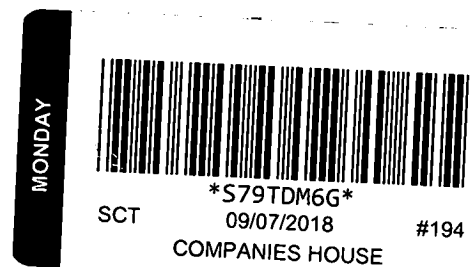
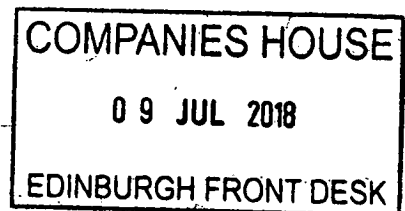


Company Registration No. 04768921 (England and Wales)

YORKSHIRE TRANSFORMATIONS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



YORKSHIRE TRANSFORMATIONS LIMITED

COMPANY INFORMATION

Directors

Ms A Roshier
M Smith
C Solley
G Millichamp
D Bolton (Appointed 6 February 2017)
Ms H Murphy (Appointed 21 August 2017)

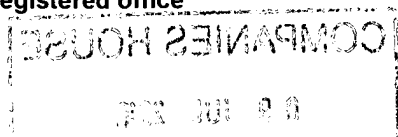
Secretary

HCP Management Services Limited

Company number

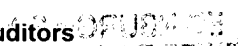
04768921

Registered office



8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Independent auditors



PricewaterhouseCoopers LLP
Level 4
144 Morrison Street
Edinburgh
EH3 8EX

YORKSHIRE TRANSFORMATIONS LIMITED

CONTENTS

	Page(s)
Directors' report	1 - 3
Independent auditor's report	4 - 6
Income statement	7
Statement of comprehensive income	8
Statement of financial position	9 - 10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 26

YORKSHIRE TRANSFORMATIONS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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 Swarcliffe area of Leeds. The concession is intended to continue to March 2035.

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.

Results and dividends

The results for the year are set out on page 5. The Company made a profit of £966,000 (2016: £574,000) for the year on a turnover of £6,015,000 (2016: £4,710,000).

Ordinary dividends were paid amounting to £600,000. The directors do not recommend payment of a final dividend.

Directors

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

Ms A Roshier

M Smith

C Solley

G Millichamp

D Bolton

(Appointed 6 February 2017)

Mr C Herriott

(Resigned 21 August 2017)

Ms H Murphy

(Appointed 21 August 2017)

Liquidity risk

The company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business.

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.

Interest rate risk

The company is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on floating rate deposits, bank overdrafts and loans. The company uses interest rate derivatives to manage the mix of fixed and variable rate debt so as to reduce its exposure to changes in interest rates.

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.

YORKSHIRE TRANSFORMATIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Credit risk

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

All customers who wish to trade on credit terms are subject to credit verification procedures. Trade Receivables are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the Board

Principal risk and uncertainties

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 in place. 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 and position of the business.

Post reporting date events

The directors continue to develop the business in line with the contract and there are no issues expected.

Statement of directors' responsibilities

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union 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 company will continue in business.

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

YORKSHIRE TRANSFORMATIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

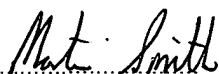
Going concern

The Directors note that there are Net Liabilities on the Statement of Financial Position, however the directors have reviewed the company's projected profits and cashflows by reference to a Financial Model covering Accounting Periods up to March 2036, having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the directors consider that the company will be able to settle its Liabilities as they fall due accordingly. The Financial Statements have been prepared on a Going Concern Basis.

Special rights and exemptions

The company has taken advantage of the special provisions applicable to companies subject to the small companies regime within section 415A of the Companies Act 2006 and elected not to prepare a strategic report.

On behalf of the board



M Smith

Director

28/6/18

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE TRANSFORMATIONS LIMITED

Opinion

In our opinion, Yorkshire Transformations Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flows, the statement 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.

Basis of 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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF YORKSHIRE TRANSFORMATIONS LIMITED

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.

Directors report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2017 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, 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 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 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.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

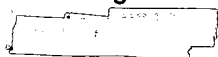
INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF YORKSHIRE TRANSFORMATIONS LIMITED

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh



9 JULY 2018

YORKSHIRE TRANSFORMATIONS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	6,015	4,710
Cost of sales		(3,827)	(3,105)
Gross profit		2,188	1,605
Administrative expenses		(1,443)	(1,060)
Operating profit	3	745	545
Finance Income	6	2,460	2,286
Finance costs	7	(2,020)	(2,113)
Profit before taxation		1,185	718
Income tax expense	8	(228)	(144)
Profit for the year		957	574

The notes on pages 11 to 24 form an integral part of these financial statements.

YORKSHIRE TRANSFORMATIONS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	£'000	£'000
Profit for the year	957	574
	<u> </u>	<u> </u>
Other comprehensive income:		
Deferred tax on other comprehensive income	(175)	179
Cash flow hedges:		
Net change in fair value of cashflow hedge	1,030	(1,582)
	<u> </u>	<u> </u>
Total other comprehensive income for the year	855	(1,403)
	<u> </u>	<u> </u>
Total comprehensive income for the year	1,812	(829)
	<u> </u>	<u> </u>

YORKSHIRE TRANSFORMATIONS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Other receivables		20,033	22,611
Deferred tax asset	16	1,624	1,799
		<u>21,657</u>	<u>24,410</u>
Current assets			
Trade and other receivables		1,944	345
Cash and cash equivalents		8,936	8,799
		<u>10,880</u>	<u>9,144</u>
Total assets		<u>32,537</u>	<u>33,554</u>
Current liabilities			
Trade and other payables	15	1,222	1,280
Borrowings	14	1,009	1,141
Derivative financial instruments	14	597	622
		<u>2,828</u>	<u>3,043</u>
Net current assets		<u>8,052</u>	<u>6,101</u>
Non-current liabilities			
Borrowings	14	28,117	29,126
Derivative financial instruments	14	8,953	9,958
		<u>37,070</u>	<u>39,084</u>
Total liabilities		<u>39,898</u>	<u>42,127</u>
Net liabilities		<u>(7,361)</u>	<u>(8,573)</u>
Equity			
Share capital	17	-	-
Hedging reserve	18	(7,926)	(8,781)
Retained earnings		565	208
Total equity		<u>(7,361)</u>	<u>(8,573)</u>

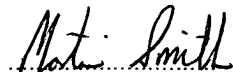
These financial statements have been prepared in accordance with the provisions applicable to entities subject to the small companies regime.

YORKSHIRE TRANSFORMATIONS LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2017

The financial statements were approved by the board of directors and authorised for issue on 28/6/18 and are signed on its behalf by:



M Smith
Director

Company Registration No. 04768921

YORKSHIRE TRANSFORMATIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016		(7,378)	179	(7,199)
Year ended 31 December 2016:				
Profit for the year		-	574	574
Other comprehensive income		(1,403)	-	(1,403)
Total comprehensive income for the year		(1,403)	574	(829)
Dividends paid		-	(545)	(545)
Balance at 31 December 2016		(8,781)	208	(8,573)
Year ended 31 December 2017:				
Profit for the year		-	957	957
Other comprehensive income		855	-	855
Total comprehensive income for the year		855	957	1,812
Dividends paid		-	(600)	(600)
Balance at 31 December 2017		(7,926)	565	(7,361)

Included in the fair value movement on cash flow hedging instruments is £1,279,000 that was recycled through interest payable in the Income Statement.

YORKSHIRE TRANSFORMATIONS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
	Notes	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Cash generated from operations	21		1,592		2,428
Tax paid			(142)		(136)
Net cash inflow from operating activities			1,450		2,292
Investing activities					
Interest received		2,460		2,286	
Net cash generated from investing activities			2,460		2,286
Financing activities					
Interest paid		(2,031)		(2,113)	
Repayment of borrowings		(54)		(71)	
Repayment of bank loans		(1,087)		(1,131)	
Dividends paid		(601)		(545)	
Net cash used in financing activities			(3,773)		(3,860)
Net increase in cash and cash equivalents			137		718
Cash and cash equivalents at beginning of year			8,799		8,081
Cash and cash equivalents at end of year			8,936		8,799

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

Yorkshire Transformations Limited is a private company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, (except as otherwise stated).

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are accounted for at fair value. The principal accounting policies adopted are set out below.

- The financial statements are presented in pound sterling, which is the functional currency. All amounts in the financial statements have been rounded to the nearest £1,000
- There were no new IFRS standards and interpretations adopted during the year.

Adoption of new and revised standards and changes in accounting policies

At the date of authorisation of these financial statements, the following Standards and Interpretations issued by IASB and IFRIC, which have not yet been applied in these financial statements, were in issue but not yet effective:

Standards which are in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations issued by IASB and IFRIC, which have not yet been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 Financial Instruments - effective for annual periods beginning on or after 1 January 2018
- IFRS 15 Revenue from contracts with customers - Effective for annual periods beginning on or after 1 January 2018.
- Effective date of IFRS 15 - Amendment to IFRS 15 (effective for annual periods beginning on or after 1 January 2018).

These standards are effective for annual periods beginning on or after 1 January 2018. The Company is currently determining the impact of implementing IFRS 9 and IFRS 15 with effect from 1 January 2018, including considering the interaction between IFRS 9 and IFRS 15 and IFRIC 12 "Service Concession Arrangements".

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.2 Going concern

The directors have reviewed the Company's projected profits and cash flows by reference to a financial model. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

The directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future and do not see the net liabilities, shown in the accounts, as a concern or risk to the future operational existence. The Directors note that there are Net Liabilities on the Statement of Financial Position, however the directors have reviewed the company's projected profits and cashflows by reference to a Financial Model covering Accounting Periods up to March 2036, having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the directors consider that the company will be able to settle its Liabilities as they fall due accordingly.

Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

1.3 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The resulting calculations under IFRS 13 affected the principles that the Company uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed. IFRS 13 mainly impacts the disclosures of the Company. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

1.4 Cash and cash equivalents

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

1.5 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.6 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

1.7 Equity instruments

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

1.8 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are classified as current.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

1.10 Finance debtor and Service income

The Company is an operator of the Private Finance Initiative (PFI) contract. The underlying asset is not deemed to be an asset of the Company, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

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

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

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.11 Judgements and key sources of estimation uncertainty

The preparation of these financial statements require management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes may differ from those estimates.

The significant accounting estimates or judgements required in the preparation of these financial statements are as follows:

i. Accounting for service concession arrangements

Accounting for the service concession arrangement requires estimation of service margins, finance debtor interest rates and finance debtor amortisation profile, which are based on the forecasted results of the contract over the full contract term.

ii. Hedge accounting and fair value of interest rate swaps

The Company uses interest rate swaps to hedge economic exposures in relation to movements in interest rates. The Company fair values its derivative financial instruments and records the fair value on its Statement of Financial Position. No market prices are available for such instruments and therefore the fair values are determined by calculating the present value of estimated future cash flows based on observable yield curves.

There is a judgement as to whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared to support the economic relationship between the hedging instrument and the underlying hedged item, being the loan.

2 Revenue

An analysis of the company's revenue is as follows:

	2017 £'000	2016 £'000
Turnover	6,015	4,710

3 Operating profit

	2017 £'000	2016 £'000
Operating profit for the year is stated after charging:		
Fees payable to the company's auditor for the audit of the company's financial statements	10	13

4 Employees

There were no employees during the year (2016: none). The directors have no contract of service with the company (2016: none).

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

5 Directors' remuneration

	2017 £'000	2016 £'000
Sums paid to third parties for directors' services	176	170

6 Finance income

	2017 £'000	2016 £'000
Finance income		
Bank deposits	2	6
Interest income on the finance asset	2,458	2,280
Total finance income	2,460	2,286

7 Finance costs

	2017 £'000	2016 £'000
Interest on bank overdrafts and loans	1,640	1,725
Other interest payable	380	388
Total interest expense	2,020	2,113

8 Taxation

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

	2017 £'000	2016 £'000
Profit before taxation	1,185	718
Expected tax charge/(credit) based on a corporation tax rate of 19.25% (2016: 20%)	228	144
Tax charged in the financial statements	228	144

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

8 Taxation

(Continued)

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2017 £'000	2016 £'000
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	175	(179)
	<u>175</u>	<u>(179)</u>
	2017 £'000	2016 £'000
Current tax Expense:		
Current year charge	(219)	(144)
	<u>(219)</u>	<u>(144)</u>
Total tax charge	<u>(219)</u>	<u>(144)</u>

9 Trade receivables - credit risk

Fair value of trade receivables

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

	Carrying value		Fair value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade receivables net of allowances	-	4	-	4
Amounts due from contract customers < 1 yr	1,901	313	1,901	313
Other debtors	20,037	22,613	20,037	22,613
Prepayments	39	26	39	26
	<u>21,977</u>	<u>22,956</u>	<u>21,977</u>	<u>22,956</u>

No significant receivable balances are impaired at the reporting end date.

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

10 Financial Instruments

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 Values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts are shown below.

	2017 £000 Carrying amount	2017 £000 Fair Value	2016 £000 Carrying amount	2016 £000 Fair value
Financial assets				
Finance Debtor	21,934	29,060	22,924	22,924
Other assets				
Cash and cash equivalents	8,936	8,936	8,799	8,799
Trade and other receivables	43	43	32	32
Total other assets	<u>10,603</u>	<u>10,603</u>	<u>10,630</u>	<u>10,630</u>
Total financial assets	<u>32,537</u>	<u>39,663</u>	<u>33,554</u>	<u>33,554</u>
Designated cash flow hedge relationships				
Other financial liabilities	(9,550)	(9,550)	(10,580)	(10,580)
Total financial liabilities	<u>(9,550)</u>	<u>(9,550)</u>	<u>(10,580)</u>	<u>(10,580)</u>
Financial liabilities measured at amortised cost				
Interest bearing loans	(29,126)	(20,301)	(30,267)	(20,687)
Trade and other payables	(1,222)	(1,222)	(1,280)	(1,280)
Total financial liabilities measured at amortised cost	<u>(30,348)</u>	<u>(21,523)</u>	<u>(31,547)</u>	<u>(21,967)</u>
Total financial liabilities	<u>(39,898)</u>	<u>(31,073)</u>	<u>(42,127)</u>	<u>(32,547)</u>
Total financial instruments	<u>(7,361)</u>	<u>8,590</u>	<u>(8,573)</u>	<u>1,007</u>

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

11 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 2017 and 31 December 2016.

2017	Carrying values £000	Contractual Cashflows £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000
Non-derivative Financial Liabilities						
Bank loans	26,051	41,887	1,323	1,230	10,165	29,170
Unsecured loan notes	3,074	7,378	184	244	1,712	5,237
Trade and other payables	1,214	1,214	1,114	-	-	100
	<u>30,339</u>	<u>50,479</u>	<u>2,621</u>	<u>1,474</u>	<u>11,877</u>	<u>34,507</u>
Derivative Financial Liabilities						
Interest rate swaps used for hedging	9,550	9,950	149	448	2,388	6,566
	<u>39,889</u>	<u>60,429</u>	<u>2,770</u>	<u>1,922</u>	<u>14,265</u>	<u>41,073</u>
2016	Carrying values £000	Contractual Cashflows £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000
Non-derivative Financial Liabilities						
Bank loans	27,139	44,642	1,434	1,320	10,033	31,855
Unsecured loan notes	3,128	7,805	213	215	1,713	5,664
Trade and other payables	1,280	1,280	1,180	-	-	100
	<u>31,547</u>	<u>53,727</u>	<u>2,827</u>	<u>1,535</u>	<u>11,746</u>	<u>37,619</u>
Derivative Financial Liabilities						
Interest rate swaps used for hedging	10,580	10,580	156	467	2,489	7,468
	<u>42,127</u>	<u>64,307</u>	<u>2,983</u>	<u>2,002</u>	<u>14,235</u>	<u>45,087</u>

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 Liquidity risk

(Continued)

12 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.

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 will increase, whereas if expectations of long term interest rates increase, the value of the liability will reduce.

13 Credit Risk

Credit risk is the risk of financial loss where counterparties are not able or are not willing 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 bank 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.

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

14 Borrowings

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 2017 £26,052,000 (2016: £27,139,000) has been drawn comprising £26,052,000 (2016: £27,139,000).

The term loan is repayable in six-monthly installments 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 a cashflow hedge. The hedge is 'highly effective'. The fair value of these derivatives is based on quoted process in active markets, with 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 31st December 2017 the fair value liability of the interest rate derivatives was £9,550,000 (£2016: £10,580,000) the related deferred tax asset of £1,624,000 (2016: £1,799,000) 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 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 £4,002,000. £4,002,000 of the 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 installments on or before 30 September 2035.

	2017 £'000	2016 £'000
Unsecured borrowings at amortised cost		
Bank loans	26,052	27,139
Other loans	3,074	3,128
	<u>29,126</u>	<u>30,267</u>

Analysis of borrowings

Borrowings are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2017 £'000	2016 £'000
Current liabilities	1,009	1,141
Non-current liabilities	28,117	29,126
	<u>29,126</u>	<u>30,267</u>

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

15 Trade and other payables

	Current 2017 £'000	2016 £'000
Trade payables	28	17
Amounts due to fellow group undertakings	100	100
Accruals	660	892
Social security and other taxation	434	271
	<u>1,222</u>	<u>1,280</u>

The Amounts due to fellow group undertakings of £100,000 is a loan due to Yorkshire Transformations Holdings Limited who own 100% of the company's share capital. The shares are pledged as security for the borrowings, it is not interest bearing and it is repayable on or before September 2035.

16 Deferred taxation

The following are the major deferred tax assets recognised by the company and movements thereon during the current and prior reporting period.

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 2017 has been calculated on the rate of 17% substantively enacted at the balance sheet date.

	Swap £'000
Deferred tax asset at 1 January 2016	1,620
Deferred tax movements in prior year	
On fair value of financial derivatives	179
Deferred tax asset at 1 January 2017	<u>1,799</u>
Deferred tax movements in current year	
On fair value of financial derivatives	(175)
Deferred tax asset at 31 December 2017	<u>1,624</u>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £'000	2016 £'000
Deferred tax assets	<u>1,624</u>	<u>1,799</u>

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

17	Share capital	2017	2016
		£	£
	<i>Authorised, issued and fully paid</i>		
	Ordinary share of £1	1	1
		<u> </u>	<u> </u>
18	Hedging reserve	2017	2016
		£'000	£'000
	At 1 January 2017	(8,781)	(7,378)
	Gains and losses on cash flow hedges	1,030	(1,582)
	Tax on gains and losses on cash flow hedges	(175)	179
		<u> </u>	<u> </u>
	At 31 December 2017	<u>(7,926)</u>	<u>(8,781)</u>

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments relating to hedged transactions that have not yet occurred, net of tax.

19 Related party transactions

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 during this contract during the year was £2,437,000 (2016: £2,474,000). At the year end amounts owed to Yorkshire Housing Limited were £5,506 (2016: £11,806).

Under the terms of the Investor's agreement Yorkshire Housing Limited, Aberdeen Infrastructure (No3) Limited and DIF Infra 3 UK Ltd provide the company with its directors. The value of work undertaken in the year was £176,000 (£2016: £170,000). As at 31 December 2017 trade creditors and accruals includes Nil (2016: Nil) due to shareholders.

The total value of sub debt loan repayments including interest owing to the holding company, Yorkshire Transformations Holdings Limited at 31 December 2017 are £3,166,949 (2016: £3,168,598). The interest payable charge to the holding company, Yorkshire Transformations Holdings limited in the year was £373,792 (2016: £381,471). As at 31 December 2017, in addition to the loan notes, there was £100,000 (2016: £100,000) owed to the holding company, Yorkshire Transformations Holdings Limited.

20 Controlling party

The Company is a wholly owned subsidiary undertaking of Yorkshire Transformations Holdings Limited incorporated in the United Kingdom, which is the immediate parent company. Copies of the financial statements of Yorkshire Transformations Holdings Limited can be obtained from 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The company's parent company is owned jointly by Yorkshire Housing Limited, Aberdeen Infrastructure (No 3) Limited and DIF Infra 3 UK Ltd with no ultimate parent company. On 30 December 2014 DIF Infra 3 UK Ltd acquired the equity previously held by Carillion Private Finance Limited.

YORKSHIRE TRANSFORMATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

21 Cash generated from operations

	2017 £'000	2016 £'000
Profit for the year	957	574
Adjustments for:		
Taxation charged	228	144
Finance costs	2,020	2,113
Finance income	(2,460)	(2,286)
Movements in working capital:		
Decrease in trade and other receivables	979	2,141
Decrease in trade and other payables	(132)	(246)
Cash generated from operations	<u>1,592</u>	<u>2,440</u>