Department for Transport

Severn River Crossing PLC

Annual Report and Financial Statements

For the 373 day period ended 8 January 2018

Moving Britain Ahead

Severn River Crossing PLC

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For the 373 day period ended 8 January 2018

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A H Moore – Chairman
D W Bowler
R P Hayward
J Mistry
M Neyrand
A S Pearson
D J Rushton
S Singh
W H Snow

J A Rawle - Company Secretary

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CHAIRMAN'S STATEMENT

In the calendar year to 31 December 2017 traffic travelling westbound over the Severn Bridge and Second Severn Crossing increased by 2.7% to 14,829,360 toll paying vehicles (2016: 14,441,639). Car journeys increased by 3.0% (2016: increase of 4.4%), whilst Light Goods Vehicles journeys increased by 1.4% (2016: increase of 1.7%) and Heavy Goods Vehicles journeys increased by 1.6% (2016: increase of 2.9%).

The project's Required Cumulative Real Revenue ('RCRR') figure was reached on 2 November 2017. The company has collected and paid over toll charges to the Secretary of State for Transport for the period 3 November 2017 to 7 January 2018. On 8 January 2018, at one minute past midnight, the company's Concession formally ended and responsibility for the operation and maintenance of the Severn Bridges was handed over to Highways England Company Limited. To coincide with the end of the concession period, the directors have elected to extend the accounting period to 8 January 2018.

I am pleased to confirm that transitional arrangements between the company and Highways England have worked well and the transfer of company staff and responsibilities has been a seamless one.

The company's turnover of £108.6m (2016: £103.2m) includes £90.4m collected up to when the RCRR figure was reached on 2 November and £18.2m collected subsequently that has been paid over to the Government in accordance with the Concession Agreement. The increase in total revenue reflects both the higher traffic volumes and toll prices, and the extended accounting period.

Whilst the company had higher costs due to End of Concession activities and responsibilities, this has been offset by higher other operating income from cost recoveries and asset sales agreed in the Handover Agreement.

The company reported a profit before tax of £36.6m (2016: £44.5m) and with a lower tax charge of £13.0m (2016: £16.0m), the company reported a profit after tax of £23.6m (2016: £28.4m).

In the period, the market value of pension scheme assets improved to £30.4 m (2016: £25.5m) and the value of scheme liabilities fell to £29.7m (2016: £29.9m). The company paid additional employer contributions of £4.5m into the Pension Fund during the period. Agreement was reached between the Government Actuary Department and the company's actuary on a technical provision deficit on 7 January 2018 of £1.0m and the company has paid £1.0m into the Pension Fund during March 2018.

Highways England Company Limited was appointed Principal Employer of the Pension Fund on 7 January 2018, and the company has no further involvement in the Pension Fund.

Finally, I would like to pass on my thanks to all those who have worked on the Severn Bridges during the 25 years Concession period since April 1992.

It has been a pleasure working with such a committed and conscientious group of employees and contractors and it is reassuring to see the responsibility for the two Severn Bridges continue in safe hands.

A H MOORE
CHAIRMAN

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITES

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. A business review is included in the Chairman's Statement.

The project's Required Cumulative Real Revenue ('RCRR') figure was reached on 2 November 2017. The company then collected and paid over toll charges to the Secretary of State for Transport until 7 January 2018, when the concession ended. On 8 January 2018 both bridges reverted to public ownership and responsibility for the operation and maintenance of the Severn Bridges was handed over to Highways England Company Limited. Accordingly the directors have elected to extend the accounting period to 8 January 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's activities have exposed 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;
- A proactive programme of inspections and maintenance repairs on both bridges, and
- Tolls have been collected from drivers as they cross the bridges or on a prepayment basis through an electronic tolling system. This has removed 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 has been regularly reviewed by the Board.

RESULTS

The company's turnover in the period was £108.6 million (2016: £103.2 million) and the company reported a profit after tax of £23.6 million (2016: profit £28.4 million).

FUTURE DEVELOPMENTS

The company has now ceased to trade in line with the end of concession arrangement. The Shareholders intend to carry out a voluntary winding up of the company within 12 months of the signing of these financial statements.

On behalf of the Board.

J A RAWLE
COMPANY SECRETARY
Bridge Access Road, Aust. BS35 4BD
15 May 2018

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the period ended 8 January 2018. 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 period and subsequently were:

Directors	Alternates
A H Moore (Chairman)	
D W Bowler	W H Snow
H Le Caignec (resigned 4 January 2017)	
D A Logue (resigned 11 April 2017)	
J Mistry (appointed 3 March 2017)	R P Hayward (appointed 11 April 2017)
M Neyrand (appointed 12 January 2017)	P-L Delseny (resigned 31 January 2018)
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 period.

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 Business Development Director, and P-L Delseny was 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. W H Snow is a director of Cofiroute (UK) Limited.

S Singh and M Stringer are directors of and Shareholders in Bank of America Merrill Lynch. J Mistry, R P Hayward and D A Logue are employed in activities undertaken by Barclays Bank Plc. Barclays 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 Industrial Investments Limited and Bank of America between them own, through subsidiary companies, 100% of the issued ordinary share capital of the company.

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

KEY PERFORMANCE INDICATORS

The company's financial and non-financial key performance indicators of turnover, profit before tax and traffic volumes, are discussed in the Chairman's Statement.

OWNERSHIP

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

DIVIDENDS

The directors approved the payment of £41 million of dividends in 2017 (2016: nil).

GOING CONCERN BASIS

The company's business activities, performance and position are set out in the Chairman's Statement and Strategic Report on pages 3 and 4. The company had a concession from the Secretary of State for Transport which included the right to collect tolls from drivers who cross the Severn Bridge and Second Severn Crossing. This has been a business which has generated cash to service and repay the company's debts as they fell due, as well as meeting its running costs.

The maximum toll revenue figure ('RCRR') set out in the Concession Agreement with the Secretary of State for Transport was reached on 2 November 2017. The concession ended at one minute past midnight on 8 January 2018. As such the directors have acknowledged that the business is not a going concern and have accordingly prepared the accounts on a basis other than that of a going concern.

POST BALANCE SHEET EVENTS

In line with a Handover Agreement between the company and the Secretary of State for Transport dated 14 December 2017, a Final Completion Statement was certified on 12 April 2018 setting out amounts owed by and to the company and a payment of £19,632,000 was made to the Secretary of State for Transport on 19 April 2018.

The Government Actuary Department and the Concessionaire's Actuary, jointly certified a Transfer Date Deficit of £973,000 on the company's pension fund and the company paid £973,000 into the company's pension fund on 29 March 2018.

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.

Approved by the Board and signed on its behalf by:

J A RAWLE
COMPANY SECRETARY
Bridge Access Road, Aust. BS35 4BD
15 May 2018

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 period. 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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 8 January 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Severn River Crossing PLC (the 'company') 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We draw attention to note 1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions 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 or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, UK
15 May 2018

PROFIT AND LOSS ACCOUNT

For the 373 day period ended 8 January 2018:

	Note	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Turnover		108,622	103,175
Cost of sales		(76,648)	(59,303)
Gross profit		31,974	43,872
Administrative expenses		(4,003)	(585)
Other operating income		8,379	1,928
Operating profit		36,350	45,215
Net finance income/(costs)	3	207	(765)
Profit on ordinary activities before taxation	4	36,557	44,450
Tax on profit on ordinary activities	7	(13,018)	(16,038)
Profit for the financial period		23,539	28,412

All revenues and profits are derived from the discontinued operations of the company.

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 8 January 2018

	Note	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Profit for the financial period		23,539	28,412
Re-measurement of net defined benefit liability	16	879	(885)
Tax relating to components of other comprehensive income		(223)	170
Other comprehensive income		656	(715)
Total comprehensive income		24,195	27,697

BALANCE SHEET

At 8 January 2018

	Note	As at 8 January 2018 £000	As at 31 December 2016 £000
Fixed assets			
Tangible assets	8	-	46,088
Investments	9	-	4,024
Deferred tax asset	13	-	851
		-	50,963
Current assets			
Debtors			
- due within one year	10	12,649	482
Cash at bank and in hand		57,904	17,307
		70,553	17,789
Creditors: Amounts falling due within one year	11	(45,774)	(21,838)
Net current assets/(liabilities)		24,779	(4,049)
Total assets less current liabilities		24,779	46,914
Provisions for liabilities	12	-	(5,330)
Net assets		24,779	41,584
Capital and reserves			
Called-up share capital	14	13	13
Capital redemption reserve		26	26
Profit and loss account		24,740	41,545
Shareholders' funds		24,779	41,584

The financial statements of Severn River Crossing Plc (company number 02379695) were approved by the board of directors and authorised for issue on 15 May 2018. They were signed on its behalf by:

A H Moore
Director

A S Pearson
Director

STATEMENT OF CHANGES IN EQUITY

For the period ended 8 January 2018

	Called-up share capital £000	Capital redemp-tion reserve £000	Profit and loss account £000	Total £000
At 1 January 2016	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
Profit for the period	-	-	23,539	23,539
Other comprehensive income	-	-	656	656
Total comprehensive income	-	-	24,195	24,195
Dividend Paid	-	-	(41,000)	(41,000)
At 8 January 2018	13	26	24,740	24,779

CASH FLOW STATEMENT

For the period ended 8 January 2018

	Note	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Net cash flows from operating activities	15	77,516	76,877
Cash flows from investing activities			
Proceeds from sale of Escrow investment		4,047	-
Proceeds from sale of equipment		135	-
Purchase of equipment		(393)	(263)
Interest received		292	161
Interest paid		-	(524)
Net cash flows from investing activities		4,081	(626)
Cash flows from financing activities			
Repayments of borrowings		-	(64,882)
Dividends paid		(41,000)	-
Net cash flows from financing activities		(41,000)	(64,882)
Net increase in cash and cash equivalents		40,597	11,369
Cash and cash equivalents at beginning of period		17,307	5,938
Cash and cash equivalents at end of period		57,904	17,307

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

1. Accounting Policies

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

a. General information and basis of accounting

Severn River Crossing Plc is a private company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 2. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 4.

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, performance and position are set out in the strategic report. The directors' report further describes the financial position of the company; its cash flows and liquidity position; 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.

The maximum toll revenue figure set out in the Concession Agreement with the Secretary of State for Transport was reached on 2 November 2017 and the concession ended at one minute past midnight on 8 January 2018, 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 until end of concession
Office furniture, fittings and toll equipment:	Over 1 to 8 years until end of concession

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

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 and capitalised interest

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

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.

Critical accounting judgements

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 has only recognised non-payment of toll revenues when cash is recovered from the customer.

The project's Required Cumulative Real Revenue ('RCRR') figure was reached on 2 November 2017. In accordance with the Concession Agreement the company has collected and paid over toll charges to the Secretary of State for Transport for the period 3 November 2017 to 7 January 2018. There is therefore judgement in whether the company acted as principal or agent in this period. In the view of the directors, as the company continued to operate the two Severn Crossings until 7 January 2018 it meets the definition of an undisclosed agent and has therefore continued to account for these transactions as principal. Toll revenues transferred to the Government in this period are included in cost of sales.

Other income and long term TAG deposits

There is judgement in deciding customers with aged TAG balances and deposits will ever claim these amounts. Therefore the directors have concluded that TAG deposits and unclaimed balances on closed customer accounts are only written back and taken as operating income once all reasonable steps to settle the liability have been made. This includes writing to TAG holders before releasing any amounts.

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 was valued on the ongoing basis up to the point it was transferred to Highways England Company Limited. Additional payments to the pension scheme agreed as part of the transfer were recognised in profit and loss in the period. All assumptions relating to the pension scheme are reviewed and approved by the Board of directors.

Key source of estimation uncertainty

Given the activity of the company the directors have not identified any key sources of estimation required in the preparation of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

3. Finance income/(costs) (net)

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Interest payable and similar charges	(110)	(855)
Less: Investment income	317	90
	207	(765)

Investment income	**£000**	**£000**
Interest receivable and similar income	317	90
	317	90

Interest payable and similar charges	**£000**	**£000**
Bank loans and overdrafts	-	(205)
On all other loans:		
Interest	-	(521)
Interest on pension scheme liabilities (note 16)	(110)	(129)
	(110)	(855)

4. Profit on ordinary activities before taxation

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

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Depreciation of tangible fixed assets (note 8)	46,192	47,144
Foreign exchange gain	(38)	(36)
Revaluation of Escrow assets	(27)	(606)
Tolls collected on behalf of the Secretary of State for Transport*	18,224	-
Loss on settlement - company pension fund	1,633	-

*Being tolls collected subsequent to the Required Cumulative Real Revenue ('RCRR') figure being reached on 2 November 2017 and paid over to the Government in accordance with the Concession Agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

4. Profit on ordinary activities before taxation (continued)

The analysis of audit remuneration is as follows:

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	37	30
Total audit fees	37	30
Taxation compliance services	17	15
End of concession taxation advisory services	71	17
Accounting guidance	4	5
Total non-audit fees	92	37
Total remuneration	129	67

No services were provided pursuant to contingent fee arrangements.

5. Staff numbers and cost

The average monthly number of employees (including directors) was:	Period ended 8 January 2018 Number	Year ended 31 December 2016 Number
Tolling operations	88	88
Maintenance operations	61	63
Administration	34	33
	183	184
Their aggregate remuneration comprised	**£000**	**£000**
Wages and salaries	5,555	5,109
Social security costs	538	495
Other pension costs	668	663
	6,761	6,267

The company made an additional Employer Contribution of £4,500,000 to the company Pension Fund during 2017 (2016 - £nil) in relation to the Pension Scheme Liability (note 16.)

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

6. Directors' remuneration and transactions

Directors' remuneration	**Period ended 8 January 2018 £000**	**Year ended 31 December 2016 £000**
Sums paid to third parties in respect of directors' services		
John Laing Investments Ltd	119	89
Vinci Concessions S.A.S.	112	89
BankAmerica International Financial Corporation	47	43
Barclays Industrial Investments Limited	63	45
	341	266
Sums accrued or paid to directors in respect of their services	104	54
	445	320
Remuneration of the highest paid director:	**£000**	**£000**
Emoluments	104	54

Only the Chairman is paid directly; included within the chairman's remuneration in the current period is an accrued bonus amount of £49,000 which will be paid after the period end. No other director received any remuneration for their services in the current period or prior year. Shareholders' companies have been paid for the services of their directors during the period as detailed above.

7. Tax on profit on ordinary activities

The tax charge comprises:

Current tax on profit on ordinary activities	**Period ended 8 January 2018 £000**	**Year ended 31 December 2016 £000**
UK corporation tax	14,796	17,961
Adjustments in respect of prior periods		
UK corporation tax	(1,496)	(755)
Total current tax	13,300	17,206
Deferred tax		
Origination and reversal of timing differences	(309)	(1,298)
Adjustment in respect of previous periods	27	82
Effect of decrease/(increase) in tax rate on opening liability	-	48
Total deferred tax (see note 13)	(282)	(1,168)
Total tax on profit on ordinary activities	13,018	16,038
Total current and deferred tax relating to items of other comprehensive income	(223)	170

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

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:

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Profit on ordinary activities before tax	36,557	44,450
Tax on company profit on ordinary activities at standard UK corporation tax rate of 19.24% (2016: 20%)	7,034	8,890
Effects of:		
Expenses not deductible for tax purposes	7,642	8,115
Income not taxable in determining taxable profit	(336)	(342)
Change in tax rates	4	48
Deferred tax not recognised	143	-
Adjustments to tax charge in respect of previous periods	(1,469)	(673)
Company total tax charge for period	13,018	16,038

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

8. Tangible fixed assets

Company	Bridges: Second Severn Crossing £000	Bridges: Severn Bridge £000	Leasehold improve-ments £000	Furniture, fittings and toll equip-ment £000	Total £000
Cost or valuation					
At 1 January 2017	464,001	124,214	514	5,284	594,013
Additions	-	-	-	239	239
Disposals	(464,001)	(124,214)	(514)	(5,523)	(594,252)
At 8 January 2018	-	-	-	-	-
Depreciation					
At 1 January 2017	427,846	114,924	514	4,641	547,925
Charge for the period	36,155	9,290	-	747	46,192
Disposals	(464,001)	(124,214)	(514)	(5,388)	(594,117)
At 8 January 2018	-	-	-	-	-
Net book value					
At 8 January 2018	-	-	-	-	-
At 31 December 2016	36,155	9,290	-	643	46,088

The cost of the Second Severn Crossing includes £387.4 million (2016: £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 (2016: £76.6 million) in respect of capitalised interest.

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

9. Fixed asset investments

	Cash £000	Listed In-vestments £000	Total £000
Cost or valuation			
At 1 January 2017	5	4,019	4,024
Fair value change	-	28	28
Disposal	-	(4,047)	(4,047)
Transfer to cash at Bank	(5)	-	(5)
At 8 January 2018	-	-	-

During the period the listed investments were sold and the proceeds were paid into the company pension fund.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

10. Debtors

Amounts falling due within one year:	As at 8 January 2018 £000	As at 31 December 2016 £000
UK corporation tax – repayment for prior years	3,768	-
Trade debtors	154	154
Amount recoverable from Secretary of State of Transport	8,513	-
Other debtors	214	4
Prepayments and accrued income	-	324
	12,649	482

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 an amount recoverable from the Secretary of State for Transport.

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

11. Creditors: amounts falling due within one year:

	As at 8 January 2018 £000	As at 31 December 2016 £000
Amount owed to Secretary of State for Transport	28,140	-
Amounts owed to related undertakings (note 17)	477	412
Trade creditors	1,491	1,178
Corporation tax	7,358	9,157
Corporation tax – Group relief	3,366	-
Other creditors:		
Settlement payment to company pension fund	973	-
VAT	3,253	1,547
PAYE	309	119
Accruals and deferred income	407	9,425
	45,774	21,838

Trade creditors principally comprise amounts outstanding for trade purchases.

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

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

12. Provisions for liabilities

	As at 8 January 2018 £000	As at 31 December 2016 £000
Deferred taxation	-	910
Provision for net defined benefit scheme deficit (see note 16)	-	4,420
Total	-	5,330

The provision for the defined benefit scheme liability is discussed in greater detail in note 16. Deferred tax assets arising on the pension scheme liability are not offset against the deferred tax liability

13. Deferred taxation

Movement	**Liability £000**	**Asset £000**
At 1 January 2016	(2,010)	613
Charged to profit and loss account	1,168	-
Charged to other comprehensive income	(68)	238
At 1 January 2017	(910)	851
Charged to profit and loss account (note 7)	910	(628)
Charged to other comprehensive income	-	(223)
At 8 January 2018	-	-

Deferred tax is provided as follows	**As at 8 January 2018 £000**	**As at 31 December 2016 £000**
Accelerated capital allowances	-	(910)

Deferred tax is recognised as follows	**As at 8 January 2018 £000**	**As at 31 December 2016 £000**
Deferred tax arising in relation to retirement benefit obligations	-	851

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

14. Called-up share capital and reserves

	As at 8 January 2018 £000	As at 31 December 2016 £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 less dividends.

15. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Operating profit	36,350	45,215
Adjustment for:		
Depreciation	46,192	47,144
Operating cash flow before movement in working capital	82,542	92,359
Increase in debtors	(8,373)	(175)
Increase in creditors	22,523	801
Adjustment for pension funding	(3,647)	220
Non-cash Escrow gain	(27)	(606)
Tax paid	(15,502)	(15,722)
Cash generated by operations	77,516	76,877

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

16. Employee benefits

Defined benefit schemes

The company operated 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 2016 and an actuarial valuation of scheme assets and the present value of the defined benefit obligation was updated as at 7 January 2018 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.

	Period ended 8 January 2018 £000	**Year ended 31 December 2016 £000**
Key assumptions used:		
Discount rate	2.6%	2.7%
Rate of increase in salaries	3.2%	3.3%
Rate of increase in pensions in payment	3.0%	3.2%
Rate of increase of pensions in deferment	2.2%	2.3%
Inflation (RPI)	3.2%	3.3%
Inflation (CPI)	2.2%	2.3%

The assumed life expectation

	Period ended 8 January 2018 years	**Year ended 31 December 2016 years**
Retiring today:		
Males	22.0	22.2
Females	24.3	24.6
Retiring in 20 years		
Males	23.8	24.3
Females	26.1	26.9

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

16. Employee benefits (continued)

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

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Current service cost	683	567
Net interest cost	110	129
Administrative expenses of pension scheme	76	251
	869	947
Recognised in other comprehensive income	(879)	885
Total cost relating to defined benefit scheme	(10)	1,832

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:

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Present value of defined benefit obligations	-	(29,884)
Fair value of scheme assets	-	25,464
Net liability recognised in the balance sheet	-	(4,420)

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

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
At 1 January	(29,884)	(25,142)
Service cost	(683)	(567)
Interest cost	(798)	(980)
Actuarial gains and (losses)	317	(3,803)
Contributions from scheme participants	(178)	(187)
Benefits paid	1,525	795
Company loss on settlement	(1,633)	-
Settlement	31,334	-
At end of period	-	(29,884)

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

16. Employee benefits (continued)

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

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
At 1 January	25,464	21,956
Interest income	688	851
Return on plan assets (excluding amounts included in net interest cost)	562	2,918
Contributions from the employer	5,070	598
Contributions from scheme participants	178	187
Benefits paid	(1,525)	(795)
Administrative expenses paid from Plan Assets	(76)	(251)
Settlement	(31,334)	-
Contribution due from employer (paid 29 March 2018)	973	-
At end of period	-	25,464

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

	As at 8 January 2018 £000	As at 31 December 2016 £000
Equity instruments	-	9,080
Debt instruments:		
- Corporate Bonds	-	5,677
- Government Bonds	-	10,672
Cash and cash equivalents	-	35
	-	25,464

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 8 January 2018

17. 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	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Cofiroute (UK) Limited	The company is a subsidiary of a		
Tolling Services	Shareholder company	1,036	1,239

Amounts owed to related parties are disclosed in Note 11, and can be summarised as follows:

	Period ended 8 January 2018 £000	Year ended 31 December 2016 £000
Cofiroute (UK) Limited	136	144
John Laing Investments Limited	119	89
Vinci Concessions S.A.S.	112	91
Barclays Industrial Investments Limited	63	45
Bank of America	47	43
	477	412

Further information on the relationships with related parties is set out in the directors' report on Page 5. Payments to Shareholder Companies in respect of directors' services are disclosed in Note 6.

18. Post balance sheet events

In line with a Handover Agreement between the company and the Secretary of State for Transport dated 14 December 2017, a Final Completion Statement was certified on 12 April 2018 setting out amounts owed by and to the company and a payment of £19,632,000 was made to the Secretary of State for Transport on 19 April 2018.

The Government Actuary Department and the Concessionaire's Actuary, jointly certified a Transfer Date Deficit of £973,000 on the company's pension fund and the company paid £973,000 into the company's pension fund on 29 March 2018.

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