

Defence Training Services Limited  
Annual report and financial statements  
for the year ended 31 March 2006

Registered number 3838084



## **Defence Training Services Limited**

### **Annual report and financial statements for the year ended 31 March 2006**

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# **Defence Training Services Limited**

## **Directors and advisors**

### **Directors**

W R Doughty  
M J Findlay  
M T Smith

### **Secretary**

SMIF Secretariat Services Limited

### **Registered office**

Aylesbury House  
17-18 Aylesbury Street  
London  
EC1R 0DB

### **Registered auditors**

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

# **Defence Training Services Limited**

## **Directors' report for the year ended 31 March 2006**

The directors present their annual report and the financial statements for the year ended 31 March 2006.

### **Business review and principal activities**

The company's principal activity is the design, build and provision of facilities management services at the Army Foundation College, Harrogate under a thirty year contract under the Private Finance Initiative.

The profit for the year attributable to shareholders which has been dealt with in the financial statements is £10,000 (31 March 2005: profit of £630,000). The directors consider that both the level of business and the year end financial position were satisfactory.

On 26 April 2005, Uberior Infrastructure Investments (No.2) Limited, the company's joint owner, disposed of its shareholding in the company to Uberior Infrastructure Investments Limited, a fellow subsidiary of HBOS plc.

In line with the current contractual circumstances of the company, a financial model covering the periods up to December 2029 has been produced. From this model the directors are satisfied the company will generate positive cash flows and profits over the life of the contract.

### **Future outlook**

The Directors expect trading conditions in the coming year to be broadly similar to those in the year ended 31 March 2006.

The Directors consider that the committed funding available to the company is sufficient to meet the company's contracted obligations.

### **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.

### **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:

## **Defence Training Services Limited**

### **Directors' report for the year ended 31 March 2006 (continued)**

#### ***Interest rate risk***

The senior debt interest has been fixed rate through a fixed funding rate, plus a margin. Details of these can be found on Page 18.

#### ***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 The Ministry of Defence (MoD) and therefore is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

#### **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. 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.

#### **Directors**

The directors of the company who served during the year and subsequently were as follows:

A E Birch	(resigned 7 December 2006)
R M Bree	(resigned 15 August 2005)
V H Dickinson	(resigned 15 April 2005)
W R Doughty	
M J Findlay	(appointed 6 December 2005)
S P Hornby	(appointed 1 December 2005, resigned 7 December 2006)
P McCulloch	(resigned 18 December 2006)
M T Smith	(appointed 25 April 2005)

#### **Directors' interests**

There were no directors' interests recorded in the register kept in accordance with section 325 of the Companies Act 1985.

# **Defence Training Services Limited**

## **Directors' report for the year ended 31 March 2006 (continued)**

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the directors confirm that they have:

- selected suitable accounting policies and then apply them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

### **Disclosure of information to auditors**

So far as the Directors are aware, there is no relevant audit information of which PricewaterhouseCoopers LLP ('PwC') are unaware, and the Directors 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 PwC are aware of that information.

### **Auditors**

During the year Ernst & Young LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed to fill the casual vacancy. Having passed elective resolutions of the shareholders at an extraordinary general meeting the company is exempt from the obligation to annually re-appoint auditors and to hold annual general meetings. Accordingly the Directors recommend that PricewaterhouseCoopers LLP continue in office as auditors to the company.

By order of the board



On behalf of SMIF Secretariat Services Limited

Secretary

24 JAN 2007

# **Defence Training Services Limited**

## **Independent auditors' report to the members of Defence Training Services Limited**

We have audited the financial statements of Defence Training Services Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. 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.

## Defence Training Services Limited

### Independent auditors' report (continued)

#### 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 March 2006 and of its profit and cash flows 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*

*25 January 2007*



## Defence Training Services Limited

### Profit and loss account for the year ended 31 March 2006

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 (As restated) £'000
<b>Turnover</b>	1	<b>10,211</b>	10,468
Cost of sales		(9,741)	(9,910)
<b>Gross profit</b>		<b>470</b>	558
Operating expenses		(412)	(275)
<b>Operating profit</b>		<b>58</b>	283
Interest receivable and similar income	3	6,545	6,525
Interest payable and similar charges	4	(6,152)	(6,178)
<b>Profit on ordinary activities before taxation</b>		<b>451</b>	630
Tax on profit on ordinary activities	5	(441)	-
<b>Retained profit for the year</b>	12	<b>10</b>	630

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 as shown in the profit and loss account and its historical cost equivalent. The movement on reserves is shown in note 12 to the financial statements.

## Defence Training Services Limited

### Statement of total recognised gains and losses for the year ended 31 March 2006

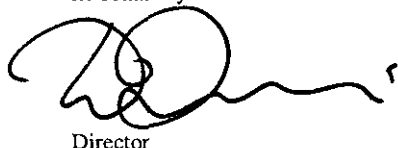
	Year ended 31 March 2006  £'000	Year ended 31 March 2005 (As restated)  £'000
Profit for the year (note 12)	10	630
Prior year adjustment (note 1)	3,626	
Total gains and losses recognised since last annual report	3,636	

# Defence Training Services Limited

## Balance sheet as at 31 March 2006

	Note	31 March 2006 £'000	31 March 2005 (As restated) £'000
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	2,072	2,038
Debtors: amounts falling due after more than one year	7	83,528	83,770
Cash at bank and in hand		5,832	2,979
		<b>91,432</b>	<b>88,787</b>
<b>Creditors: amounts falling due within one year</b>	8	<b>(7,243)</b>	<b>(4,751)</b>
<b>Net current assets</b>		<b>84,189</b>	<b>84,036</b>
<b>Creditors: amounts falling due after more than one year</b>	9	<b>(81,983)</b>	<b>(82,281)</b>
<b>Provision for liabilities &amp; charges</b>	10	<b>(441)</b>	<b>-</b>
<b>Net Assets</b>		<b>1,765</b>	<b>1,755</b>
<b>Capital and reserves</b>			
Called up share capital	11	842	842
Profit and loss account	12	923	913
<b>Equity shareholders' funds</b>		<b>1,765</b>	<b>1,755</b>

The financial statements on pages 7 to 23 were approved by the board on **24 JAN** 2007 and signed on its behalf by



Director

## Defence Training Services Limited

### Statement of cash flows for the year ended March 2006

	Note	31 March 2006 £'000	31 March 2005 (As restated) £'000
Net cash inflow from operating activities		2,564	1,824
<i>Returns on investments and servicing of finance</i>			
Interest paid		(5,349)	(6,537)
Interest received	3	6,545	5,381
Net cash inflow from returns on investments		1,197	(1,156)
<i>Financing</i>			
Repayment of loans	15	(907)	(1,996)
Net cash (outflow) from financing activities		(907)	(1,996)
(Decrease) in cash during the year		(2,853)	(528)

# **Defence Training Services Limited**

## **Notes to the financial statements for the year ended 31 March 2006**

### **1 Principal accounting policies**

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

#### **Basis of preparation of accounts**

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting and financial reporting standards.

#### **Going concern**

The directors have reviewed the company's projected profits and cash flows by reference to a financial model covering accounting periods up to December 2029. Having examined the current status of the company's principal contracts and likely developments in the foreseeable future the directors consider that the company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

#### **Turnover**

Turnover represents the value of work done and services rendered, excluding sales related taxes. 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.

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

#### **Change in accounting treatment**

Following a harmonisation review of the accounting treatment of the finance debtor across a range of projects, the methodology of amortisation of the finance debtor was changed to that considered the most appropriate by the directors in these accounts. Given the significance of the adjustment to date in relation to the results for the period, this change has been disclosed as a prior year adjustment within these accounts.

The effect of the change is to increase interest income in the year to 31 March 2006 by £1,008,000 (12 months ended 31 March 2005: £861,000), to increase turnover by £57,000 (12 months ended 31 March 2005: increase by £283,000) and to increase the finance debtor balance by £1,065,000 (2005: £1,144,000). The increase in profit for the year to 31 March 2006 is £1,065,000 (2005: £1,144,000). The effect on prior year reserves as at 31 March 2005 is £2,482,000.

#### **Financial asset – contract debtor**

In accordance with Financial Reporting Standard (FRS) 5 Application Note F the costs incurred in building the college have been treated as a finance debtor.

This treatment arose from applying the guidance within the Application Note which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

# Defence Training Services Limited

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

### 1 Principal accounting policies (continued)

#### Financial asset – contract debtor (continued)

The contract receivable represents the costs arising on the construction of the medical school including initial tender costs and borrowing costs. Once the project reached its operational phase and was accepted by the MoD the contract receivable was reclassified as a finance debtor, with a constant proportion of the planned net revenue arising from the project being allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance 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 finance debtor is expected to be fully repaid.

#### 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.

#### Debt issue costs

Debt issue costs incurred have been offset against the related debt and will be charged to the profit and loss account at a constant rate on the carrying value of that debt.

### 2 Operating result

The company had no employees during the year (2005: none). The remuneration of the directors is paid by the controlling parties and their services to the company are of a non-executive nature. The controlling parties charged £nil (2005: £nil) to the company in respect of these services.

The audit fee in respect of the company was £7,500 for the year (2005: £9,000).

### 3 Interest receivable and similar income

	Year ended 31 March 2006  £'000	Year ended 31 March 2005 (As restated)  £'000
Imputed interest receivable on finance debtor	6,390	6,392
Interest receivable on bank deposits	155	133
	6,545	6,525

## Defence Training Services Limited

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

#### 4 Interest payable and similar charges

	Year ended 31 March 2006  £'000	Year ended 31 March 2005 (As restated)  £'000
Interest payable on senior debt	5,274	5,330
Interest payable on subordinated debt	812	800
Amortisation of loan issue costs	47	48
Other financing costs	19	-
	<b>6,152</b>	<b>6,178</b>

#### 5 Tax on profit on ordinary activities

##### Analysis of charge for the year

	Year ended 31 March 2006  £'000	Year ended 31 March 2005 (As restated)  £'000
<b>Current tax</b>	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	441	-
<b>Tax on profit on ordinary activities</b>	<b>441</b>	<b>-</b>

## Defence Training Services Limited

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

#### 5 Tax on profit on ordinary activities (continued)

##### Factors affecting current tax charge

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

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 (As restated) £'000
Profit/(loss) on ordinary activities before taxation	451	630
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	135	189
Effects of:		
Expenses not deductible for tax purposes	(544)	175
Utilisation of tax losses	3,552	(100)
Timing differences	(1,548)	3
Capital allowances for year in excess of depreciation	(2,683)	76
Prior year adjustment	1,088	(343)
<b>Current tax charge for the year/period</b>	-	-

##### Factors that may affect future tax charges

A deferred tax liability of £441,000 was recognised at 31 March 2006. At 31 March 2005 there was a deferred tax asset of £238,000 which was not recognised due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.



# Defence Training Services Limited

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

### 6 Debtors: amounts falling due within one year

	31 March 2006	31 March 2005 (As restated)
	£'000	£'000
Financial receivable	241	112
Prepayments and accrued income	1,831	1,926
	2,072	2,038

### 7 Debtors: amounts falling due after more than one year

	31 March 2006	31 March 2005 (As restated)
	£'000	£'000
Finance receivable	83,528	83,769

The finance receivable asset includes net finance costs up to the date of completion of £9,058,000 (2005: £9,058,000).

# Defence Training Services Limited

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

### 8 Creditors: amounts falling due within one year

	31 March 2006	31 March 2005 (As restated)
	£'000	£'000
Senior debt	1,047	907
Subordinated debt	1,263	210
Trade creditors	1,889	356
VAT payable	390	191
Amounts owed to related parties	14	1,406
Accruals and deferred income	2,640	1,681
	7,243	4,751

### 9 Creditors: amounts falling due after more than one year

#### a) Total

	31 March 2006	31 March 2005 (As restated)
	£'000	£'000
Debt (Note 9(b))	77,738	79,041
Deferred income	4,245	3,240
	81,983	82,281

# Defence Training Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 9 Creditors: amounts falling due after more than one year (continued)

#### b) Debt

	31 March 2006 £'000	31 March 2005 (As restated) £'000
Senior debt	72,966	73,873
Subordinated debt	7,811	7,061
Unamortised issue costs	(729)	(776)
	80,048	80,158
Less: included in creditors falling due within one year	(2,310)	(1,117)
	77,738	79,041
Maturity of debt:		
Less than one year	2,310	1,117
Between one and two years	1,585	1350
Between two and five years	6,442	5,562
In more than five years	70,440	72,905
	80,777	80,934
Less: amounts falling due within one year	(2,310)	(1,117)
Unamortised issue costs	(729)	(776)
	77,738	79,041

## Defence Training Services Limited

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

#### 9 Creditors: amounts falling due after more than one year (continued)

##### Senior debt

The senior debt is repayable in monthly instalments which commenced on 31 July 2003 and interest has been fixed rate through a fixed funding rate, plus a margin as follows.

From	To	Interest rate per annum
First drawdown date	Construction completion (achieved on 29 November 2002)	7.45%
Construction completion	60 months post construction completion	7.05%
60 months post construction completion	120 months post construction completion	7.15%
120 months post construction completion	31 December 2029	7.25%

The senior debt is secured by way of an unlimited first fixed charge over the company's interest in the finance receivable asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the company in any other form. The company is not obliged to support any losses, nor does it intend to do so, other than those incurred for reasons of timing or other short term factors.

##### Unsecured subordinated debt

The unsecured subordinated debt is repayable by 31 December 2029 with principal repayments having commenced on 31 December 2003. The interest rate has been fixed through a fixed funding rate, plus a margin, at a rate of 10.89% per annum.

Subordinated debt principal and interest payments are currently suspended due to cashflow issues. Penalty interest is accruing at 12.89% and all interest is rolled up.

## Defence Training Services Limited

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

#### 10 Provision for liabilities and charges

	Deferred Tax	
	31 March 2006	31 March 2005 (As restated)
	£'000	£'000
At 1 April 2005 (1 April 2004)	-	-
Charge to the profit and loss account	441	-
At 31 March 2006 (31 March 2005)	441	-

	31 March 2006	31 March 2005 (As restated)
The deferred tax provision consists of:		
Accelerated capital allowances	2,451	(233)
Other timing differences	4,582	3,035
Unutilised tax losses	(6,592)	(3,040)
Total deferred tax liability/(asset)	441	(238)

The deferred tax liability of £441,000 was recognised at 31 March 2006. The deferred tax asset of £238,000 at 31 March 2005 was not recognised due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.

## Defence Training Services Limited

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

#### 11 Called up share capital

	31 March 2006 £'000	31 March 2005 £'000
<b>Authorised</b>		
490,000 Ordinary A shares of £1 each	490,000	490,000
509,999 Ordinary B shares of £1 each	509,999	509,999
1 Special Share of £1 each	1	1
1 Special B Share of £1 each	1	1
	<b>1,000,001</b>	<b>1,000,001</b>
<b>Allotted, called up and fully paid</b>		
420,800 Ordinary A shares of £1 each	420,800	420,800
420,800 Ordinary B shares of £1 each	420,800	420,800
1 Special Share of £1 each	1	1
1 Special B Share of £1 each	1	1
	<b>841,602</b>	<b>841,602</b>

A & B shares rank pari passu in all respects.

The Special Share has no right to income and capital and also has no voting rights.

The Special B Share has no voting right or any right to capital. It is entitled a maximum annual dividend of £1.00.

# Defence Training Services Limited

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

### 12 Reconciliation of equity shareholders' funds and movement on reserves

	Profit & loss account	Total equity shareholders' funds
	£'000	£'000
Profit & loss reserves at 31 March 2004 (as previously stated)	(2,199)	(2,199)
Prior year adjustment (note 1)	2,482	2,482
<b>At 31 March 2004 (as restated)</b>	<b>283</b>	<b>283</b>
Loss for the period to 31 March 2005 (as previously stated)	(514)	(514)
Prior year adjustment (note 1)	1,144	1,144
<b>Profit for the period to 31 March 2005 (as restated)</b>	<b>630</b>	<b>630</b>
<b>At 31 March 2005 (as restated)</b>	<b>913</b>	<b>913</b>
Profit for the year	10	10
<b>At 31 March 2006</b>	<b>923</b>	<b>923</b>

### 13 Related party disclosures

During the period ended 31 March 2006 the company incurred transactions to the value of £5,913,000 (31 March 2005: £6,130,000) with HBOS plc (the ultimate parent of Uberior Infrastructure Investments Limited) and its subsidiary undertakings. These are made up of Loan interest (£6,000,000), Fees (£55,000), Professional services (£13,000), with Interest received on cash deposits of £155,000.

Loan balances at 31 March 2006 with HBOS are Senior debt £72,966,000 (31 March 2005: £73,873,000) and Subordinated debt £7,811,000 (31 March 2005: £7,061,000). Sub debt interest is not currently being paid due to cashflow issues, with the interest being rolled into the principal.

During the period ended 31 March 2006, the company purchased services from SMIF Asset Management on normal commercial terms, for £166,000 (31 March 2005: £29,000). £14,000 was outstanding at 31 March 2006 (31 March 2005: £nil).

### 14 Ultimate parent undertaking and controlling party

At 31 March 2005, the share capital of the company was owned by PFI Investments Limited, a company beneficially owned and controlled by Starsmif Investments Luxembourg Sàrl (SMIF) and Uberior Infrastructure Investments (No.2) Limited (formerly known as Halifax Projects Investments Limited), a subsidiary of HBOS plc. Both of these companies owned 50% of the issued capital of, and exercised joint control over, the company.

## Defence Training Services Limited

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

#### 14 Ultimate parent undertaking and controlling party (continued)

On 26 April 2005, Uberior Infrastructure Investments (No.2) Limited, the company's joint owner, disposed of its shareholding in the company to Uberior Infrastructure Investments Limited, a fellow subsidiary of HBOS plc.

Uberior Infrastructure Investments Limited and PFI Investments Limited exercise joint control over Defence Training Services Limited.

In the directors' opinion, there is no ultimate controlling party.

#### 15 Notes to the Statement of Cashflows

##### (a) Reconciliation of operating result to net cash inflow from operating activities

	Year ended 31 March 2006	Year ended 31 March 2005 (As restated)
Operating profit	58	283
Decrease in debtors	207	710
Increase in creditors	2,299	831
<b>Net cash inflow from operating activities</b>	<b>2,564</b>	<b>1,824</b>

##### (b) Analysis of changes in net debt

	At 1 April 2005	Cash Flow	Other Changes	At 31 March 2006
	£'000	£'000	£'000	£'000
Cash at bank	2,979	2,853	-	5,832
Loans due within one year	(1,117)	907	(2,100)	(2,310)
Loans due after one year	(79,041)	-	1,303	(77,738)
<b>Total</b>	<b>(77,179)</b>	<b>3,759</b>	<b>(795)</b>	<b>(74,216)</b>



## Defence Training Services Limited

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

#### 15 Notes to the statements of cashflows (continued)

##### (c) Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Increase/(decrease) in cash during year	2,853	(528)
Cash outflow from movement in loans	907	1,196
Other non-cash movements	(797)	(48)
Movement in net debt	2,963	620
Net debt at 31 March 2005	(77,179)	(77,799)
Net debt at 31 March 2006	(74,214)	(77,179)