

EQUITIX CAPITAL EUROBOND LIMITED

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2015**

Registered Number: 06741074

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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DIRECTORS AND ADVISERS

Directors

H B Crossley

G A Jackson

N G B Parker

J C Smith (appointed 27 January 2015)

Company secretary and registered office

H B Crossley

Welken House

10 -11 Charterhouse Square

London

EC1M 6EH

Auditor

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

Principal bankers

Royal Bank of Scotland plc

9th Floor, 280 Bishopsgate

London

EC2M 4RB

STRATEGIC REPORT

BUSINESS MODEL

The Company's principal activities relate to investment in long-term PPP/PFI contracts held with local authorities in the UK. The Company, through its subsidiary investments, currently holds contracts to develop and operate schools, hospitals, leisure centres and street lighting assets throughout the United Kingdom.

REVIEW OF THE PERIOD

The Company continued to hold the Equitix Fund I LP PPP/PFI assets.

On 30 March 2015 the construction project in CLP Blackpool Ltd reached practical completion and the construction premium of £1,333k was paid to Equitix Ltd. On the same date, the Company entered into an interest-bearing loan with its parent entity, Equitix Fund I LP for £1,333k, utilising headroom in the existing Eurobond facility (note 15). The interest-bearing loan has a rate of 15%.

The Company's direct subsidiaries are held at fair value on the Statement of Financial Position with movements recorded through the Statement of Comprehensive Income, as explained in note 2. In order to determine the fair value of these investments, the Company takes into consideration the fair value of all the underlying portfolio companies and intermediate holding companies.

KEY PERFORMANCE INDICATORS

The key performance indicators for the Company are primarily client and financially focused; including those listed below:

- tracking the performance and delivery of the services in conjunction with the KPIs set by the local authorities;
- the progress of the individual project companies;
- the comparison of actual cash flows costs to those that have been forecast;
- the value of investments held in the company portfolio in association with the expected future cash flows; and
- that all operational projects are performing within the restrictions of all project documentation.

The latest operational models show the current portfolio of projects is performing in line with expectations and the project documentation with no material or significant unavailability deductions being suffered in the year.

The results for the year are shown on page 6 in the statement of comprehensive income. This shows a profit before tax of £2,641k (2014: £4,324k) and a net finance expense amounting to £18,550k (2014: £17,085k). The profit for the year includes an increase in the fair value of the investments of £11,836k (2014: £13,020k). The Directors do not recommend the payment of a dividend (2014: £nil).

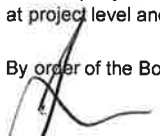
FUTURE DEVELOPMENTS

The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease; the Company will continue to act as holding company for the Equitix Fund I LP PFI / PPP assets.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has entered into inter-company loan agreements with its parent entity and into loan arrangements with its investments. A principal risk is the Company not receiving interest payments in order to make interest payments to its parent entity. Therefore, the Company's main concerns are attributable to the sound operation of the underlying PFI/PPP infrastructure assets, ensuring that the modelled cash flows, made up of, but not limited to, subordinated debt principal repayments, subordinated debt interest payments, dividends and other fees are indeed received. The Company will monitor actual and projected cash flows to ensure that the returns are as expected. In addition, the Company will also look to optimise returns from the underlying PFI/PPP local authority infrastructure assets through achieving efficiencies at project level and by maximising synergies at portfolio level.

By order of the Board



J C Smith
29 April 2016

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2015.

DIRECTORS

The Directors who served throughout the year, except as noted, are shown on page 1.

RESULTS AND DIVIDENDS

The Company's performance reflects the position under the various inter-company and inter-group agreements that have been put in place during the year, and the ongoing performance and value of the investment portfolio. See Strategic Report for further detail.

FINANCIAL RISK REVIEW

Interest rate risk

The Company has Eurobonds listed on the Channel Islands Securities Exchange with a fixed interest rate which have been purchased by Equitix Fund I LP, the ultimate parent of the Company. These form the primary source of funding for the Company.

During the year the Company held an external debt facility from the Royal Bank of Scotland Plc of £35m which was repaid in full on 4 November 2015.

The Company's investments have various senior debt agreements to fund project construction and operations. These loans are non-recourse to Company and are typically raised with a floating interest rate and interest rate swap agreements are used to fix senior debt interest rates to obtain the desired interest profile and to manage the Company's exposure to interest rate fluctuations.

Market risks

The Company has adopted a policy of only dealing with creditworthy counterparties and PFI/PPP concessions are entered into with government or semi-government authorities, thereby protecting income streams over the course of long term contracts. The characteristics of these long-term contracts mean that income and cost is typically fixed or capped throughout the life of the project and therefore the Group has very limited exposure to market risks.

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows stemming from the underlying projects and matching maturity profiles of financial assets and liabilities. The Company's policy throughout the year and preceeding periods has been to ensure continuity of funding using the various facilities outlined in the interest rate section above. Senior bank loans are matched in duration to the life of the project concession and are non-recourse to the Company, while the Eurobond facility matures on 12 November 2033.

Currency risk

The Company only deals in sterling and therefore have no exposure to foreign exchange risk.

Performance risk

The Company mitigates performance risk through a robust asset management process, and passes on risks of non-performance to service providers and subcontractors.

GOING CONCERN

The Company's forecasts and projections taking account of reasonably possible changes in trading performance, and the net current liability position of the Company, show that the Company should be able to operate within the level of its current resources. The Company's going concern is dependent upon performance of the entities within the Equitix Fund I LP group. The Company has obtained a letter of support from its parent entity, Equitix Fund I LP. After making enquiries, the Directors have a reasonable expectation that the Company and its parent have adequate resources to continue in operational existence for the foreseeable future, and for a minimum of 12 months from the date of signing of this report, despite any economic uncertainties. In forming this conclusion, the following has been taken into consideration:

- all committed investments of the Company and its subsidiaries holding companies are covered by commitments from the partners of Equitix Fund I LP;
- the Company has limited other outgoings and funding can be drawn down from the Fund's partners if required to meet these obligations;
- the Fund financial model, which consolidates the returns from the Company's investment portfolio.

AUDITOR

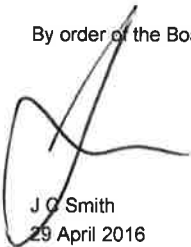
Each of the persons who is a Director at the date of approval of this report confirms that:

- 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.

Deloitte LLP resigned as auditor on 14 September 2015 pursuant to section 516 of the Companies Act 2006. On 28 September 2015 the Directors appointed KPMG LLP as auditor of the Company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



J G Smith
29 April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statement 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 IFRSs as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs are insufficient to enable users to understand the impact of transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX CAPITAL EUROBOND LIMITED

We have audited the financial statements of Equitix Capital Eurobond Ltd for the year ended 31 December 2015 set out on pages 7 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made;
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Henry Todd (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants and Statutory Auditor
London, UK

Date: 29 April 2016

EQUITIX CAPITAL EUROBOND LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Interest income	7	8,587	8,164
Other income		768	307
Fair value gains on investments	10, 11	11,836	13,020
Profit from operations		21,191	21,491
Finance cost	8	(18,550)	(17,085)
Administrative expenses		-	(82)
Profit before tax		2,641	4,324
Tax	9	-	995
Profit after tax		2,641	5,319

All the above items relate to continuing operations.

The Company has no recognised gains or losses other than reported above.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	As at 31 December 2015 £'000	As at 31 December 2014 £'000
Non-current Assets			
Investments held at fair value	11	206,467	192,991
		<u>206,467</u>	<u>192,991</u>
Current assets			
Cash and cash equivalents		-	4,686
Receivables	13	2,654	3,643
		<u>2,654</u>	<u>8,329</u>
Total assets		<u>209,121</u>	<u>201,320</u>
Current liabilities			
Interest payable to parent	14	(18,282)	(13,066)
Other payables	14	(379)	(45)
Borrowings	15	-	(35,000)
		<u>(18,661)</u>	<u>(48,111)</u>
Net current liabilities		<u>(16,007)</u>	<u>(39,782)</u>
Non-current liabilities			
Borrowings	15	(146,214)	(111,604)
		<u>(146,214)</u>	<u>(111,604)</u>
Total liabilities		<u>(164,875)</u>	<u>(159,715)</u>
Net assets		<u>44,246</u>	<u>41,605</u>
Equity			
Share capital	16	-	-
Retained earnings	17	44,246	41,605
		<u>44,246</u>	<u>41,605</u>
Total equity		<u>44,246</u>	<u>41,605</u>

The notes on pages 11 to 27 form part of these financial statements.

The notes to the financial statements of Equitix Capital Eurobond Limited, registered number 06741074, were approved by the Board of Directors and authorised for issue on 29 April 2016 and were signed on its behalf by:



J.C. Smith
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	-	41,605	41,605
Profit for the year	-	2,641	2,641
Balance as 31 December 2015	-	44,246	44,246
Balance as at 1 January 2014	-	36,286	36,286
Profit for the year	-	5,319	5,319
Balance as 31 December 2014	-	41,605	41,605

EQUITIX CAPITAL EUROBOND LIMITED

CASH FLOW STATEMENT	2015	2014
	£'000	£'000
FOR THE YEAR ENDED 31 DECEMBER 2015		
Cash flows from operating activities		
Profit for the year	2,641	5,319
Taxation	-	(995)
Fair value gains on investments	(11,836)	(13,020)
Investment revenue	(8,587)	(8,164)
Finance cost	18,550	17,085
Decrease / (increase) in other receivables	712	(166)
Increase / (decrease) in other payables	334	(125)
Cash outflow from operations	1,814	(66)
Income tax credit	(289)	617
Investment revenue	9,155	7,363
Interest paid	(13,334)	(27,888)
Net cash flows used in operating activities	(2,654)	(19,974)
Investing activities		
Purchase of investments held at fair value	(1,640)	(12,422)
Net cash used in investing activities	(1,640)	(12,422)
Financing activities		
Repayment of loans from parent company		
Borrowings from parent company	34,609	2,080
Revolving credit facility borrowings	(35,000)	25,000
Net cash from financing activities	(391)	27,080
Net decrease in cash and cash equivalents	(4,686)	(5,315)
Cash and cash equivalents from beginning of year	4,686	10,001
Cash and cash equivalents from end of year	-	4,686

Notes to the financial statements for the year ended 31 December 2015

1 GENERAL INFORMATION

Equitix Capital Eurobond Limited 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 Directors' report on page 2. These financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Company operates.

2 ACCOUNTING POLICIES**a) Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). A summary of the principal accounting policies, all of which have been applied consistently throughout the current and prior year are set out below.

The Company has adopted Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27) and meets the definition of an Investment Entity under IFRS 10. As such, the Company recognises investments at fair value through profit and loss.

These financial statements, for the year ended 31 December 2015, have been prepared in accordance with the amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements incorporating accounting for Investment Entities, IAS 28 Investments in Associates and Joint Ventures and IFRS 11 Joint Arrangements.

IFRS 10 requires the Company to measure its interests in subsidiary investments under IAS 39: Financial Instruments - Recognition and Measurement and IFRS 7: Financial Instruments - Disclosures. The investments are valued at fair value with gains or losses on measurement of investments accounted for through profit or loss (see note 11).

The Investment Entities standard introduced an exception to the principle that all subsidiaries should be consolidated. The amendments define an Investment Entity and require a parent entity that is an Investment Entity to measure its subsidiaries at fair value through profit or loss, in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IFRS 13 Fair Value Measurement instead of consolidating those subsidiaries. The Company meets the definition of an Investment Entity on the basis of the following criteria:

- (i) the Company obtains funds from multiple ultimate investors for the purpose of providing those investors with investment management services;
- (ii) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (iii) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

To determine if the Company meets the definition of an Investment Entity, further consideration is given to the following characteristics of an investment entity that are demonstrated by the Company.

- (i) it has more than one investment;
- (ii) it has more than one multiple investor;
- (iii) it has investors that are not related parties;
- (iv) it has ownership interests in the form of equity or similar interest; and
- (v) it holds investments for a limited period only i.e. it has an exit strategy for its investments.

Joint ventures are those entities over which the Company has significant influence and joint control as defined in IAS 28 'Investments in Associates and Joint Ventures'. By virtue of the Company meeting the definition of a fund management company and the wholly owned subsidiary of an investment fund and the exemption provided by IAS 28, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit and loss, in accordance with the equivalent measurement exception under IAS 28 and IFRS 13, with changes in fair value recognised in profit or loss in the period of charge.

In the current period, the Company continues to apply the following accounting standards:

- Annual Improvements to IFRSs - 2010-2012 Cycle (January 2015)
- Annual Improvements to IFRSs - 2011-2013 Cycle (December 2014)

b) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Director's Report on page 3.

Notes to the financial statements for the year ended 31 December 2015

2 ACCOUNTING POLICIES (CONTINUED)**c) Revenue**

Revenue is measured at the fair value of the consideration received or receivable.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. In relation to the fair value exercise interest revenue is adjusted to remove any double counting of cash flows.

Income from participating interests is recognised when the shareholders' rights to receive payment have been established.

Other income associated with the provision of services is accrued on a time basis over the period to which the delivery of the service is set, net of VAT and other sales related tax.

d) Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

e) Accruals and provisions

Accruals and provisions are recognised in the statement of comprehensive income in the period in which they are incurred.

f) Taxation

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

tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable difference arising on investments, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and the rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same taxable company, and the Company intends to settle its current tax assets and liabilities on a net basis.

g) Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the financial statements for the year ended 31 December 2015

2 ACCOUNTING POLICIES (CONTINUED)

g) Financial Instruments (continued)*Financial assets*

Financial assets, are classified in the following categories: fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(i) Investments at fair value through profit or loss

Investments at fair value through profit or loss are designated upon initial recognition as financial assets at fair value through profit or loss. The Company's policy is to fair value both the equity and subordinated debt investments in PPP assets together. Both elements are exposed to the same primary risk, being performance risk. This performance risk is taken into consideration when determining the discount rate applied to the forecast cash flows. In determining fair value observable transactions are considered and fair value is measured using assumptions that market participants would use when pricing assets including assumptions regarding risk. The sub debt and equity are considered to have the same risk characteristics. As such, the debt and equity form a single class of financial instrument for the purposes of this disclosure. The Company measures its investments as a simple class of financial asset at fair value in accordance with IFRS 13 fair Value Measurement. Subsequent to initial recognition, the investments are measured on a combined basis at fair value with changes recognised within operating Statement of Comprehensive Income.

Investments in subsidiaries

The Company is required under Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27) to measure its investments in subsidiaries at fair value through profit or loss, except where the subsidiary provides investment related services or activities. The Company measures its investments in PPP assets that are subsidiaries at fair value in accordance with IAS39 'Financial Instruments: Recognition and Measurement' and IFRS 13 Fair Value Measurement.

Investments in joint ventures and associates

The Company meets the definition in IAS 28 (May 2011) Investments in Associates and Joint Ventures of a venture capital organisation or similar entity and upon initial recognition has designated its investment in joint ventures and associates at fair value through profit or loss. The Company therefore measures its interest in joint ventures and associates at fair value through profit or loss in accordance with IAS 39 Financial Instruments and IFRS 13 Fair Value Measurement, with changes in fair value recognised in profit or loss in the period of the charge.

Equitix Capital Eurobond Limited holds 100% of the issued share capital and debt of four subsidiaries, Equitix Highways Limited, Equitix Leisure Limited, Equitix Healthcare Limited, and Equitix Education Limited, which own a portfolio of investee companies and their associated intermediate holding companies. The fair value of investments is determined by valuing the underlying portfolio investee companies and intermediate holding companies. Investments are designated as "financial assets at fair value through profit and loss" as these assets are managed on a fair value basis for capital gain. The investments are initially recognised at fair value and are subsequently re-measured at fair value, which is determined by the General Partner in accordance with the Limited Partnership Agreement. Recognised gains and losses and unrealised gains and losses arising from the revaluation of investments at the period end are taken directly to the Income Statement.

The current portfolio of investments held by the Company are valued using discounted cash flow analysis based on financial models that form part of the project documents. Future forecast shareholder cash flows are discounted at a rate which allows for influences of individual project attributes and general economic conditions to reflect a value as at the balance sheet date; these values are then compared against recent, similar market transactions as a gauge of estimations and uncertainties.

(ii) Loans and receivables

Trade receivables, loans and other receivables that are non derivative financial assets and that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and other receivables'. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. They are included in current assets, except where maturities are in greater than 12 months after the balance sheet date which are classified as non current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

Impairment of financial assets

Financial assets, other than those through profit or loss, are assessed for indicators of impairment at each balance sheet date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the asset. Significant financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the income statement. An impairment loss can be reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Notes to the financial statements for the year ended 31 December 2015

2 ACCOUNTING POLICIES (CONTINUED)**g) Financial Instruments (continued)***Fair value estimation*

The fair value of financial instruments that are not traded in an active markets is derived the following ways:

(i) Investments at fair value through profit or loss

Fair value is calculated by discounting future cash flows, from investments in both equity and subordinated loans (interest and repayments), the Company at an appropriate discount rate. In determining the discount rate, regard has been given to risk free rates and risk premia that are specific to the individual concessions. The discount rates that have been applied to the financial assets at 31 December 2015 were in the range 6.2% to 8.6% (2014: 6.5% to 8.5%).

(ii) Loans and receivables

Loans and borrowings are held at amortised cost.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Financial liabilities and equity

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities, including borrowings, are classified as 'other financial liabilities' and are initially measured at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

h) Financial risk management

The Company has loans from Equitix Fund I LP, the Company's immediate parent, with fixed interest rates. These loans, including accrued interest, are repayable when the Group has sufficient surplus cash. The value of the loan shown on the balance sheet represents the value of the loan as at the balance sheet date.

During the year the Company held an external debt facility from the Royal Bank of Scotland Plc of £35m which was repaid in full on 4 November 2015.

i) Assessable risks*Credit risk*

The Company is not exposed to significant credit risk as the Company derives interest from subsidiaries which are PFI concessions with government departments, local authorities and other public sector clients. Credit risk is generated through the overall performance risk of the projects, deterioration of which might impact their ability to service equity payments. This risk is mitigated through the PFI contract structure, whereby deductions are passed down to the facilities management and construction sub contractors.

Liquidity risk

The Company adopts a prudent approach to liquidity management and maintains sufficient cash reserves to meet its obligations.

Foreign exchange risk

The Company does not currently have any exposure to foreign currency exchange risk, nor does it have any immediate plans to geographically deviate its focus.

j) Share capital

Ordinary shares are classified as equity.

k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

l) Expenses

All expenses are accounted for on an accruals basis. The Company's fees, finance costs and all other expenses are charged through the statement of comprehensive income.

m) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment in infrastructure which is currently in private finance initiatives and public private partnership companies in one geographical area, the United Kingdom.

Notes to the financial statements for the year ended 31 December 2015

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, 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

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.

a) Eurobond Loan Notes - Interest Rate

The Company has listed Eurobonds on the Channel Islands Securities Exchange with a fixed interest rate of 15% which have been purchased by Equitix Fund I LP, the ultimate parent of the Company. These form the primary source of funding for the Company. The debt terms are comparable to the applicable terms for similar listed debt instruments in the current market so, therefore, the Directors believe that the loan note value in these financial statements reflects fair value at the balance sheet date.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

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.

b) Investments at fair value through profit or loss

By virtue of the Company's status as an Investment Entity under IFRS 10, investments in subsidiaries are designated upon initial recognition, and subsequently accounted for, at fair value through profit or loss.

The fair values of unlisted investments, which are not traded in an active market, are determined using valuation techniques. As disclosed in note 2 to the financial statements, the Directors principally use discounted cash flow analysis to make their best estimation of the fair value. The estimate of fair value may vary from the price achieved in an actual sale as potential acquirers may use different valuation criteria for their own strategic reasons.

The principal drivers of internally prepared valuations are therefore:

- i) expected future net cash flows; and
- ii) the discount rate to be applied.

The fair value estimation takes into account the future distributions to be received by the Company from its investments.

Future distributions involve a degree of uncertainty in terms of their amount and timing. Cash flows in the underlying investments are exposed to risks in relation to deductions that may be made by the relevant Government Authority in relation to performance conditions and inflation.

If the expected future net cash flows were decreased or increased by 10%, with all other variables held constant, the impact on the value of financial assets would be £20,647k (2014: £19,519k) loss / gain respectively.

The discount rate is determined in relation to the particular risks for each investment. All relevant risks such as interest rate risk, credit risk and liquidity risk are incorporated in the fair value of the investments by adjusting the expected cash flows or discount rate used for the valuation of investments. The discount rates used for the 2015 valuation were in a range between 6.2% and 8.6% (2014: 6.5% and 8.3%). If the discount rate used in the valuation were increased or decreased by 100 bps, the impact on the value of the financial assets would be a loss of £18,477k (2014: £18,166k) or a gain of £21,220k (2014: £20,990k) respectively.

A significant portion of the fair value of investments shown on the balance sheet is attributed to the future disposal proceeds of project assets. The value ascribed to these assets has been independently verified by a recognised industry expert in the prior year and reassessed by Directors at year end, and is based upon the current asset use continuing at the point of realisation and beyond. Additional risk premia between 0.5% and 1.0% have been added to reflect any additional associated risk.

c) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is derived in one of the following ways:

- i) **Financial assets at fair value through profit and loss**
Financial assets are recognised initially at fair value. Subsequent to initial recognition, the financial assets are measured at fair value using the discounted cash flow methodology. In determining the discount rate, regard is had to risk free rates and risk premia that are specific to the individual concession.
- ii) **Loans, receivables, and payables**
The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values.
- iii) **Borrowings**
Intercompany loans are held at amortised cost.

Notes to the financial statements for the year ended 31 December 2015

4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- IFRS 9: Financial Instruments
- Annual Improvements to IFRSs - 2012-2014 Cycle (December 2015)
- Amendments to IFRS 10, IFRS 12 and IAS 28: Applying the Consolidation Exception (January 2016)
- Amendments to IAS 1: Disclosure Initiative (December 2015)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (December 2015)

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the Company in future periods.

5 OPERATING PROFIT

The operating profit of the Company is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.

The audit fee for Equitix Capital Eurobond Limited totalled £6k (2014: £5k). The fees for 2014 were paid to Deloitte LLP and for 2015 were paid to KPMG LLP.

6 DIRECTORS' REMUNERATION

No staff were directly employed by the Company (2014: none).

No Directors received any remuneration for services to the Company during the year (2014: none). The Company is managed by secondees from Equitix Limited. No recharge for services rendered has been made during the year (2014: £nil).

7 INVESTMENT REVENUE

	2015 £'000	2014 £'000
Investment revenue		
Interest income on loans to investments	8,587	8,164
Total investment revenue	<u>8,587</u>	<u>8,164</u>

8 FINANCE COSTS

	2015 £'000	2014 £'000
Finance cost		
Interest expense on loans from parent entity	(18,550)	(17,085)
Total finance cost	<u>(18,550)</u>	<u>(17,085)</u>

9 TAX CREDIT ON PROFIT FROM ORDINARY ACTIVITIES

Taxation is based on the profit for the period and comprises:

The charge for the year can be reconciled to the result per the income statement as follows

	2015 £'000	2014 £'000
UK corporation tax at a rate of 20.25% (2014: 21.5%)		
Current period	48	976
Adjustments in respect of prior years	(48)	19
Tax credit	<u>-</u>	<u>995</u>

The differences between the total current tax shown above and the amount calculated by applying the average rate of UK corporation tax to the profit before tax are as follows:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	<u>2,641</u>	<u>4,324</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	535	930
Tax effect of expenses that are not deductible in determining taxable profit	555	731
Tax effect of income not taxable in determining taxable profit	(2,457)	(2,935)
Losses not utilised in the period	1,319	298
Tax effect of prior year adjustment - losses surrendered to Consortium Companies	48	(19)
Total current tax credit for the period	<u>-</u>	<u>(995)</u>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

A deferred tax asset has not been recognised in respect of timing differences relating to excess management expenses for the period as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £3,476k (2014: £2,290k), calculated at 20%, the rate substantively enacted at the balance sheet date.

Notes to the financial statements for the year ended 31 December 2015

10 FAIR VALUE MOVEMENTS ON INVESTMENTS

The gain on investments of £11,836k (2014: £13,020k) has been included in the statement of comprehensive income.

The Directors have satisfied themselves as to the methodology used, the discount rates applied and the valuation. Further detail is given in note 11.

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 £'000	2014 £'000
Cost	<u>117,018</u>	<u>115,377</u>
Opening net book value	192,991	167,549
Acquisition of investment net of repayments	1,640	12,422
Fair value gains	11,836	13,020
Closing net book value	<u>206,467</u>	<u>192,991</u>

The following economic assumptions were used in the discounted cash flow valuations:

	2015	2014
UK inflation rates	3.0%	3.0%
UK deposit interest rates	0.5%	0.5%

Investments are generally restricted on their ability to transfer funds to the Group under the terms of the senior funding arrangement for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the company;
- Project performance is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the Company.

A list of principal subsidiaries and joint ventures of the Company can be found in Note 22 of these financial statements.

12 ACQUISITION OF INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

On 30 March 2015 the construction project in CLP Blackpool Ltd reached practical completion and the construction premium of £1,333k was paid to Equitix Ltd. On the same date, the Company entered into an interest-bearing loan with its parent entity, Equitix Fund I LP for £1,333k, utilising headroom in the existing Eurobond facility (note 15). The interest-bearing loan has a rate of 15%.

EQUITIX CAPITAL EUROBOND LIMITED

Notes to the financial statements for the year ended 31 December 2015

13 RECEIVABLES

	2015	2014
	£'000	£'000
Interest receivable from investments	1,559	2,127
Other receivables	100	521
Tax Credit	995	995
	<u>2,654</u>	<u>3,643</u>
Included on the balance sheet as follows:		
Current	2,654	3,643
Non-current	-	-
	<u>2,654</u>	<u>3,643</u>

The carrying value of these assets approximates their fair value. There are no past due or impaired receivable balances.

Interest receivable from investments in the current and prior year represents accrued interest on subordinated debt loans to the investments listed in the list of investments (note 21).

14 PAYABLES

	2015	2014
	£'000	£'000
Interest payable to parent	(18,282)	(13,066)
Other payables	(379)	(45)
	<u>(18,661)</u>	<u>(13,111)</u>
Included on the balance sheet as follows:		
Current	(18,661)	(13,111)
Non-current	-	-
	<u>(18,661)</u>	<u>(13,111)</u>

The carrying amount of these liabilities approximates their fair value. Interest payable to parent in the current and prior year represents accrued interest on loan note borrowings from Equitix Fund I LP (note 15).

15 BORROWINGS

	2015	2014
	£'000	£'000
Loans from Parent Entity	(146,214)	(111,604)
Bank loan	-	(35,000)
	<u>(146,214)</u>	<u>(146,604)</u>
Included on the balance sheet as follows:		
Current	-	(35,000)
Non-current	(146,214)	(111,604)
	<u>(146,214)</u>	<u>(146,604)</u>

Amounts owing to parent undertaking are composed of interest free loans of £58k (2014: £58k) and £146,287k (2014: £111,546k) of Eurobond Loan Notes, listed on the Channel Island Securities Exchange on 15 September 2009, 21 February 2011 and 22 June 2012, and subscribed to by Equitix Fund I LP. On 27 July 2014 an additional £5,200k of loan notes were approved and issued under the same facility. The intercompany interest-bearing loans carry an interest rate of 12%, the loan notes are unsecured, have an interest rate of 15% and fall due for repayment on 12 November 2033.

On 4 November 2015 the external revolving credit facility held by the Company of £35m was repaid and refinanced by Equitix Fund 1 LP. On the same date the Company entered into an interest bearing loan with Equitix Fund 1 LP for £33,277k. The interest bearing loan has a rate of 15%.

On 30 March 2015 the construction project in CLP Blackpool Ltd reached practical completion and the construction premium of £1,333k was paid to Equitix Ltd. On the same date, the Company entered into an interest-bearing loan with its parent entity, Equitix Fund I LP for £1,333k, utilising headroom in the existing Eurobond facility. The interest-bearing loan has a rate of 15%.

The carrying amount of these liabilities approximates their fair value.

EQUITIX CAPITAL EUROBOND LIMITED

Notes to the financial statements for the year ended 31 December 2015

16 SHARE CAPITAL

	Authorised			
	2015	2015	2014	2014
	Number	£'000	Number	£'000
Ordinary shares of £1 each	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>
	Issued and unpaid			
	2015	2015	2014	2014
	Number	£'000	Number	£'000
Ordinary shares of £1 each	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>
At 1 January and 31 December	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>

17 RETAINED EARNINGS

	2015
	£'000
Balance at 1 January 2015	41,605
Net profit for the year	2,641
Balance as at 31 December 2015	<u>44,246</u>

18 FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group borrowings are as disclosed in note 15, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 16 and 17. The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

a) Categories of financial instruments

	2015	2014
	£'000	£'000
Financial assets		
Fair value through profit and loss		
Investments	206,467	192,991
Loans and receivables		
Interest receivable from investments	1,559	2,127
Other receivables	1,095	1,516
	<u>209,121</u>	<u>196,634</u>
Financial liabilities at amortised cost		
Borrowings	(146,214)	(146,604)
Other payables	(18,661)	(13,111)
	<u>(164,875)</u>	<u>(159,715)</u>

b) Financial risk management objectives

The directors provide advice to the Company on all risks faced and manage the financial risks relating to the operations of the Company through internal risk reports which analyse the exposures faced by degree and magnitude of risk consequences. These risks include market risk, credit risk and liquidity risk.

The Company does not enter into financial derivative contracts.

Market risk

The Company's activities expose it primarily to the financial risks of interest rates and performance risk.

Notes to the financial statements for the year ended 31 December 2015

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Company has limited exposure to interest rate risk from intra group loans as the underlying borrowings are at a fixed interest rate. Therefore the Company is not exposed to cash flow risk due to changes in interest rates over variable rate borrowings. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

During the year the Company held an external debt facility from the Royal Bank of Scotland Plc of £35m which was repaid in full on 4 November 2015.

Interest rate sensitivity analysis

The Company has no exposure to interest rate risk from intercompany loans because the loans held with Equitix Fund I LP have a fixed interest rate of 12% to 15% (2014: 12% to 15%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. For cash and cash equivalents the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties.

The Company only transacts with creditworthy PFI / PPP concession companies that have a cash flow derived from projects in agreement with government or semi-government authorities. Credit risk is generated through the overall performance risk of the projects, deterioration of which might impact their ability to service equity payments. This risk is mitigated through the PFI contract structure, whereby deductions are passed down to the facilities management and construction sub contractors.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

Performance risk management

Performance risk management refers to the risk that the underlying project companies will not perform in line with expectations, and as such the Company will not receive forecast cashflows as expected. To mitigate this risk, the projects are closely managed by the asset management team and risks of non-performance are passed onto service providers and subcontractors by the PFI contract structure, leaving the PFI investment insulated from issues of non-performance.

c) Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

The fair value of other non-derivative financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost in the financial statements, are approximately equal to their fair values.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up on undiscounted cash flows of financial liabilities based on the earliest date the Group could be required to satisfy borrowing repayments. The table includes principal repayment and assumed interest cash flows:

Liabilities

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
2015	£'000	£'000	£'000	£'000	£'000
Borrowings	-	-	-	(146,214)	(146,214)
Interest payable to parent	(18,282)	-	-	-	(18,282)
Other payables	(379)	-	-	-	(379)
	<u>(18,661)</u>	<u>-</u>	<u>-</u>	<u>(146,214)</u>	<u>(164,875)</u>

EQUITIX CAPITAL EUROBOND LIMITED

Notes to the financial statements for the year ended 31 December 2015

18 FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities	Less than 1 year	1-2 years	3-5 years	5+ years	Total
	£'000	£'000	£'000	£'000	£'000
2014					
Borrowings	(35,000)	-	-	(111,604)	(146,604)
Interest payable to	(13,066)	-	-	-	(13,066)
Other payables	(45)	-	-	-	(45)
	(48,111)	-	-	(111,604)	(159,715)

Borrowings comprise inter-company loan agreements entered into between the Company and Equitix Fund I LP. For further consideration of the fair value of the Eurobond loan notes, please refer to note 15.

The following table details the Company's expected maturity for its non-derivative financial assets. The table below has been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

Assets	Less than 1 year	1-2 years	3-5 years	5+ years	Total
	£'000	£'000	£'000	£'000	£'000
2015					
Interest receivable from investments	1,559	-	-	-	1,559
Other receivables	1,095	-	-	-	1,095
	2,654	-	-	-	2,654

Assets	Less than 1 year	1-2 years	3-5 years	5+ years	Total
	£'000	£'000	£'000	£'000	£'000
2014					
Interest receivable from investments	2,127	-	-	-	2,127
Other receivables	1,516	-	-	-	1,516
	3,643	-	-	-	3,643

d) Fair value of financial instruments

The Company holds a number of financial instruments on the statement of financial position at their fair values. The following hierarchy classifies each class of financial asset or liability depending upon the valuation technique applied in determining its fair value.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) where inputs are directly or indirectly observable; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data, where the inputs are unobservable.

There have been no transfers between these categories in the current or preceding year.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

	2015	2015	2015	2015
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments at fair value through profit or loss	-	-	206,467	206,467
	-	-	206,467	206,467
	2014	2014	2014	2014
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments at fair value through profit or loss	-	-	192,991	192,991
	-	-	192,991	192,991

Notes to the financial statements for the year ended 31 December 2015

18 FINANCIAL INSTRUMENTS (CONTINUED)

The fair value calculation is performed on a recurring, annual basis, as defined by IFRS 13.

The key assumptions used in determining the fair values of unquoted investments and a sensitivity analysis is disclosed in note 3.

Reconciliation of investments at fair value through profit or loss

	2015 £'000	2014 £'000
Opening net book value	192,991	167,549
Acquisition of investment net of repayments	1,640	14,052
Movement due to change in discount rate	808	8,312
Movement due to change in risk-free rate	3,757	-
Movement due to change in cash flows	2,513	1,882
Movement due to unwinding of discounting calculation	13,272	9,762
Receipt of distributions from investments	(8,514)	(8,566)
Closing net book value	206,467	192,991

The investments at fair value through profit or loss, whose fair values include the use of Level 3 inputs, are valued by discounting future cash flows from investments in both equity (dividends and equity redemptions) and subordinated loans (interest and repayments) to the Company at an appropriate discount rate. The basis of each discount rate, which is a weighted average cost of capital, is a long run average government bond rates adjusted by an appropriate premium to reflect PPP specific risk, phase of the PPP project and counterparty credit risk. The weighted average discount rate applied was 7.4% (2014: 7.5%). The discount rate is considered the most significant unobservable input through which an increase or decrease would have a material impact on the fair value of the investments at fair value through profit or loss. An increase in 1% in the discount rate would cause a decrease in fair value of the investments of £21.2m (2013: £18.1m).

For a sensitivity analysis of Financial Assets at fair value through profit or loss, refer to note 2.

Gearing ratio

The gearing ratio at the year end is as follows:

	2015 £'000	2014 £'000
Debt	(146,214)	(146,604)
Cash and cash equivalents	-	4,686
Net debt	(146,214)	(141,918)
Equity	44,246	41,605
Net debt to equity ratio	77%	77%

Debt is defined as long- and short-term borrowings (excluding derivatives) as detailed in note 15.

Equity includes all capital and reserves of the Group that are managed as capital.

19 RELATED PARTY TRANSACTIONS

Profit and loss account transactions

		2015 £'000	2014 £'000
Related party	Transaction description		
Equitix Fund I LP	Interest Paid	(18,550)	(17,085)
Equitix Healthcare Limited	Director Fees	173	119
Equitix Education Limited	Director Fees	75	58
Equitix Leisure Limited	Director Fees	231	103
Equitix Highways Limited	Director Fees	27	27
Equitix Healthcare Limited	Consortium Relief Income	127	-
Equitix Education Limited	Consortium Relief Income	135	-
Equitix Healthcare Limited	Interest Received	4,351	4,259
Equitix Education Limited	Interest Received	2,955	2,018
Equitix Leisure Limited	Interest Received	1,076	1,247
Equitix Highways Limited	Interest Received	205	8
		(9,195)	(9,246)

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Notes to the financial statements for the year ended 31 December 2015

19 RELATED PARTY TRANSACTIONS (CONTINUED)

		Amounts owed by related parties		Amounts owed to related parties	
		2015	2014	2015	2014
		£'000	£'000	£'000	£'000
<u>Balance sheet items</u>					
Related party	Transaction description				
Equitix Fund I LP	Loan notes	-	-	(146,214)	(111,604)
Equitix Fund I LP	Interest creditor	-	-	(18,282)	(13,066)
Equitix Healthcare Limited	Loan notes & interest debtor	43,498	1,130	-	-
Equitix Education Limited	Loan notes & interest debtor	19,396	(264)	-	-
Equitix Leisure Limited	Loan notes & interest debtor	10,929	632	-	-
Equitix Highways Limited	Loan notes & interest debtor	2,116	-	-	-
Equitix Education Limited	Other receivables	30	56	-	-
Equitix Leisure Limited	Other receivables	39	55	-	-
Equitix Highways Limited	Other receivables	33	52	-	-
		76,041	1,661	(164,496)	(124,670)

20 ULTIMATE PARENT

The Company's immediate parent company is Equitix Fund Holdco Limited, a company incorporated in Guernsey. The Company's ultimate parent and controlling entity, is Equitix Fund I LP, a limited partnership registered in England and Wales. The Company's results are not consolidated as the Company and its ultimate parent entity meets the criteria of Investment Entities under IFRS 10 and the Company's parent does not prepare consolidated accounts.

21 CONTINGENT LIABILITY

On 4 November 2015, the Company's ultimate parent, Equitix Fund I LP, repaid and refinanced the external revolving credit facility with RBS originally held by Equitix Capital Eurobond Ltd, entering into a new revolving credit facility on the same date. The Company is party to the loan agreement as Guarantor. £36m was drawn down as at 31 December 2015 (2014: £35m). This is repayable in a single bullet payment on 4 November 2018. Management consider the fair value of the guarantee to be immaterial to the Company accounts as the probability of the guarantee being called upon to be extremely unlikely. In making this assessment, careful consideration has been given to the proximity of the current and forecast metrics to default covenants attached to the facility and the dependability of future cash flows from the underlying PPP/PFI investment portfolio and the ability of Equitix Fund I LP to refinance the loan.

22. SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2015

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Country of incorporation
Equitix Healthcare Limited	100%	1 ordinary £1 shares	Parent company to Equitix Healthcare division	UK
Equitix Healthcare (Lancaster) Limited	100%*	100 ordinary £1 shares	Provision of mental health facilities to Lancashire Primary Care Trust	UK
Equitix Healthcare (Surrey) Limited	100%*	100 ordinary £1 shares	Provision of mental health facilities to Surrey Primary Care Trust	UK
Equitix Healthcare (Leeds) Holdings Limited	100%*	100 ordinary £1 shares	Parent company to Leeds PFI SPV 2 Limited	UK
Leeds PFI SPV 2 Limited	100%*	2 ordinary £1 shares	Provision of mental health facilities to Leeds Mental Health Trust	UK
Integrated Care Solutions (Shropshire) Holdings Limited	50%*	25,000 ordinary £1 shares	Parent company to Integrated Care Solutions (Shropshire) Limited	UK
Integrated Care Solutions (Shropshire) Limited	50%*	25,000 ordinary £1 shares	Provision of mental health facilities to Shropshire County Council	UK
Kent Vanwall Limited	100%*	65,000 ordinary £1 shares	Parent company to the Integrated Care Solutions (East Kent) sub group	UK
Integrated Care Solutions (East Kent) Holdings Limited	50%*	75,000 ordinary £1 shares	Parent company to Integrated Care Solutions (East Kent) Limited	UK
Integrated Care Solutions (East Kent) Limited	50%*	75,000 ordinary £1 shares	Provision of mental health facilities to Kent County Council	UK
Equitix Education Limited	100%	1 ordinary £1 share	Parent company to Equitix Education division	UK
Equitix Cambridgeshire Ltd	100%*	1 ordinary £1 share	Parent company to Cambridgeshire sub group	UK
Seafort Holdings Limited	50%*	4,500 ordinary £1 shares	Parent company to Seafort Ealing Limited	UK
Seafort Ealing Limited	50%*	4,500 ordinary £1 shares	Provider of education facilities under a PFI concession arrangement with the Council of the London Borough of Ealing	UK
Equitix Derbyshire Limited	100%*	100 ordinary £1 share	Parent company to the Derbyshire sub group	UK
Derbyshire Learning and Community Partnership Limited	80%*	12,800 ordinary £1 shares	Procurement partnership for secondary schools in Derbyshire	UK
Equitix Education (Derbyshire) Holdings Limited	80%*	48,000 ordinary £1 shares	Parent company to Equitix Education (Derbyshire) Limited	UK

* - Indicates interest that is indirectly held by the Company

22. SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2015 (continued)

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Country of incorporation
Equitix Education (Derbyshire) Limited	80%*	48,000 ordinary £1 shares	Provider of education facilities under a PFI concession arrangement with the Derbyshire County Council	UK
KMC (Pembroke) Limited	100%*	13,357 ordinary £1 shares	Provision of primary education facilities to Pembrokeshire County Council	UK
Greenwich BSF HoldCo Limited	100%*	50,000 ordinary £1 shares	Parent company to Greenwich BSF SPV Limited	UK
Greenwich BSF SPV Limited	100%*	50,000 ordinary £1 shares	Provider of education facilities under a PFI concession arrangement with the LB of Greenwich	UK
Equitix Leisure Limited	100%	1 ordinary £1 shares	Parent company to Equitix Leisure division	UK
Rivendell Holdings Limited	100%*	10,000 ordinary £1 shares	Parent company to Rivendell Leisure Limited	UK
Rivendell Leisure Limited	100%*	10,000 ordinary £1 shares	Provision of leisure facilities for Solihull Metropolitan Borough Council	UK
Breckland Holdings Limited	100%*	10,000 ordinary £1 shares	Parent company to Breckland Leisure Limited	UK
Breckland Leisure Limited	100%*	10,000 ordinary £1 shares	Provision of leisure facilities for Breckland District Council	UK
Waterfront Leisure (Crosby) Limited	100%*	50,000 ordinary £1 shares	Provision of leisure facilities for Sefton Metropolitan Borough Council	UK
Leisureplan Investments Limited	100%*	616,494 ordinary £1 shares	Intermediate parent company within the Equitix Leisure division	UK
Leisureplan Projects Finance Limited	50%*	1 ordinary £1 shares	Financing company within the Equitix Leisure division	UK
Boxwood Holdings Limited	50%*	25,000 ordinary £1 shares	Parent company to Boxwood Leisure Limited	UK
Boxwood Leisure Limited	50%*	352,990 ordinary £1 shares	Provision of leisure facilities for London Borough of Bexley Council	UK
Penzance Holdings Limited	50%*	5,000 ordinary £1 shares	Parent company to Penzance Leisure Limited	UK
Penzance Leisure Limited	50%*	160,000 ordinary £1 shares	Provision of leisure facilities for Penwith District Council	UK

* - Indicates interest that is indirectly held by the Company

22. SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2015 (continued)

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Country of incorporation
Bristol Active Holdings Limited	100%*	10,000 ordinary £1 shares	Parent company to Bristol Active Limited	UK
Bristol Active Limited	100%*	10,000 ordinary £1 shares	Provision of leisure facilities for Bristol City Council	UK
Cambridgeshire Learning & Community Partnerships Limited	80%*	8,000 ordinary £1 shares	Procurement partnership for secondary schools in Derbyshire	UK
Equitix Education (Cambridgeshire) Holdings Limited	89%*	53,400 ordinary £1 shares	Parent company to Equitix Education (Cambridgeshire) Limited	UK
Equitix Education (Cambridgeshire) Limited	89%*	53,400 ordinary £1 shares	Provider of education facilities under a PFI concession arrangement with the Cambridgeshire County Council	UK
Essex Schools Holdings Limited	18%*	18 ordinary £1 shares	Parent company to Essex Schools Limited	UK
Essex Schools Limited	18%*	18 ordinary £1 shares	Provider of education facilities under a PFI concession arrangement with the Essex County Council	UK
Equitix Highways Limited	100%	1 ordinary £1 share	Parent company to Equitix Highways division	UK
Community Lighting Partnership (Blackpool) Holdings Ltd	50%*	22,500 ordinary £1 "A" shares	Parent company to Community Lighting Partnership (Blackpool) Ltd	UK
Community Lighting Partnership (Blackpool) Ltd	50%*	22,500 ordinary £1 shares	Provision of street lighting services to Blackpool Borough Council	UK
Roehampton Hospital Ltd	65%*	32,500 ordinary £1 shares	Provision of acute healthcare services at Queen Mary's Hospital (Roehampton)	UK
Roehampton Hospital Holdings Ltd	65%*	32,500 ordinary £1 shares	Parent company to Roehampton Hospital Ltd	UK
Bradford and Airedale (LIFT) Investment Ltd	60%*	200,000 ordinary £1 shares	Parent company to the Bradford and Airedale LIFT asset	UK
Tees and Durham (LIFT) Investment Ltd	60%*	200,000 ordinary £1 shares	Parent company to the Care Partnerships 25 LIFT asset	UK
Bradford and Airedale Care Partnerships Limited	60%*	9,900 ordinary £1 "C" shares	Procurement partnership for Healthcare facilities in the Bradford and Airedale area	UK
Durham and Tees Community Ventures Ltd	60%*	22,176 ordinary £1 "C" shares	Procurement partnership for Healthcare facilities in the Teesside area	UK

* - Indicates interest that is indirectly held by the Company

22. SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2015 (continued)

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Country of incorporation
Durham and Tees Community Ventures Holdco (No.1) Ltd	60%*	22,176 ordinary £1 shares	Parent company to Care Partnerships 25 Fundco 1 Ltd	UK
Durham and Tees Community Ventures Holdco (No.2) Ltd	60%*	1 ordinary £1 share	Parent company to Care Partnerships 25 Fundco 2 Ltd	UK
Durham and Tees Community Ventures Holdco (No.3) Ltd	60%*	1 ordinary £1 share	Parent company to Care Partnerships 25 Fundco 3 Ltd	UK
Durham and Tees Community Ventures Holdco (No.4) Ltd	60%*	2 ordinary £1 shares	Parent company to Care Partnerships 25 Fundco 4 Ltd	UK
Bradford and Airedale Care Partnerships Holdco 1 Limited	60%*	9,900 ordinary £1 shares	Parent company to Bradford and Airedale Fundco 1 Ltd	UK
Bradford and Airedale Care Partnerships Holdco 2 Limited	60%*	1 ordinary £1 share	Parent company to Bradford and Airedale Fundco 2 Ltd	UK
Bradford and Airedale Care Partnerships Holdco 3 Limited	60%*	1 ordinary £1 share	Parent company to Bradford and Airedale Fundco 3 Ltd	UK
Bradford and Airedale Care Partnerships Holdco 4 Limited	60%*	1 ordinary £1 share	Parent company to Bradford and Airedale Fundco 4 Ltd	UK
Durham and Tees Community Ventures Fundco (No.1) Ltd	60%*	22,176 ordinary £1 shares	Provision of community healthcare in the Teesside area	UK
Durham and Tees Community Ventures Fundco (No.2) Ltd	60%*	1 ordinary £1 share	Provision of community healthcare in the Teesside area	UK
Durham and Tees Community Ventures Fundco (No.3) Ltd	60%*	1 ordinary £1 share	Provision of community healthcare in the Teesside area	UK
Durham and Tees Community Ventures Fundco (No.4) Ltd	60%*	2 ordinary £1 shares	Provision of community healthcare in the Teesside area	UK
Bradford & Airedale Care Partnerships Fundco 1 Ltd	60%*	9,900 ordinary £1 shares	Provision of community healthcare in the Bradford and Airedale area	UK
Bradford & Airedale Care Partnerships Fundco 2 Ltd	60%*	1 ordinary £1 share	Provision of community healthcare in the Bradford and Airedale area	UK
Bradford & Airedale Care Partnerships Fundco 3 Ltd	60%*	1 ordinary £1 share	Provision of community healthcare in the Bradford and Airedale area	UK
Bradford & Airedale Care Partnerships Fundco 4 Ltd	60%*	1 ordinary £1 share	Provision of community healthcare in the Bradford and Airedale area	UK

* - Indicates interest that is indirectly held by the Company