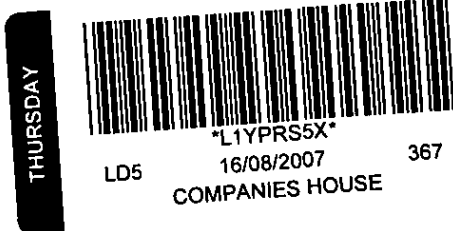


Fazakerley Prison Services Limited
Annual report
for the year ended 31 December 2006

Registered number 2984969



Fazakerley Prison Services Limited

Annual report for the year ended 31 December 2006

	Page
Directors' report for the year ended 31 December 2006	1
Independent auditors' report to the member of Fazakerley Prison Services Limited	4
Profit and loss account for the year ended 31 December 2006	5
Balance sheet as at 31 December 2006	6
Reconciliation of movement in equity shareholder's funds for the year ended 31 December 2006	7
Notes to the financial statements for the year ended 31 December 2006 ..	8

Fazakerley Prison Services Limited

Directors' report for the year ended 31 December 2006

The directors submit their report and the audited financial statements of the company for the year ended 31 December 2006

Principal activities and business review

The company is engaged under a 28 year contract signed on 20 December 1995 for the provision of design, construction and management services, including related financing arrangements for a prison HMP Altcourse, at Fazakerley in Liverpool

During the year a contract was signed on 26 May 2006 to design, construct, operate and maintain a new houseblock

The profit for the year under review as set out in the profit and loss account on page 5 relates to activities undertaken in respect of the project

Principal risks and uncertainties

The company's principal activity as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations. The financial risks and the measures taken to mitigate them are as detailed in the following section

Future developments and performance

The directors consider the performance of the company during the year, the financial position at the end of the year and its prospects for the future to be satisfactory

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance. The board has policies for managing each of these risks and they are summarised below

Interest rate risk

The company has hedged its interest rate risk by using fixed interest rate financial instruments

Inflation risk

The company's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due

Credit risk

The company receives the bulk of its revenue from a government body and therefore is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality

Fazakerley Prison Services Limited

Directors' report for the year ended 31 December 2006 (continued)

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities. The board monitor these on a regular basis. For this reason, the company's Directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business.

Dividends and transfers from reserves

Interim dividends of £2,500,000 (2005 £4,500,000) and a final dividend of £nil (2005 £1,300,000) have been paid during the year. The amount transferred to/(from) reserves is set out in the profit and loss account on page 5.

Directors

The directors of the company during the year ended 31 December 2006, and subsequently, were

A D Banks	
C Elliott	
B W Dalglish	(appointed 21 February 2007)
G Farley	(resigned 19 September 2006)
F R Herzberg	(resigned 19 September 2006)
P McCulloch	(appointed 19 September 2006, resigned 18 December 2006)
J Petherick	(appointed 1 October 2006)
R W Robinson	(resigned 19 September 2006)
M W Taylor	(resigned 29 September 2006)
B S Williams	(appointed 19 September 2006)

Directors' interests in shares

The directors have no interests in the share capital of the company according to the register maintained by the company under Section 325 of the Companies Act 1985.

Fazakerley Prison Services Limited

Directors' report for the year ended 31 December 2006 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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 1985. 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

Auditors and disclosure of information to auditors

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

By Order of the Board



Secretary

06 JUL 2007

Fazakerley Prison Services Limited

Independent auditors' report to the member of Fazakerley Prison Services Limited

We have audited the financial statements of Fazakerley Prison Services Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, Reconciliation of Movement in Equity Shareholder's Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

15 July 2007

Fazakerley Prison Services Limited

Profit and loss account for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Turnover	1	41,042	23,057
Operating costs		(36,736)	(18,854)
Gross profit		4,306	4,203
Administrative expenses		(1,848)	(1,431)
Operating profit	2	2,458	2,772
Interest receivable and similar income	3	8,433	8,621
Interest payable and similar charges	3	(5,940)	(6,157)
Profit on ordinary activities before taxation		4,951	5,236
Tax on profit on ordinary activities	4	(1,712)	(1,745)
Profit for the financial year		3,239	3,491
Equity dividends	9	(2,500)	(5,800)
Profit/(loss) transferred to/from reserves	10	749	(2,309)

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom

There is no difference between the profit for the year as shown in the profit and loss account above and its historical cost equivalent

The company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented

The movements on reserves are shown in note 10 to the financial statements

Fazakerley Prison Services Limited

Balance sheet as at 31 December 2006

	Notes	2006 £'000	2005 £'000
Current assets			
Debtors amounts falling due within one year	5	7,382	4,607
Debtors amounts falling due in more than one year	5	76,820	78,819
Cash at bank and in hand		8,182	7,459
		92,384	90,885
Creditors , amounts falling due within one year	6	(11,094)	(7,268)
Net current assets		81,290	83,617
Creditors : amounts falling due in more than one year	6	(67,996)	(71,049)
		13,294	12,568
Provisions for liabilities and charges	7	(11,667)	(11,680)
Net assets		1,627	888
Capital and reserves			
Called up share capital	8	-	-
Profit and loss account	10	1,627	888
Total equity shareholder's funds		1,627	888

The financial statements on pages 5 to 15 were approved by the Board on **06 JUL 2007** and were signed on its behalf by



Director

Barry Williams

Fazakerley Prison Services Limited

Reconciliation of movement in equity shareholder's funds for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Profit for the financial year		3,239	3,491
Equity dividends paid	9	(2,500)	(5,800)
Net increase/(decrease) in equity shareholder's funds		739	(2,309)
Opening equity shareholder's funds		888	3,197
Closing equity shareholder's funds		1,627	888

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies

A summary of the company's principal accounting policies is set out below

Basis of preparation of accounts

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. Narrative disclosures of values in the notes to the accounts are shown as round £'000

Turnover

Turnover represents the amount receivable, excluding value added tax, for goods, services supplied and fee income from contracts. All turnover originates in the United Kingdom.

The company recognises income when it has fully fulfilled its contractual obligations. In accordance with Financial Reporting Standard 5 – Application Note G, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs.

The turnover includes £16,542,000 (2005: £nil) in relation to the design and construction of an additional houseblock due for completion September 2007.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

Deferred taxation

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.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Leased assets

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

1 Accounting policies (continued)

Contract debtor

Amounts recoverable under long term Private Finance Initiative contracts are transferred to a contract debtor in accordance with the requirements of Financial Reporting Standard 5 Application Note F – Private Finance Initiative and Similar Contracts. The amounts receivable, (which may include the costs of construction of related assets), are treated as a long-term contract debtor from the commencement of the operating contract, with a constant proportion of the net revenue arising from the project being allocated to remunerate the contract debtor. Imputed interest receivable is allocated to the contract debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term, the contract debtor is expected to be fully repaid.

Cash flow statement

At 31 December 2006, the company was a wholly-owned subsidiary of SMIF Investments Luxembourg Sàrl. In accordance with Financial Reporting Standard 1 (revised), no cash flow statement is included in these financial statements.

Financial instruments

The company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates. Financial instruments used to hedge interest rates are valued at cost. Receipts and payments on interest rate instruments are recognised in the profit and loss account over the economic life of the instrument or underlying position being hedged, within net interest. Gains or losses arising on hedging instruments, which do not qualify as hedges for accounting purposes, are taken to the profit and loss account as they arise.

Discounts, premia and related costs of debt issue are charged to the profit and loss account over the life of the instrument to which they relate.

2 Operating profit

The company had no employees during the year (2005: none). The directors have no contract of service with the company. No remuneration was paid to the directors in respect of their services to the company (2005: £nil).

The audit fee in respect of the company was £9,000 (2005: £11,000) for the year. In addition, the company bore £3,000 (2005: £1,000) in respect of the audit fee for its parent company during the year. The auditors also received remuneration for other services totalling £4,000 (2005: £2,000).

The operating costs include £16,542,000 (2005: £nil) in relation to the design and construction of an additional houseblock due for completion September 2007.

Operating lease expenditure incurred in respect of other leases during the year was £1,000 (2005: £1,000).

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

3 Net interest receivable

	2006	2005
	£'000	£'000
Bank interest receivable	452	468
Imputed interest on contract debtor	7,981	8,153
Interest receivable and similar income	8,433	8,621
Interest payable on long term loans	(5,824)	(6,052)
Amortisation of debt issue costs	(116)	(105)
Interest payable and similar charges	(5,940)	(6,157)
Net interest receivable	2,493	2,464

Interest is imputed on the contract debtor using a property specific rate of 10.0 % (2005: 10.0%)

4 Tax on profit on ordinary activities

	2006	2005
	£'000	£'000
Analysis of charge in year		
Current tax		
UK corporation tax on profits of the year	1,725	626
Adjustment in respect of previous years	-	(412)
	1,725	214
Deferred tax		
Origination and reversal of timing differences	(13)	1,150
Adjustment in respect of previous years	-	381
Deferred tax charge in profit and loss account for the year (note 7)	(13)	1,531
Tax on profit on ordinary activities	1,712	1,745

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

4 Tax on profit on ordinary activities (continued)

The tax for the year is higher (2005 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006	2005
	£'000	£'000
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	4,951	5,236
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	1,485	1,571
Effects of:		
Remuneration of contract debtor less capital allowances and imputed interest for the year	12	100
Permanent differences	228	-
Utilisation of tax losses brought forward from prior years	-	(1,045)
Current tax charge for the year	1,725	626

Factors that may affect future tax charges

The company has incurred significant expenditure in the construction of the prison on which it has claimed tax relief through capital allowances and claims for interest and loan related expenditure during the construction period. It has used these claims to offset its current liabilities and retains tax losses to offset liabilities in future years. As amounts are recovered to remunerate these costs they will be brought into current taxation in the year in which they are received. As a result of these claims there exist significant timing differences, which are expected to reverse over the period of the contract term.

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

5 Debtors

	2006	2005
	£'000	£'000
Amounts falling due within one year		
Prepayments and accrued income	5,383	2,797
Contract debtor	1,999	1,810
	7,382	4,607
Amounts falling due in more than one year		
Contract debtor	76,820	78,819

6 Creditors

	2006	2005
	£'000	£'000
Amounts: falling due within one year		
Bank borrowings	3,213	3,032
Less unamortised issue costs	(108)	(66)
Trade creditors	4,173	2,506
Corporation tax	1,917	624
Accruals and deferred income	1,899	1,172
	11,094	7,268
Amounts falling due in more than one year		
Bank borrowings	69,106	72,318
Less unamortised issue costs	(1,110)	(1,269)
	67,996	71,049

Bank borrowings relate to a term loan facility totalling £90,500,000 granted by a group of banks to the company. The loan facility is for a total value of £90,500,000 of which £90,500,000 was drawn down. As at 31 December 2006, £72,319,000 (2005 £75,350,000) remains outstanding. The company has an additional working capital facility of £2,000,000 (2005 £2,000,000) of which £nil was utilised (2005 £nil). Loan issue costs have been offset against bank borrowings and are being amortised over the term of the facility as part of the finance cost in accordance with the provisions of Financial Reporting Standard 4.

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

6 Creditors (continued)

The loan facility is repayable in forty-four six monthly instalments and payment commenced on 15 June 2000. Interest is charged on balances outstanding on the facilities based on the floating LIBOR rate. The company has entered into swap agreements with ABN Amro Bank NV and HBOS Treasury Services plc in order to fix the interest rate at 6.9% applied to those balances on the facility to 15 December 2021. The term loan and working capital facilities are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

Maturity of bank debt

	2006	2005
	£'000	£'000
In one year or less	3,105	2,966
In more than one year but not more than two years	3,277	3,147
In more than two years but not more than five years	11,017	10,413
In more than five years	53,702	57,489
	71,101	74,015

7 Provisions for liabilities and charges

	2006	2005
	£'000	£'000
Provision for deferred taxation		
Accelerated capital allowances and accelerated finance costs	11,667	11,680
Total provision for deferred tax	11,667	11,680
Provision at 1 January	11,680	10,149
Deferred tax charge in profit and loss account for the year (note 4)	(13)	1,531
Provision at 31 December	11,667	11,680

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

8 Called up share capital

	2006	2005
	£	£
Authorised:		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100

9 Equity dividends

	2006	2005
	£'000	£'000
Interim dividends paid	2,500	4,500
Final dividend for 2004 paid in 2005	-	1,300
	2,500	5,800

10 Profit and loss account

	£'000
At 1 January 2006	888
Profit for the financial year	3,239
Dividends paid	(2,500)
At 31 December 2006	1,627

11 Obligations under leases

The company has entered into operating leases and has annual commitments under leases for land and buildings of £1,000 (2005 £1,000) expiring after five years

Fazakerley Prison Services Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

12 Commitments

Under the terms of the original contract, dated 20 December 1995 with Carillion Construction Limited, a company related to Carillion Private Finance Limited, the company is committed to index linked payments totalling £7,578,000 (1995 index) for major maintenance works over the contract term. Commitments remaining at the balance sheet date index at 31 December 2006 were £9,047,000 (2005 £8,911,000).

Under the terms of a fee assignment with GSL Joint Ventures (Fazakerley) Limited dated 30 November 1999, the company is committed to payments totalling £767,000 for financial advice over a period of twelve years. Payments in the year ended 31 December 2006 were £63,000 (2005 £63,000).

Under the terms of a contract, dated 20 December 1995, the company is committed to pay fixed and variable fees to GSL UK Limited, a company related to GSL Joint Ventures Limited, based on the number of available trainee places for the remaining contract term. Payments in the year ended 31 December 2006 were £20,193,000 (2005 £18,853,000).

13 Related party disclosures

Under the terms of a contract dated 26 May 2006, payments of £15,095,000 (2005 £nil) were made to Carillion Construction Limited, a company related to Carillion Private Finance Limited for design and construction of a new houseblock.

Under the terms of a contract dated 26 May 2006, payments of £492,000 (2005 £nil) were made to GSL UK Limited, a company related to GSL Joint Ventures Limited for project management and escorting fees.

In addition to contracted commitments set out in note 12, above, Global Solutions Limited and GSL UK Limited, companies related to GSL Joint Ventures Limited, provided administrative and technical services to the group during the year at a cost of £35,000 (2005 £nil) for Global Joint Ventures Limited, and £50,000 (2005 £189,000) for GSL UK Limited. Similar services were also provided by Carillion Construction Limited, a company related to Carillion Private Finance Limited at a cost of £2,000 (2005 £191,000).

At the year end there was £1,899,000 (2005 £2,075,000) payable to GSL UK Limited, £nil (2005 £52,000) payable to Carillion Private Finance Limited and £1,883,000 (2005 £nil) payable to Carillion Construction Limited.

14 Ultimate parent company and parent undertakings

The company is a wholly owned subsidiary of GSL Joint Ventures (Fazakerley) Limited (formerly GSL Carillion (Fazakerley) Limited). Fifty percent of the share capital of GSL Joint Ventures (Fazakerley) Limited were held by Carillion Private Finance Limited and fifty percent of the share capital is held by GSL Joint Ventures Limited. Carillion Private Finance Limited had a change of name on 15 June 2006 to Carillion Private Finance (Secure) Limited. Subsequently Carillion Private Finance (Secure) Limited sold its shares to GSL Joint Ventures Limited on 19 September 2006. All shareholders are companies incorporated in England and Wales.

As at 31 December 2006, the ultimate parent undertaking and controlling party was SMIF Investments Luxembourg Sàrl (formerly Starsmif Investments Luxembourg Sàrl), a company incorporated in Luxembourg which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Consolidated financial statements for SMIF Investments Luxembourg Sàrl can be obtained from the company secretary at the registered office, 7 Val Ste Croix L-1371 Luxembourg. On 2 February 2007, the ultimate controlling party became Land Securities Group Plc.