SEVERN RIVER CROSSING PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2012

Company Registration Number: 02379695

Severn River Crossing Plc

Annual Report and Financial Statements for the year ended 31 December 2012

Presented to Parliament pursuant to section 27 of the Severn Bridges Act 1992

January 2015

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CHAIRMAN'S STATEMENT

In 2012 traffic travelling westbound over the Severn Bridge and Second Severn Crossing increased to 12,500,463 toll paying vehicles (2011 : 12,495,001). Car journeys increased by 0.4% (2011 : increase of 0.6%), whilst Light Goods Vehicle journeys decreased by 0.9% (2011 : increase of 2.8%) and Heavy Goods Vehicle journeys decreased by 1.5% (2011 : decrease of 1.8%). With inflation-linked increases in 2012 toll prices, the Company's turnover rose by 4.6% to £81.2 million (2011 : £77.6 million).

With lower depreciation charges of £38.6 million (2011 : £41.7 million) and lower debt indexation costs of £11.3 million (2011 : £16.2 million) the Company reported a loss before tax of £2.7 million (2011 : £13.7 million). However with the abolition of Industrial Buildings Allowances the Company's tax charge was £6.5 million (2011 : £4.9 million) and the Company recorded a loss after tax of £9.2 million (2011 : £18.6 million).

During 2012 the Company retained the cash generated by the business and also secured a Term Loan Facility with Lloyds Bank for drawdown at the end of June 2013 to meet the full redemption of the Debenture Stock on 1 July 2013.

In 2012 the funding position of the Company's Pension Scheme improved. The FRS17 valuation at 31 December 2012 confirmed a Net Pension Liability of £2.2 million (2011 : £2.4 million). The market value of Scheme Assets improved to £17.3 million (2011 : £15.5 million) and the value of Scheme Liabilities increased to £20.1 million (2011 : £18.6 million).

A H MOORE
Chairman

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited Financial Statements for the year ended 31 December 2012.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company was formed to take over the operation and maintenance of the Severn Bridge and finance the outstanding debt and to design, construct, finance, operate and maintain the Second Severn Crossing.

Revenue from toll charges is being used to repay the debt finance and both bridges will revert to public ownership once the project's required revenue, as defined in the Concession Agreement with the Secretary of State for Transport, has been collected, subject to a maximum Concession period of 30 years. A business review is included in the Chairman's Statement; this includes the recent movements in traffic levels; however, the Directors anticipate traffic will remain at least in line with current levels and, with index-linked toll prices toll revenue will increase in 2013 and subsequent years.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a number of financial risks including inflation, interest rates, reduced traffic volumes and increased maintenance repair costs. The Company has sought to mitigate these risks by:

(i) Index-linking toll revenues, two of the debt instruments, and its two main subcontracts for maintenance and tolling management;

(ii) Debt management and reviewing suitable treasury products for cash on deposit (the Company uses the main United Kingdom listed banks for its treasury deposits);

(iii) Keeping traffic levels and projections under review; and

(iv) A proactive programme of inspections and maintenance repairs on both bridges, including a detailed review of works to be completed before the end of the Concession period.

The Company has a combination of fixed rate and floating rate borrowings as set out in Notes 9 and 10.

Tolls are collected from drivers as they cross the bridges or on a prepayment basis through an electronic tolling system. This removes credit risk from the Company's revenues.

The Company has developed a Risk Control Matrix which is regularly reviewed by the Board.

RESULTS AND DIVIDENDS

The Company's 2012 turnover increased by 4.6% to £81.2 million (2011 : £77.6 million) and the Company reported a loss after tax of £9.2 million (2011 : loss £18.6 million). The directors cannot propose a dividend (2011 : £nil).

DIRECTORS' REPORT (Continued)

DIRECTORS

The Directors (all non-Executive) who served during the year were:

Directors		Alternates
A H Moore (Chairman)		
P R Armstrong		
A Battersby	-	K L Pearson
D W Bowler	-	L R Burgard (resigned 6 June 2012)
	-	M Vial (appointed 6 June 2012)
M Mercer-Deadman (resigned 29 March 2012)		
N W Middleton	-	J Cavill
O Mathieu	-	P-L Delseny
A S Pearson (appointed 29 March 2012)		

A H Moore is an independent Director appointed by the Board.

DIRECTORS' INTERESTS

The Directors and Alternate Directors had no interest in any shares or debt of the Company at any time during the year.

M Mercer-Deadman was and A S Pearson and P Armstrong are Operations Directors of John Laing Investments Limited.

O Mathieu is Chief Financial and Asset Management Officer of Vinci Concessions S.A.S.. D Bowler is a Director of Vinci PLC. The ultimate parent company of Vinci PLC is Vinci S.A., a company incorporated in France. L R Burgard is Chairman of Vinci Concessions S.A.S.. P-L Delseny is Portfolio Manager (Concessions and Operations) of Vinci Concessions S.A.S., a fully owned subsidiary of Vinci S.A.. M Vial is Deputy Asset Manager of Vinci Concessions S.A.S..

A Battersby and K L Pearson are Directors of and Shareholders in Bank of America Merrill Lynch. N W Middleton and J Cavill are employed in activities undertaken by Barclays Infrastructure Funds Management Limited, a business wholly owned by Barclays plc. Barclays Capital, the investment banking arm of Barclays plc, and Bank of America arranged respectively the Debenture Stock and the original Senior Facility for the project.

John Laing plc, Vinci Concessions S.A.S., Barclays plc and Bank of America between them own, through subsidiary companies, 100% of the issued ordinary share capital of the Company.

The Company has appointed Cofiroute (UK) Limited, a subsidiary of Vinci Concessions S.A.S., as its tolling contractor.

DIRECTORS' REPORT (Continued)

SUBSTANTIAL SHAREHOLDINGS

At 31 December 2012 Prudential Trustee Company Limited was beneficially interested in 50,000 ordinary shares (100%) of the issued ordinary share capital of the Company, and Prudential Assurance Company Limited has a charge over the Company's Ordinary Shares.

SUPPLIER PAYMENT POLICY

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by them. Included within the Creditors falling due within one year are Trade Creditors of £723,000 (2011 : £836,000). Trade creditor days for 2012 was 54 days (2011 : 52 days).

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

……………………………………
J A RAWLE
COMPANY SECRETARY

Bridge Access Road
AUST
South Gloucestershire
BS35 4BD

27 March 2013

CORPORATE GOVERNANCE

Chairman's Introduction

Severn River Crossing plc recognises the importance of good Corporate Governance. Although not required to, as companies with only listed debt fall outside the scope of the June 2010 FRC UK Corporate Governance Code ('the Code'), the Board is committed to the principles of good Corporate Governance and voluntarily follows the Code to the fullest extent possible. Given the structure of the Company, it is not possible to comply with all aspects of the Code; though we make every effort to comply where possible. I am pleased with the Company's commitment to good Corporate Governance.

1. Statement of Compliance with the Code

Throughout the year ended 31 December 2012 the Company has been in compliance with the Code provisions set out in Section 1 of the June 2010 FRC UK Corporate Governance Code except for the following matters:

- **Provision A1.2/B1.2 -** As set out below and in the Directors' Report (pages 2 to 4) six of the non-executive Directors are not independent in that they have relationships and business interests with the Company, and consequently there is no senior independent Director. The Company believes that the non-executive Directors make a valuable contribution and the present composition of the Board is appropriate to its needs.
- **Provision B2.1/B2.2/B2.3/B2.4/B3.2/B7.1** - Given the composition of the Board, non-executive Directors are not appointed nor re-elected by the Company for specific terms. They are not selected through a formal process nor is their appointment considered by the Board as a whole. The power to appoint Directors lies with the shareholders, who may act independently of each other in making their appointments, as set forth in the Memorandum and Articles of Association of the Company. The holders of each class of Ordinary Shares determine the term of office of their appointed Directors. As a result there is no Nomination Committee.
- **Provision B4.1/B6.1/B6.3** – As the members of the Board (apart from the Chairman) are appointed by shareholder companies no formal training has been provided to the Board by the Company and no formal evaluation of the performance of the Board has been carried out by the Company during the year.
- **Provision D2.1 -** Since the Directors do not act in an executive capacity and since they, other than the Chairman, receive no remuneration from the Company, no Remuneration Committee is considered necessary. The Chairman's remuneration is set by the Board.
- **Provision D2.2 -** The Company has not included a Directors' Remuneration Report because it has taken advantage of the exemption under the Directors' Remuneration Report Regulations 2002, which states that Companies with only listed Debt do not fall within the scope of these Regulations.
- **Provision C3.1** – Due to the nature of the appointment of the non-executive Directors, as discussed above, the Audit Committee does not consist of a majority of independent, non-executive Directors.

2. Statement About Application of the Principles of Good Governance

The Board currently comprises seven non-executive Directors. One of these is independent, A H Moore, who as Chairman is responsible for the leadership and effective operation of the Board. The other six non-executive Directors comprise two representatives from each of John Laing plc and Vinci and one from each of BankAmerica International Financial Corporation and Barclays plc, who directly or through subsidiaries, are sole equity shareholders of the Company.

The Company has a General Manager and a Deputy General Manager who as Executive Management attend Board Meetings and report to the Board.

The Board met four times in 2012. It receives Board Papers one week in advance of meetings.

The Chairman, together with a Director or Alternate Director from each shareholder, attended all of the Board Meetings during 2012.

CORPORATE GOVERNANCE (Continued)

2. **Statement About Application of the Principles of Good Governance (Continued)**

Monthly reports comprising Operational Summaries and Monthly Management Accounts are circulated to all Directors by Executive Management.

The Company ensures effective reporting to investors and shareholders by providing Annual and Interim Financial Statements, Six Monthly Cash Flows and Traffic Reports.

3. **Internal Control System**

The Board has applied Principle C.2 of the Code by establishing a process for identifying, evaluating and managing the significant risks the Company faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this Report and which is in accordance with Internal Control : Revised Guidance for Directors on the Combined Code published in October 2005, issued by the Turnbull Committee. The Board is responsible for the Company's System of Internal Control and for reviewing its effectiveness. Such a System is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision C2.1 of the Code, the Board reviews the effectiveness of the Company's System of Internal Control. The Board's monitoring covers all controls, including Financial, Operational and Compliance Controls and Risk Management. It is based principally on reviewing Reports from Management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

The Audit Committee assists the Board in discharging its review responsibilities through direct liaison with the Company's external and internal auditors. It reviews the plan, work and reporting of the Internal Audit function. It also oversees the external audit process and has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor. There are no contractual obligations that restrict the Audit Committee's capacity to recommend a particular firm for appointment. The Committee has determined that providing the work of the external auditor remains entirely satisfactory, formal consideration of a tender process is at the Committee's discretion. The current external auditor was appointed to the role on 1 August 2002. The lead audit engagement partner is rotated every five years with the most recent rotation being for this year ended 31 December 2012. The Company has a policy of permitting the external auditor to provide other services to the Company on the provision that this does not impair their independence. The Committee reviews the independence of the external auditor through monitoring the level and nature of non-audit services. The fees paid to the external auditor are disclosed in Note 3 to the Financial Statements. The Committee also considers the Company's financial statements. Formal terms of reference are available on request.

During the year A H Moore, D W Bowler, A Battersby and N W Middleton (who is a Chartered Accountant) served on the Audit Committee which met once and was fully attended. M Mercer-Deadman served on the Audit Committee until 29 March 2012 and was replaced by P Armstrong.

The key features of the Internal Financial Control System that operated throughout the period covered by the Financial Statements are described under the following headings :

- **Control Environment**

  The Board has put in place a documented Organisational Structure with clearly defined and understood lines of responsibility and delegation of authority from the Board to Executive Management. There are established Policies and Procedures, which are subject to regular review. This includes the Company's Health & Safety Policies.

- **Identification and Evaluation of Business Risks and Control Objectives**

  The Board has the primary responsibility for identifying the major business risks facing the Company and developing appropriate policies to manage those risks. The Risk Management approach is used to focus the work of the Internal Audit Function on the Company's most significant areas of risk and to determine key control objectives.

- **Information Systems**

  The Company prepares an Annual Budget which is approved by the Board. There is a Financial Reporting System which compares results with budget on a monthly basis to explain any significant variance. Cash flow projections are prepared every six months and these are used to ensure that the Company has adequate funding for its future needs.

CORPORATE GOVERNANCE (Continued)

3. Internal Control System (Continued)

- **Main Control Procedures**

  The Board has set up Committees, comprising Directors and Executive Management, to review the Company's main areas of activity. The Board and these Committees meet to consider Strategic, Financial, Organisational and Compliance Issues and make recommendations for Board approval.

- **Monitoring**

  The Board has delegated to Executive Management implementation of the System of Internal Financial Control. The operation of the System is monitored by an outsourced Internal Audit Function which carries out a programme of cyclical reviews focusing on key aspects of the business. The Internal Audit Function, together with the Company's external Auditor report to the Audit Committee.

  The Board has reviewed the operation and effectiveness of this System of Internal Financial Control. No weaknesses in this System have led to any material losses or contingencies during the last year or the period from the balance sheet date to the date of this Report.

4. Going Concern Basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Directors' Report on Pages 1 to 4. The Company has a Concession from the Secretary of State for Transport which includes the right to collect tolls from drivers who cross the Severn Bridge and Second Severn Crossing. This has been, and remains, a business which generates cash to service and repay the Company's debts as they fall due, as well as meeting its running costs. The Company has secured a £30 million Term Loan Facility to enable it to fully redeem the Company's Debenture Stock on 1 July 2013.

The Term Loan is scheduled to be repaid over the following 12 months.

After making enquiries, the Directors have concluded that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these accounts. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

5. Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ON BEHALF OF THE BOARD

P R ARMSTRONG
DIRECTOR
27 March 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

SEVERN RIVER CROSSING PLC

We have audited the financial statements of Severn River Crossing Plc for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Chairman's Statement 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.

Although not required to do so, the directors have voluntarily chosen to make a Corporate Governance Statement detailing the extent of their compliance with the June 2010 FRC UK Corporate Governance Code. We reviewed:

- the directors' statement contained within the Corporate Governance Statement in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the June 2010 FRC UK Corporate Governance Code specified for our review.

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

27 March 2013

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
Turnover	1(c)	81,222	77,623
Cost of Sales		(50,979)	(54,756)
Gross Profit		30,243	22,867
Administrative Expenses		(402)	(478)
Other Operating Income (Net)	2	314	1,513
Operating Profit	3	30,155	23,902
Finance Charges (Net)	5	(32,834)	(37,592)
Loss on Ordinary Activities before Taxation		(2,679)	(13,690)
Tax Charge on Loss on Ordinary Activities	6	(6,506)	(4,946)
Loss for the Financial Year		**(9,185)**	**(18,636)**

The accompanying notes form an integral part of this Profit and Loss Account. All operations of the Company continued throughout both years and no operations were acquired or discontinued.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012 £000	2011 £000
Loss for the Financial Year		(9,185)	(18,636)
Actuarial Gain/(Loss)	12	238	(1,878)
Associated Deferred Tax	12	(122)	409
Total Recognised Losses Related to the Year		**(9,069)**	**(20,105)**

BALANCE SHEET AS AT 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
FIXED ASSETS	7	210,581	248,929
CURRENT ASSETS			
Debtors due within one year	8	1,871	1,026
Investments – Short-Term Deposits		155,356	108,383
Cash at Bank and in Hand		33,082	30,980
		190,309	140,389
CREDITORS			
Amounts falling due within one year	9	(244,744)	(13,097)
NET CURRENT (LIABILITIES)/ASSETS		(54,435)	127,292
TOTAL ASSETS LESS CURRENT LIABILITIES		156,146	376,221
CREDITORS			
Amounts falling due after more than one year	10	(180,534)	(389,294)
PROVISION FOR DEFERRED TAX	11	(6,979)	(9,060)
NET LIABILITIES BEFORE PENSION LIABILITY		(31,367)	(22,133)
NET PENSION LIABILITY	12	(2,196)	(2,361)
NET LIABILITIES		**(33,563)**	**(24,494)**
CAPITAL AND RESERVES			
Ordinary Share Capital	13	13	13
Share Premium Account	14	106	319
Capital Redemption Reserve	14	26	26
Profit and Loss Account	14	(33,708)	(24,852)
SHAREHOLDERS' DEFICIT	14	**(33,563)**	**(24,494)**

The financial statements of Severn River Crossing Plc, registered number 02379695, on pages 1 to 32 were approved by the Board of Directors and authorised for issue on 27 March 2013.

Signed on behalf of the Board of Directors

A BATTERSBY
DIRECTOR

P R ARMSTRONG
DIRECTOR

The accompanying notes form an integral part of this Balance Sheet.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	68,995	66,970
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest Received		2,469	1,352
Interest Paid		(14,313)	(13,532)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(11,844)	(12,180)
TAXATION PAID		(7,855)	(7,116)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of Tangible Fixed Assets		(221)	(525)
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		49,075	47,149
MANAGEMENT OF LIQUID RESOURCES			
Increase in Cash on Short-Term Deposit	16	(46,973)	(51,238)
INCREASE/(DECREASE) IN CASH IN THE YEAR	16	**2,102**	**(4,089)**

The accompanying notes form an integral part of this Cash Flow Statement

NOTES TO THE ACCOUNTS

1. **ACCOUNTING POLICIES**

The Principal Accounting Policies, all of which have been applied consistently throughout the current and previous periods, are set out below.

(a) **Basis of Accounting**

The accounts have been prepared on a Going Concern basis in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

(b) **Going Concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Chairman's Statement on page 1, and in the Corporate Governance Statement on page 7.

(c) **Turnover**

Turnover represents revenue received from tolls net of VAT. All turnover, operating results and net assets have derived from operations within the United Kingdom. Revenue is recognised when vehicles cross one of the two Severn Crossings.

(d) **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and Laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all temporary timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on Government Bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

NOTES TO THE ACCOUNTS (Continued)

1. **ACCOUNTING POLICIES (Continued)**

(e) **Tangible Fixed Assets**

Tangible fixed assets are shown at original historical cost less depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost of the fixed assets on a straight-line basis over their expected useful life, as follows :

Bridges	-	straight line over remaining length of Concession
Leasehold improvements	-	over the term of the lease
Office furniture, fittings and toll equipment	-	over 1 to 8 years

(f) **Capitalised Interest**

Interest payable which relates to funds borrowed for the design and construction of the Second Severn Crossing has been capitalised in the Balance Sheet as part of the cost of the Bridges.

(g) **Pension Arrangements**

The Company has made pension arrangements for substantially all of its employees through a funded defined benefit Pension Scheme set up in April 1992. The assets of the Severn River Crossing Plc Pension Fund are held independently from the Company in a fund administered by Trustees.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

NOTES TO THE ACCOUNTS (Continued)

1. ACCOUNTING POLICIES (Continued)

(h) Debt

Capital Instruments are initially stated in the Balance Sheet at the fair value of the consideration received on their issue.

Finance costs are charged to the Profit and Loss Account so as to allocate the finance cost over the term of the capital instruments at a constant rate on their carrying amount.

(i) Foreign Currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Profit and Loss Account.

(j) Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the company becomes a party to the contractual provisions of the instrument.

- **Cash**

  Cash comprises cash on hand and demand deposits that are readily converted to a known amount of cash and are subject to insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

- **Investments**

  Investments comprise short-term monetary deposits that are convertible to a known amount of cash and are subject to insignificant risks of changes in values. The carrying amount of these assets approximates their fair value.

- **Other Receivables**

  Other receivables comprise amounts due in respect of other operating income and accrued interest on investments. The receivables are stated net of allowance for doubtful debts. No interest is charged on these receivables. The carrying value of these assets approximates to their fair value.

- **Impairment of Financial Assets**

  Other receivables are assessed for impairment on an individual basis. Objective evidence of impairment includes the Company's past experience of collecting payments. There is currently no impairment of any financial asset.

NOTES TO THE ACCOUNTS (Continued)

1. ACCOUNTING POLICIES (Continued)

- **Financial Liabilities and Equity**

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

- **Index-Linked Debt**

Index-Linked Debt (Debenture Stock and Government Subordinated Loan) are recorded at the proceeds received, net of direct issue costs. Finance charges, including interest and indexation charges, are accounted for on an accruals basis in the Profit and Loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

- **Trade Payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

(k) **Equity Instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. OTHER OPERATING INCOME (NET)

	2012 £000	2011 £000
Income receivable from Highways Agency for Maintenance Works	473	990
Subcontractor Costs	(422)	(521)
Net Income	51	469
Other Income	263	1,044
	314	**1,513**
	====	====

Other income in 2011 contains £700,000 of income relating to the settlement of defects on the Second Crossing. This was one off maintenance in the prior year and there is therefore no comparative income in 2012.

NOTES TO THE ACCOUNTS (Continued)

3. OPERATING PROFIT

Operating Profit is stated after charging/(crediting):

		2012 £000	2011 £000
Auditor's Remuneration	- auditing of accounts of the company pursuant to legislation	25	24
	- other assurance services – cashflow forecast reviews	6	6
	- Tax compliance services – corporate tax returns	10	10
	- Tax advisory services	8	10
Depreciation of Tangible Fixed Assets		38,592	41,699
Foreign Exchange Gains		(8)	(21)
Credit Card Facility Installation Costs		114	1,428

4. STAFF COSTS

The average monthly number of persons, including Directors, employed during the year was :

	2012 NUMBER	2011 NUMBER
Tolling Operations	86	89
Maintenance Operations	68	66
Administration	35	30
	189	**185**

Their aggregate remuneration comprised :

	2012 £000	2011 £000
Wages and Salaries	4,900	4,827
Social Security Costs	407	392
Pension Costs	653	667
	5,960	**5,886**

Directors' remuneration paid during the year was as follows :

	2012 £000	2011 £000
Chairman and Highest Paid Director	**51**	**50**

No other Director received any remuneration for their services in the current or prior year.

Shareholders' Companies have been paid for the services of their Directors during the year as follows :

	2012 £000	2011 £000
John Laing Investments Limited	86	61
Vinci Concessions S.A.S.	85	62
BankAmerica International Financial Corporation	44	31
Barclays plc	47	32
	262	**186**

NOTES TO THE ACCOUNTS (Continued)

5. FINANCE CHARGES (NET)

Investment Income

Investment Income represents interest received on short-term deposits with Banks and Building Societies as follows:

	2012 £000	2011 £000
Interest Receivable and Similar Income	**3,188**	**1,821**

Interest Payable and Similar Charges

	2012 £000	2011 £000
On Bank Loans and Overdrafts repayable within five years not by instalments	478	458
Interest on Pension Scheme Liabilities	68	9
On all other Loans :		
Interest	24,151	22,727
Indexation	11,325	16,219
Total Interest Payable	36,022	39,413
Finance Charges (Net)	**32,834**	**37,592**

Indexation costs on the Debenture Stock and Government Subordinated Loan are calculated by reference to movements in the 'All Items Retail Price Index'.

In 2012 the percentage increase was 3.5% (2011 : increase 5.2%). If the increase had been 1.0% then the indexation costs would have been £3,216,000. With a 6.0% increase, the indexation costs would have been £19,715,000.

NOTES TO THE ACCOUNTS (Continued)

6. TAX CHARGE ON LOSS ON ORDINARY ACTIVITIES

	2012 £000	2011 £000
The Tax Charge comprises :		
Current Tax :		
UK Corporation Tax	8,710	7,288
Adjustment in Respect of Prior Years	(123)	-
Total Current Tax	8,587	7,288
Deferred Tax :		
Origination and Reversal of Timing Differences	(1,530)	(1,954)
Effect of Change in Tax Rate	(613)	(769)
Movement in Discount	62	381
Total Deferred Tax	(2,081)	(2,342)
Tax on Loss on Ordinary Activities	**6,506**	**4,946**

Factors Affecting Tax Charge for the Current Period

The tax charge for the period differs from the weighted average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £000	2011 £000
Loss on Ordinary Activities before Tax	(2,679)	(13,690)
Tax at 24.5% (2011: 26.5%) thereon	(656)	(3,628)
Expenses not Deductible for Tax Purposes	7,889	8,998
Depreciation in Excess of Capital Allowances	1,530	1,954
Movement in Short-Term Timing Differences	(53)	(36)
Current Tax Charge for the Year	**8,710**	**7,288**

Factors that may affect Future Tax Charge

The Finance Bill 2012 reduced the corporation tax rate from 26% to 23% with effect from April 2013 and therefore 23% has been used to calculate the position on Deferred Tax at 31 December 2012 (2011 : 25%).

The directors are not aware of any other factors that will materially affect the future tax charge.

NOTES TO THE ACCOUNTS (Continued)

7. TANGIBLE FIXED ASSETS

	SECOND SEVERN CROSSING	SEVERN BRIDGE	LEASE-HOLD IMPROVE-MENTS	OFFICE FURNITURE FITTINGS AND TOLL EQUIPMENT	TOTAL
	£000	£000	£000	£000	£000
Cost					
At 1 January 2012	464,001	124,214	514	3,873	592,602
Additions	-	-	-	244	244
Disposals	-	-	-	(8)	(8)
At 31 December 2012	**464,001**	**124,214**	**514**	**4,109**	**592,838**
Depreciation					
At 1 January 2012	267,380	73,690	447	2,156	343,673
Charge for Year	30,249	7,773	20	550	38,592
Disposals	-	-	-	(8)	(8)
At 31 December 2012	**297,629**	**81,463**	**467**	**2,698**	**382,257**
Net Book Value					
At 31 December 2012	**166,372**	**42,751**	**47**	**1,411**	**210,581**
At 31 December 2011	**196,621**	**50,524**	**67**	**1,717**	**248,929**

The cost of the Second Severn Crossing includes £387.4 million (2011 : £387.4 million) in respect of the Construction Contract for the Second Crossing with the John Laing Construction Limited / GTM-Europe Joint Venture and £76.6 million (2011 : £76.6 million) in respect of capitalised interest.

At the end of 2012 the Company was committed to further spending of £0.1 million on toll equipment during 2013 (2011: £0.1 million).

The depreciation charges for the bridges of £38 million (2011 : £41.2 million) have reduced because the Concession is now forecast to end in mid 2018.

NOTES TO THE ACCOUNTS (Continued)

8. DEBTORS

	2012 £000	2011 £000
Amounts falling due within One Year :		
Other Debtors	1,507	788
Prepayments	364	238
	1,871	**1,026**

Other Debtors

No interest is charged on the debtors. The Directors consider that the carrying amount of the other debtors approximates their fair value.

Credit Risk

The Company's principal financial assets are bank balances and cash and other debtors. The Company's credit risk is primarily attributed to its other debtors, net of any provision for doubtful debts. The majority of the other debtors balance is accrued interest on treasury deposits.

There is no provision for doubtful debts in the current or prior year. There are no past due but not impaired debtors.

9. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £000	2011 £000
6.125% Index-Linked Debenture Stock – 2013 (Note 10)	230,459	-
Amounts Owed to Related Undertakings (Note 17)	432	362
UK Corporation Tax	4,448	3,716
Other Creditors :		
VAT	1,197	1,160
Social Security and PAYE	122	117
Trade Creditors	723	836
Accruals and Deferred Income	7,363	6,906
	244,744	**13,097**

Trade creditors principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade creditors is 54 days (2011 : 52 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE ACCOUNTS (Continued)

10. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £000	2011 £000
Due Between One to Two Years :		
6.125% Index-Linked Debenture Stock 2013	-	222,544
	-	**222,544**
Due After More Than Five Years :		
6% Index-Linked Government Subordinated Loan Repayable 2018	108,501	104,877
Accumulated Interest	72,033	61,873
	180,534	**166,750**
	180,534	**389,294**

The Debenture Stock and Government Loan are secured by second and third floating charges on the assets of the Company and second and third legal mortgages over the Ordinary Share Capital respectively (Note 9).

NOTES TO THE ACCOUNTS (Continued)

11. PROVISION FOR DEFERRED TAX

Movement on Deferred Taxation Balance in the year :

	2012 £000	2011 £000
At beginning of year	9,060	11,402
Credit to Profit and Loss Account	(2,081)	(2,342)
At end of year	**6,979**	**9,060**

Deferred Tax is Provided as Follows :

	2012 £000	2011 £000
Accelerated Capital Allowances	730	1,076
Capitalised Interest	6,315	8,112
Undiscounted Provision for Deferred Tax	7,045	9,188
Discount	(66)	(128)
Discounted Provision for Deferred Tax	**6,979**	**9,060**

The discount rates used to discount the Deferred Tax Liability reflect the post tax yields to maturity on Government Bonds with similar maturity dates. These rates were from 0.3% to 1.0% in 2012 (2011 : 0.4% to 1.3%).

NOTES TO THE ACCOUNTS (Continued)

12. **NET PENSION LIABILITY**

Composition of the Scheme

The Company operates a pension fund for the majority of its employees, providing benefits based on final pensionable pay. A full actuarial valuation was carried out at 1 April 2010 and updated to 31 December 2012 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS17. Liabilities and service costs have been calculated using the Projected Unit Credit Actuarial cost method.

The major assumptions used by the actuary were (in nominal terms):

	At year end 31/12/2012	At year end 31/12/2011	At year end 31/12/2010	At year end 31/12/2009	At year end 31/12/2008
Rate of increase in salaries*	3.5%	1%/3.6%	1%/4%	4.55%	3.75%
Rate of increase in pensions in payment	3.0%	3.10%	3.50%	3.80%	3.00%
Rate of increase of pensions in deferment	2.3%	2.4%	3.00%	3.80%	3.00%
Discount Rate	4.5%	4.7%	5.30%	5.70%	5.60%
RPI Price Inflation	3.0%	3.1%	3.50%	3.80%	3.00%
CPI Price Inflation	2.3%	2.4%	3.0%	N/A	N/A

Salary increases assumed at 1% for two years from 31 December 2010 and RPI plus 0.5% thereafter.

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	31 December 2012		31 December 2011	
	Male	Female	Male	Female
Member age 65 (current life expectancy)	21.5	24.4	21.0	23.8
Member age 45 (life expectancy at age 65)	23.9	26.8	22.9	25.7

The Company contributed 22% of members' pensionable salaries to the Fund in the period.

The assets in the Fund, the present value of the liabilities in the Fund and the expected rates of return (*) at the balance sheet date were:

		At year end 31/12/2012		At year end 31/12/2011		At year end 31/12/2010		At year end 31/12/2009		At year end 31/12/2008
		£000		£000		£000		£000		£000
Equities	6.3%	10,573	6.1%	9,456	6.2%	10,499	6.5%	9,404	5.9%	7,255
Bonds	3.9%	6,677	4.6%	5,934	4.5%	4,749	4.9%	4,142	4.7%	3,608
Cash	3.3%	25	3.1%	75	4.2%	56	4.5%	41	0%	8
Total market value of assets		17,275		15,465		15,304		13,587		10,871
Actuarial Value of Liability		(20,136)		(18,613)		(16,704)		(17,575)		(14,246)
Total Deficit in the Scheme		(2,861)		(3,148)		(1,400)		(3,988)		(3,375)
DeferredTax Asset		665		787		378		1,117		945
Net Pension Liability		**(2,196)**		**(2,361)**		**(1,022)**		**(2,871)**		**(2,430)**
		======		======		======		======		======

(*) The rates quoted above are the expected net rates of return after allowance for expenses.

NOTES TO THE ACCOUNTS (Continued)

12. **NET PENSION LIABILITY (Continued)**

Analysis of the Amount Charged to Operating Profit

	Year to 31/12/2012 £000	Year to 31/12/2011 £000	Year to 31/12/2010 £000	Year to 31/12/2009 £000	Year to 31/12/2008 £000
Current Service Cost	**513**	**500**	**622**	**494**	**549**

Analysis of Net Return on Fund

	Year to 31/12/2012 £000	Year to 31/12/2011 £000	Year to 31/12/2010 £000	Year to 31/12/2009 £000	Year to 31/12/2008 £000
Expected Return on Pension Fund Assets	807	881	827	608	906
Interest on Pension Fund Liabilities	(875)	(890)	(1,014)	(804)	(805)
Net Interest (Cost)/Income	**(68)**	**(9)**	**(187)**	**(196)**	**101**

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year to 31/12/2012 £000	Year to 31/12/2011 £000	Year to 31/12/2010 £000	Year to 31/12/2009 £000	Year to 31/12/2008 £000
Actual Return Less Expected Return on Assets	879	(1,024)	486	1,761	(4,998)
Experience Gains on Liabilities	-	-	524	-	-
Changes in Assumptions	(641)	(854)	1,779	(2,295)	1,473
Actuarial Gain/(Loss) Recognised in STRGL	**238**	**(1,878)**	**2,789**	**(534)**	**(3,525)**

Movement in Deficit During the Year

	Year to 31/12/2012 £000	Year to 31/12/2011 £000	Year to 31/12/2010 £000	Year to 31/12/2009 £000	Year to 31/12/2008 £000
Deficit in Fund at Beginning of Year	(3,148)	(1,400)	(3,988)	(3,375)	-
Movement in Year					
Current Service Cost	(513)	(500)	(622)	(494)	(549)
Contributions	630	639	608	611	598
Net Interest (Cost)/Income	(68)	(9)	(187)	(196)	101
Actuarial Gain/(Loss)	238	(1,878)	2,789	(534)	(3,525)
Deficit in Fund at End of Year	**(2,861)**	**(3,148)**	**(1,400)**	**(3,988)**	**(3,375)**

The actuarial valuation at 31 December 2012 showed a decrease in the deficit from £3,148,000 to £2,861,000.

NOTES TO THE ACCOUNTS (Continued)

12. NET PENSION LIABILITY (Continued)

History of Experience Gains and Losses

	Financial Year Ended in 2012	2011	2010	2009	2008
Difference Between Expected and Actual Return on Fund Assets :					
Amount (£000s)	879	(1,024)	486	1,761	(4,998)
Percentage of Fund Assets	5%	7%	3%	13%	46%
Experience Gain/(Loss) on Fund Liabilities :					
Amount (£000s)	-	-	524	-	-
Percentage of Fund Liabilities	0%	0%	3%	0%	0%
Changes in Assumptions Underlying the Present Value of Fund Liabilities					
Amount (£000s)	(641)	(854)	1,779	(2,295)	1,450
Percentage of Fund Liabilities	3.2%	4.6%	10.7%	13.1%	10.2%
Total Amount Recognised in Statement of Total Recognised Gains and Losses :					
Amount (£000s)	238	(1,878)	2,789	(534)	(3,548)
Percentage of Fund Liabilities	1.2%	10.1%	16.7%	3%	24.9%

13. SHARE CAPITAL

	2012 £000	2011 £000
Authorised :		
50,000 Ordinary Shares of £1	50	50
50,000 Redeemable Preference Shares of £1	50	50
	100	**100**
Allotted and Called Up :		
1,000 Ordinary Shares of £1, £1 Called Up and Fully Paid	1	1
49,000 Ordinary Shares of £1, 25 Pence Called Up	12	12
	13	**13**

NOTES TO THE ACCOUNTS (Continued)

14. COMBINED MOVEMENT IN RESERVES AND RECONCILIATION OF SHAREHOLDERS' (DEFICIT)/FUNDS

	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	CAPITAL REDEMPTION RESERVE	PROFIT AND LOSS ACCOUNT	TOTAL	2011 TOTAL
	£000	£000	£000	£000	£000	£000
At 1 January 2012	13	319	26	(24,852)	(24,494)	(4,389)
Transfer of Finance Costs Amortisation	-	(213)	-	213	-	-
Loss for the Financial Year	-	-	-	(9,185)	(9,185)	(18,636)
FRS 17 Actuarial Gain/(Loss)	-	-	-	238	238	(1,878)
Associated Deferred Tax	-	-	-	(122)	(122)	409
At 31 December 2012	**13**	**106**	**26**	**(33,708)**	**(33,563)**	**(24,494)**

15. RECONCILIATION OF OPERATING PROFIT

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities :

	2012 £000	2011 £000
Operating Profit	30,155	23,902
Depreciation	38,592	41,699
(Increase)/Decrease in Debtors	(126)	901
Increase in Creditors	423	607
Adjustment for Pension Funding	(49)	(139)
Net Cash Inflow from Operating Activities	**68,995**	**66,970**

NOTES TO THE ACCOUNTS (Continued)

16. **ANALYSIS AND RECONCILIATION OF NET DEBT**

	1 JANUARY 2012	CASH FLOW	OTHER NON-CASH CHANGES	31 DECEMBER 2012
	£000	£000	£000	£000
Cash at Bank	30,980	2,102	-	33,082
	30,980	2,102	-	33,082
Debt Due within 1 Year	-	-	(230,459)	(230,459)
Debt Due after 1 Year	(389,294)	-	208,760	(180,534)
Current Asset Investments	108,383	46,973	-	155,356
Net Debt	**(249,931)**	**49,075**	**(21,699)**	**(222,555)**

The Company includes Current Asset Investments, which comprise short term bank deposits as liquid resources. Other non-cash changes comprise indexation, amortisation of finance costs and capitalisation of interest.

	2012 £000	2011 £000
Increase/(Decrease) in Cash in the Year	2,102	(4,089)
Cash Outflow from Increase in Liquid Resources	46,973	51,238
	49,075	47,149
Capitalisation of Interest – Government Loan	(10,160)	(9,327)
Indexation and Amortisation of Finance Costs	(11,539)	(16,537)
Movement in Net Debt in Year	27,376	21,285
Net Debt at 1 January	(249,931)	(271,216)
Net Debt at 31 December	**(222,555)**	(249,931)

NOTES TO THE ACCOUNTS (Continued)

17. RELATED PARTY TRANSACTIONS

Severn River Crossing Plc's related parties, as defined by Financial Reporting Standard No. 8, the nature of the relationship and the extent of transactions with them are summarised below :

Transaction	Nature of Relationship	2012 £000	2011 £000
Vinci Concessions S.A.S.	Shareholder Company		
Debenture Stock Interest		384	368
Cofiroute (UK) Limited	The Company is a Subsidiary		
Tolling Services	of a Shareholder Company	1,051	1,112
Cofiroute S.A.	The Company is a Subsidiary		
Tolling Services	of a Shareholder Company	61	-

Under the terms of the Shareholder Agreement, John Laing Infrastructure Limited and Vinci Concessions S.A.S. held £3,500,000 (nominal value) of the Company's Debenture Stock.

With the agreement of the other Shareholders the Company purchased the John Laing Infrastructure Limited £3,500,000 (nominal value) of the Company's Debenture Stock in December 2008. This stock has been redeemed and cancelled.

Amounts owed to related parties are disclosed in Note 9, and can be summarised as follows :

	2012 £000	2011 £000
Cofiroute S.A.	20	-
Laing-GTM Joint Venture	13	13
Cofiroute (UK) Limited	136	160
John Laing Investments Limited	86	61
Vinci Concessions S.A.S.	86	65
Barclays Bank plc	47	32
Bank of America	44	31
	432	**362**

Further information on the relationships with related parties is set out in the Directors' Report on Page 3. Payments to Shareholder Companies in respect of Directors' Services are disclosed in Note 4.

NOTES TO THE ACCOUNTS (Continued)

18. **DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS**

The Company has not used any derivative, interest rate swap or other financial instruments in the current or prior year.

The Company's financial instruments, other than derivatives, comprise borrowings, long-term loans, cash and liquid resources that arise directly from its operations. The main purpose of these financial instruments is to continue to finance the Company's operations.

Interest Rate Profile

The Company has no interest-bearing financial assets other than sterling cash and short-term deposits of £155.4 million (2011 : £108.4 million) which are part of the financing arrangements of the Company. These attracted a floating interest rate of between 1.00% and 3.25%.

The interest rate profile of the Company's financial liabilities at 31 December 2012 was as follows :

CURRENCY	FLOATING RATE 2012 £000	FIXED RATE 2012 £000	TOTAL 2012 £000
Sterling			
- Borrowings	338,960	72,033	410,993
	=======	======	=======

The Index-Linked Debt totalling £338.9 million (2011 : £327.4 million) has been included under Floating Rate Debt.

The profile at 31 December 2011 for comparison purposes was as follows :

CURRENCY	FLOATING RATE 2011 £000	FIXED RATE 2011 £000	TOTAL 2011 £000
Sterling			
- Borrowings	327,421	61,873	389,294
	=======	======	=======

NOTES TO THE ACCOUNTS (Continued)

18. **DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)**

Further analysis of the interest rate profile for fixed and floating rate debt at 31 December 2012 and at 31 December 2011 is as follows :

CURRENCY	2012	
	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE PERIOD
	%	YEARS
Sterling		
- Borrowings Fixed	6.0%	5.5
- Borrowings Floating	9.4%	2.1

CURRENCY	2011	
	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE PERIOD
	%	YEARS
Sterling		
- Borrowings Fixed	6.0%	5.5
- Borrowings Floating	11.1%	2.8

The interest rate on floating rate financial liabilities is linked to Libor and the Retail Price Index. Further details of interest rates on long-term borrowings are given in Notes 9 and 10. A sensitivity to movement in the Retail Price Index is given in Note 5.

NOTES TO THE ACCOUNTS (Continued)

18. **DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)**

Maturity of Financial Liabilities

The Maturity Profile of the Company's Financial Liabilities at 31 December 2012 and 2011 was as follows :

	2012 £000	2011 £000
In one year or less	230,459	-
In more than one year but not more than two years	-	222,544
In more than two years but not more than five years	-	-
In more than five years	180,534	166,750
Total	**410,993**	**389,294**
	=======	=======

Fair Values

Set out below is a comparison by category of book values and fair values of the Company's Financial Liabilities at 31 December 2012 and 2011.

	2012		2011	
	BOOK VALUE £000	FAIR VALUE £000	BOOK VALUE £000	FAIR VALUE £000
Primary Financial Instruments held or issued to finance the Company's Operations				
Short-Term Financial Liabilities and Current portion of Long-Term Borrowings	-	-	-	-
Long-Term Borrowings	410,993	417,616	389,294	417,022

The fair values of the Index-Linked Debt with a Book Value of £338.9 million (2011 - £327.4 million) have been determined by reference to prices available from the markets on which the instruments involved are traded.

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