposed to foreign exchange risk.

As can be seen in the current year, the reserves of the company are affected by fluctuations in the fair value of the interest rate swaps. Over the term of the loans interest rates have been fixed, so as to minimise the cash flow interest rate risk. It is expected that at the end of the term of the swap, the liability will be £nil.

Whilst the variable interest rate is based on LIBOR, the fair value of the swaps is most sensitive to variations in the expectations of long term interest rates over the term of the swap. If expectations of future interest rates fall, the fair value of the interest rate swap liability will increase, whereas if expectations of long term interest rates increase, the value of the liability will reduce.

Capital management

The company seeks to match long term assets with long term funding, and short term assets with short term funding. Borrowings are required primarily to finance construction activity, and the related lease payments from customers are set at a level that will ensure that repayments of borrowings can be met as they fall due. Other expenses are met by cash balance generated from the company's ordinary activities.

22 Ultimate holding company

The ultimate and immediate holding company is Yorkshire Transformations Holdings Limited, a company registered in England and Wales. Copies of the accounts are available from Companies House, Crown Way, Cardiff CF14 3UZ.