Department for Transport

SEVERN RIVER CROSSING PLC Annual report and financial statements for the year ending 31 December 2016

Moving Britain Ahead

July 2017

SEVERN RIVER CROSSING PLC Annual report and Financial statements for the year ending 31 December 2016

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

July 2017

This publication is available at www.gov.uk/government/publications

Print ISBN 9781474147750
Web ISBN 9781474147767

ID P002889059 07/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

CONTENTS

SEVERN RIVER CROSSING PLC

OFFICERS AND PROFESSIONAL ADVISERS

Directors

A H Moore – Chairman
D W Bowler
P-L Delseny
D A Logue
J Mistry
M Neyrand
A S Pearson
D J Rushton
S Singh
W H Snow

Company Secretary

J A Rawle

Registered Office

Bridge Access Road
Aust
South Gloucestershire
BS35 4BD

Bankers

Lloyds Bank
City Office
Kent
ME8 0LS

Santander
Bootle
Merseyside
L30 4GB

Solicitors

LinkLaters LLP
One Silk Street
London
EC2Y 8HQ

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

TLT LLP
One Redcliff Street
Bristol
BS1 6TP

Auditor

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

CHAIRMAN'S STATEMENT

In 2016 traffic travelling westbound over the Severn Bridge and Second Severn Crossing increased by 4.0% to 14,441,639 toll paying vehicles (2015: 13,891,808). Car journeys increased by 4.4% (2015: increase of 5.8%), whilst Light Goods Vehicles journeys increased by 1.7% (2015: increase of 7.7%) and Heavy Goods Vehicles journeys increased by 2.9% (2015: increase of 3.0%). With inflation-linked increases in 2016 toll prices, the Company's turnover rose by 5.3% to £103.2 million (2015: £98.0 million).

During the year the Company used cash generated by the business to fully repay the £80 million bank loan.

With lower net finance charges of £0.8 million (2015: £5.1 million) the Company reported a profit before tax of £44.5 million (2015: £38.8 million) and with a higher tax charge of £16.0 million (2015: £13.5 million) the Company recorded a profit after tax of £28.4 million (2015: £25.4 million).

In the year, the market value of pension scheme assets improved to £25.5 million (2015: £22.0 million) and the value of scheme liabilities increased to £29.9 million (2015: £25.1 million). As a result the FRS102 Section 28 valuation at 31 December 2016 estimated a net pension liability of £4.4 million (2015: £3.2 million).

A H Moore
Chairman

STRATEGIC REPORT

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 has been used to repay the debt finance and both bridges will revert to public ownership once the project's Required Cumulative Real Revenue figure ('RCRR'), 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 increases in traffic levels.

The directors anticipate that traffic growth will continue in 2017, and with index-linked toll prices, toll revenues are expected to increase. However, the concession period is expected to end within 12 months of the signing of these accounts as the maximum toll revenue figure ('RCRR') under the Concession Agreement is expected to be reached.

PRINCIPLE RISKS AND UNCERTAINTIES

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:

- Index-linking toll revenues, and its two main subcontracts for maintenance and tolling management;
- Debt management and reviewing suitable treasury products for cash on deposit (the Company uses the main United Kingdom listed banks for its treasury deposits);
- Keeping traffic levels and projections under review; and
- 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.

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 implemented strategies including moving investments to lower volatility financial investments, to manage the financial risks associated with its defined benefit Pension Scheme. The Company has developed a Risk Control Matrix which is regularly reviewed by the Board.

RESULTS

The Company's turnover increased in 2016 by 5.3% to £103.2 million (2015: £98.0 million) and the Company reported a profit after tax of £28.4 million (2015: profit £25.4 million).

FUTURE DEVELOPMENTS

The company expects traffic volumes to continue to grow in future years, and is forecasting that the concession's required revenue will be reached in late 2017.

On behalf of the board.

J A RAWLE
COMPANY SECRETARY

Bridge Access Road
Aust
South Gloucestershire
BS35 4BD

22 March 2017

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2016. Detail of future developments, and financial risk management of the company are disclosed in the Strategic Report.

DIRECTORS

The directors (all non-Executive) who served during the year and subsequently were:

Directors	**Alternates**
A H Moore (Chairman)	
D W Bowler	W H Snow
H Le Caignec (resigned 4 January 2017)	P-L Delseny
D A Logue	J Mistry (appointed 3 March 2017)
M Neyrand (appointed 12 January 2017)	P-L Delseny
A S Pearson	
D J Rushton	
S Singh	M Stringer (resigned 8 February 2017)

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.

A S Pearson and D J Rushton are Senior Managers of John Laing Group Plc.

D W Bowler is a director of Vinci Plc. The ultimate parent company of Vinci Plc is Vinci S.A., a company incorporated in France. M Neyrand is Head of Europe and P-L Delseny is Asset Manager of Vinci Concessions S.A.S., a fully owned subsidiary of Vinci S.A. W H Snow is Finance Director and H Le Caignec was Managing Director of Vinci Concessions UK Limited.

S Singh and M Stringer are directors of and Shareholders in Bank of America Merrill Lynch. D A Logue and J Mistry are employed in activities undertaken 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 Group 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.

OWNERSHIP

Severn River Crossing plc is 100% owned by the four shareholder companies.

DIVIDENDS

The directors do not recommend the payment of a dividend (2015: nil).

DIRECTORS' REPORT

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 Strategic Report on pages 2 and 3. 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.

It is anticipated that the maximum toll revenue figure ('RCRR') set out in the Concession Agreement with the Secretary of State for Transport will be reached within 12 months of the signing of these accounts, at which point the primary operations of the company are expected to cease. As such the Directors have acknowledged that the business is therefore not a going concern and have accordingly prepared the accounts on a basis other than that of a going concern.

POST BALANCE SHEET EVENTS

There are no significant adjusting or non-adjusting events subsequent to the year-end that require disclosure.

AUDITOR

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

- so 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.

Approved by the Board and signed on its behalf by:

J A RAWLE
COMPANY SECRETARY

Bridge Access Road
Aust
South Gloucestershire
BS35 4BD

22 March 2017

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 Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council (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 a basis other than that of the going concern basis as 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.

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 31st December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its profit 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.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, UK
22 March 2017

SEVERN RIVER CROSSING PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Turnover		103,175	97,970
Cost of sales		(59,303)	(53,535)
Gross profit		43,872	44,435
Administrative expenses		(585)	(1,352)
Other operating income		1,928	879
Operating profit		45,215	43,962
Finance costs (net)	3	(765)	(5,128)
Profit on ordinary activities before taxation	4	44,450	38,834
Tax on profit on ordinary activities	7	(16,038)	(13,465)
Profit for the financial year		28,412	25,369

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Profit for the financial year		28,412	25,369
Re-measurement of net defined benefit liability	17	(885)	231
Tax relating to components of other comprehensive income		170	(48)
Other comprehensive income		(715)	183
Total comprehensive income		27,697	25,552

SEVERN RIVER CROSSING PLC

BALANCE SHEET
AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	8	46,088	92,815
Investments	9	4,024	3,418
Deferred tax asset	13	851	613
		50,963	96,846
Current assets			
Debtors			
- due within one year	10	482	7,478
Cash at bank and in hand		17,307	5,938
		17,789	13,416
Creditors: Amounts falling due within one year	11	(21,838)	(82,796)
Net current liabilities		(4,049)	(69,380)
Total assets less current liabilities		46,914	27,466
Creditors: Amounts falling due after more than one year	12	-	(8,383)
Provisions for liabilities	13	(5,330)	(5,196)
Net assets		41,584	13,887
Capital and reserves			
Called-up share capital	15	13	13
Capital redemption reserve		26	26
Profit and loss account		41,545	13,848
Shareholders' funds		41,584	13,887

The financial statements of Severn River Crossing Plc (company number 02379695) were approved by the board of directors and authorised for issue on 22 March 2017. They were signed on its behalf by:

A H Moore
Director

A S Pearson
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
AT 31 DECEMBER 2016

	Called-up share capital £000	Capital redemp-tion reserve £000	Profit and loss account £000	Total £000
At 1 January 2015	13	26	(11,704)	(11,665)
Profit for the year	-	-	25,369	25,369
Other comprehensive income	-	-	183	183
Total comprehensive income			25,552	25,552
At 31 December 2015	13	26	13,848	13,887
Profit for the year	-	-	28,412	28,412
Other comprehensive income	-	-	(715)	(715)
Total comprehensive income			27,697	27,697
At 31 December 2016	13	26	41,545	41,584

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Net cash flows from operating activities	16	76,877	71,676
Cash flows from investing activities			
Payment for Escrow investment		-	(3,500)
Proceeds from sale of equipment		-	1
Purchase of equipment		(263)	(426)
Interest received		161	203
Interest paid		(524)	(5,330)
Net cash flows from investing activities		(626)	(9,052)
Cash flows from financing activities			
Repayments of borrowings		(64,882)	(143,963)
New bank loans raised		-	80,000
Net cash flows from financing activities		(64,882)	(63,963)
Net increase/(decrease) in cash and cash equivalents		11,369	(1,339)
Cash and cash equivalents at beginning of year		5,938	7,277
Cash and cash equivalents at end of year		17,307	5,938

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a. General information and basis of accounting

Severn River Crossing Plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report on page 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Severn River Crossing Plc is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

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 strategic report. The directors' report further describes the financial position of the company; its cash flows, liquidity position and borrowing facilities; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

It is anticipated that the maximum toll revenue figure set out in the Concession Agreement with the Secretary of State for Transport will be reached within 12 months of the signing of these accounts, as such the Directors have acknowledged that the business is therefore not a going concern and have accordingly prepared the accounts on a basis other than that of a going concern.

No material adjustments arose as a result of ceasing to apply the going concern basis. The directors consider the carrying value of the assets and liabilities of the company to be equivalent to their recoverable amounts.

c. Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

1. Accounting policies (continued)

d. Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

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 to 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.

Trade debtors and other receivables

Trade debtors and 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.

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.

Trade payables

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

Equity instruments

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

1. Accounting policies (continued)

e. Taxation

Current tax, including UK corporation tax and foreign 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 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.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, 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.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less/(more) than the value at which it is recognised, a deferred tax liability/(asset) is recognised for the additional tax that will be paid/(avoided) in respect of that difference. Similarly, a deferred tax asset/(liability) is recognised for the additional tax that will be avoided/(paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

f. Turnover

Turnover represents revenue received from tolls and is stated net of VAT and is recognised when a vehicle crosses one of the Severn Bridges. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. All turnover is derived from toll income.

1. Accounting policies (continued)

g. Employee benefits

The Company has made pension arrangements for a significant number 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 comprehensive income.

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.

h. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Exchange differences are recognised in profit or loss in the period in which they arise.

i. Leases

The Company as lessee

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

j. Borrowing costs

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

1. Accounting policies (continued)

k. 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.

l. 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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

Turnover represents revenue received from tolls and is recognised when vehicles cross one of the two Severn Bridges as the significant risks and rewards are considered to have been transferred. Where people fail to pay the toll at the point of crossing the bridge or use a valid TAG card, a penalty notice is issued along with an administration charge. Due to uncertainty in the recovery of these charges the Company only recognises non-payment of toll revenues when cash is recovered from the customer.

Other income and long term TAG deposits

TAG deposits and unclaimed balances on closed customer accounts are written back and taken as operating income.

Valuation of the defined benefit pension scheme

The assumptions that have been taken by management in calculating the value of the pension scheme's assets and liabilities are key sources of estimation uncertainty. Management take and follow appropriate professional advice from suitably qualified actuaries when making these assumptions. The pension scheme liability continues to be valued on the ongoing basis as the directors expect that at the end of concession the scheme will transfer to public ownership at its current valuation, along with the bridges and the business. All assumptions relating to the pension scheme are reviewed and approved by the Board of directors.

Depreciation and useful economic life of bridges

Due to the material value of the Seven Bridge and the Second Severn Crossing, the expectation of the end of concession date when 'RCRR' Required Cumulative Real Revenue is reached is calculated based on management's best estimate. All calculations related to the expected end of concession date are reviewed by the board.

3. Finance costs (net)

	2016 £000	2015 £000
Interest payable and similar charges	(855)	(5,406)
Less: Investment income	90	278
	(765)	(5,128)

Investment income	**£000**	**£000**
Interest receivable and similar income	90	278
	90	278

Interest payable and similar charges	**£000**	**£000**
Bank loans and overdrafts	(205)	(44)
On all other loans:		
Interest	(521)	(5,084)
Indexation	-	(161)
Interest on pension scheme liabilities (note 17)	(129)	(117)
	(855)	(5,406)

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets (note 8)	47,144	41,500
Foreign exchange gain	(36)	(13)
Revaluation of Escrow assets	(606)	87

The analysis of the auditor's remuneration is as follows:

	£000	£000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	30	27
Total audit fees	30	27

	£000	£000
FRS 102 transition support	-	3
Audit-related assurance services (cash flow forecast review)	-	8
Taxation compliance services	15	7
Other taxation advisory services	17	38
Accounting guidance	5	-
Total non-audit fees	37	56
Total remuneration	67	83

No services were provided pursuant to contingent fee arrangements.

5. Staff numbers and costs

The average monthly number of employees (including directors) was:

	2016 Number	2015 Number
Tolling operations	88	86
Maintenance operations	63	62
Administration	33	35
	184	183

Their aggregate remuneration comprised:

	£000	£000
Wages and salaries	5,109	5,101
Social security costs	495	399
Other pension costs (see note 17)	663	697
	6,267	6,197

6. Directors' remuneration and transactions

Directors' remuneration	2016 £000	2015 £000
Sums paid to third parties in respect of directors' services		
John Laing Investments Ltd	89	92
Vinci Concessions S.A.S.	89	89
BankAmerica International Financial Corporation	43	45
Barclays Plc	45	45
	266	271

Remuneration of the highest paid director:	£000	£000
Emoluments	54	67
Company contributions to money purchase schemes	-	-

Only the Chairman is paid directly. 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 detailed above.

7. Tax on profit on ordinary activities

The tax charge comprises:

	2016 £000	2015 £000
Current tax on profit on ordinary activities		
UK corporation tax	17,961	15,927
Adjustments in respect of prior years		
UK corporation tax	(755)	(614)
Total current tax	17,206	15,313
Deferred tax		
Origination and reversal of timing differences	(1,298)	(1,214)
Adjustment in respect of previous years	82	(593)
Effect of decrease/(increase) in tax rate on opening liability	48	(41)
Total deferred tax (see note 13)	(1,168)	(1,848)
Total tax on profit on ordinary activities	16,038	13,465

Total current and deferred tax relating to items of other comprehensive income	170	(48)
	170	(48)

7. Tax on profit on ordinary activities (continued)

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2016 £000	2015 £000
Profit on ordinary activities before tax	44,450	38,834

	£000	£000
Tax on Company profit on ordinary activities at standard UK corporation tax rate of 20% (2015: 20.25%)	8,890	7,863
Effects of:		
Expenses not deductible for tax purposes	8,115	6,520
Income not taxable in determining taxable profit	(342)	(353)
Change in tax rates	48	(41)
Adjustments to tax charge in respect of previous periods	(673)	(524)
Company total tax charge for period	16,038	13,465

Factors that may affect future tax charge

Reductions in the future rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2018 were substantively enacted by the UK Government on 15 September 2016. Therefore, the closing deferred tax assets and liabilities have been calculated at 19.25% (2015: 19.25%).

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

8. Tangible fixed assets

	Bridges				
Company	Second Severn Crossing £000	Severn Bridge £000	Leasehold improve-ments £000	Furniture, fittings and toll equipment £000	Total £000
Cost or valuation					
At 1 January 2016	464,001	124,214	514	4,867	593,596
Additions	-	-	-	417	417
At 31 December 2016	464,001	124,214	514	5,284	594,013
Depreciation					
At 1 January 2016	390,704	105,380	514	4,183	500,781
Charge for the year	37,142	9,544	-	458	47,144
At 31 December 2016	427,846	114,924	514	4,641	547,925
Net book value					
At 31 December 2016	36,155	9,290	-	643	46,088
At 31 December 2015	73,297	18,834	-	684	92,815

The cost of the Second Severn Crossing includes £387.4 million (2015: £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 (2015: £76.6 million) in respect of capitalised interest.

At the end of 2016 the Company was committed to no further spending on toll equipment during 2017 (2015: £0.2 million).

There are no finance lease commitments or non-cancellable operating lease liabilities held by the Company.

9. Fixed asset investments

	Cash £'000	Listed Investments £'000	Total £000
Cost or valuation			
At 1 January 2016	5	3,413	3,418
Fair value change	-	606	606
At 31 December 2016	5	4,019	4,024

The fair value of listed investments, which are all traded in active markets, was determined with reference to the quoted market price at the reporting date.

10. Debtors

Amounts falling due within one year:	2016 £000	2015 £000
UK corporation tax – repayment for prior years	-	7,100
Trade debtors	154	-
Other debtors	4	77
Prepayments and accrued income	324	301
	482	7,478

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.

11. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Amounts owed to related undertakings (note 18)	412	424
Bank loans and overdrafts (see note 12)	-	56,294
Trade creditors	1,178	890
Corporation tax	9,157	8,283
Corporation tax – Group relief	-	6,490
Other creditors:		
VAT	1,547	1,494
PAYE	119	113
Accruals and deferred income	9,425	8,808
	21,838	82,796

Trade creditors principally comprise amounts outstanding for trade purchases and ongoing costs.

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

12. Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Bank loans	-	8,383
	-	8,383

Borrowings are repayable as follows:

	2016 £000	2015 £000
Bank loans		
Between one and two years	-	8,383
On demand or within one year	-	56,294
	-	64,677

	£000	£000
Total borrowings including finance leases		
Between one and two years	-	8,383
Between two and five years	-	-
On demand or within one year	-	56,294
	-	64,677

13. Provisions for liabilities

	Deferred taxation £000
At 1 January 2016	2,010
Charged to profit and loss account	(1,168)
Charged to other comprehensive income	68
At 31 December 2016	910
Provision for net defined benefit scheme deficit (see note 17)	4,420
Total	5,330

Deferred tax liability

Deferred tax is provided as follows:

	2016 £000	2015 £000
Accelerated capital allowances	910	2,010
	910	2,010

Deferred tax asset

Deferred tax is recognised as follows:

	£000	£000
Deferred tax arising in relation to retirement benefit obligations	851	613

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the company.

Defined benefit scheme liability

The provision for the defined benefit scheme liability is discussed in greater detail in note 17.

Deferred tax assets arising on the pension scheme liability are not offset against the deferred tax liability.

14. Financial instruments

The carrying values of the Company's financial assets and liabilities are summarised by category below:

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 interest rate profile of the Company's financial liabilities at 31 December 2015 was as follows:

Currency	**Floating rate £000**	**Fixed rate £000**	**Total £000**
Sterling – borrowings	64,677	-	64,677

Further analysis of the interest rate profile for fixed and floating rate debt at 31 December 2015 was as follows:

	2015	
Currency	**Weighted average interest rate %**	**Weighted average period years**
Sterling		
- borrowings fixed	-	-
- borrowings floating	1.76%	1.2

The interest rate on floating rate financial liabilities is linked to Libor.

14 Financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 December 2016 and 2015 was as follows:

	2016 £000	2015 £000
In less than one year	-	56,294
In more than one year but less than two years	-	8,383
In more than two years but not more than five years	-	-

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 2016 and 2015.

	2016		2015	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held or issued to finance the Company's operations				
Borrowings	-	-	64,677	64,677

15. Called-up share capital and reserves

	2016 £000	2015 £000
Authorised		
50,000 Ordinary shares of £1 each	50	50
50,000 Redeemable preference shares of £1 each	50	50
	100	100

	£000	£000
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

The Company's other reserves are as follows:

- The capital redemption reserve represents the redemption of company preference shares.
- The profit and loss reserve represents cumulative profits or losses.

16. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2016 £000	2015 £000
Operating profit	45,215	43,962
Adjustment for:		
Depreciation	47,144	41,500
Profit on sale of tangible fixed assets	-	(1)
	92,359	85,461
Operating cash flow before movement in working capital		
Decrease in debtors	(175)	72
Increase in creditors	801	758
Adjustment for pension funding	220	295
Non-cash Escrow (gain)/loss	(606)	87
Tax paid	(15,722)	(14,997)
Cash generated by operations	76,877	71,676

17. Employee benefits

Defined benefit schemes

The Company operates a defined benefit scheme for qualifying employees and previously for the employees of Severn River Crossing Plc. Under the scheme, the employees are entitled to retirement benefits based on final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided. The scheme is a funded scheme.

The most recent full actuarial valuation was carried out as at 1 April 2013 and an actuarial valuation of scheme assets and the present value of the defined benefit obligation was updated as at 31 December 2016 by Mr S Brothwood, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	Valuation at	
	2016	**2015**
Key assumptions used:		
Discount rate	2.7%	3.9%
Rate of increase in salaries	3.3%	3.1%
Rate of increase in pensions in payment	3.2%	3.1%
Rate of increase of pensions in deferment	2.3%	2.1%
Inflation (RPI)	3.3%	3.1%
Inflation (CPI)	2.3%	2.1%

17. Employee benefits (continued)

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

	Valuation at	
	2016 years	**2015 years**
Retiring today:		
Males	22.2	22.6
Females	24.6	25.1
Retiring in 20 years		
Males	24.3	24.9
Females	26.9	27.5

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

	2016 £000	**2015 £000**
Current service cost	567	648
Net interest cost	129	117
Administrative expenses of pension scheme	251	319
	947	1,084
Recognised in other comprehensive income	885	(231)
Total cost relating to defined benefit scheme	1,832	853

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2016 £000	**2015 £000**
Present value of defined benefit obligations	(29,884)	(25,142)
Fair value of scheme assets	25,464	21,956
Net liability recognised in the balance sheet	(4,420)	(3,186)

17. Employee benefits (continued)

Movements in the present value of defined benefit obligations were as follows:

	2016 £000	2015 £000
At 1 January	(25,142)	(24,898)
Service cost	(567)	(648)
Interest cost	(980)	(922)
Actuarial gains and losses	(3,803)	697
Contributions from scheme participants	(187)	(204)
Benefits paid	795	833
At 31 December	(29,884)	(25,142)

Movements in the fair value of scheme assets were as follows:

	2016 £000	2015 £000
At 1 January	21,956	21,893
Interest income	851	805
Return on plan assets (excluding amounts included in net interest cost)	2,918	(466)
Contributions from the employer	598	672
Contributions from scheme participants	187	204
Benefits paid	(795)	(833)
Administrative expenses paid from Plan Assets	(251)	(319)
At 31 December	25,464	21,956

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	2016 £000	2015 £000
Equity instruments	9,080	11,681
Debt instruments:		
- Corporate Bonds	5,677	4,678
- Government Bonds	10,672	5,430
Cash and cash equivalents	35	167
	25,464	21,956

18. Related party transactions

Other related party transactions

Severn River Crossing PLC's related parties, as defined by FRS102, Section 28, the nature of the relationship and the extent of transactions with them are summarised below:

Transaction	Nature of relationship	2016 £000	2015 £000
Cofiroute (UK) Limited Tolling Services	The company is a subsidiary of a shareholder company	1,239	1,331

Amounts owed to related parties are disclosed in Note11, and can be summarised as follows:

	2016 £000	2015 £000
Laing – GTM Joint Venture		-
Cofiroute (UK) Limited	144	151
John Laing Investments Limited	89	92
Vinci Concessions S.A.S.	91	91
Barclays Bank plc	45	45
Bank of America	43	45
	412	424

Further information on the relationships with related parties is set out in the Directors' Report on Page 4. Payments to Shareholder Companies in respect of directors' services are disclosed in Note 6.

ISBN 978-1-4741-4775-0