Company Registration No. 4317596

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

Report and Financial Statements

31 March 2006

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REPORT AND FINANCIAL STATEMENTS 2006

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REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T J Dickie
R Goyal
M Lowry
R D Vince
C Field

SECRETARY

L Smerdon

REGISTERED OFFICE

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire RG10 9JU

BANKERS

Bank of Scotland
155 Bishopsgate
London
EC2M 3UB

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

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

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company is owned equally by its ultimate controlling parties Interserve Plc and Bank of Scotland and operates in the United Kingdom.

The company is a holding company with one wholly owned subsidiary undertaking, Pyramid Schools (Tameside) Limited. Pyramid Schools (Tameside) Limited's principal activity is undertaking a Private Finance Initiative (PFI) concession contract with the Tameside Metropolitan Borough Council to design, build, finance and operate three schools in the borough.

The contract was signed in June 2002 and building works were completed in March 2003 Service operations commenced in September 2002 and will run for thirty years from that date.

There have not been any changes in the company's activities in the year under review, and the directors are not aware, at the date of this report, of any likely changes in the next year.

As shown in the company's profit and loss account, the company's turnover has increased by 2% over the prior year and profit after tax has increased by 4%. These changes are mainly due to the inflationary uplift set out in the contract.

The balance sheet shows that the company's financial position at the year end in cash terms is consistent with the prior year, and net assets have increased following the profit made in the year.

There have been no significant events since the balance sheet date.

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.

Principal Risks and Uncertainties

The company's principal activity as detailed above is risk free as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks 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:

Interest rate risk
The company hedged its interest rate risk at the inception of the project by swapping its variable rate debt into fixed rate by the use of an interest rate swap.

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 maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the project cash flows are reasonably predictable and so this is not a major risk area for the company.

Credit risk

The company receives the bulk of its revenue from a local authority and therefore is not exposed to significant credit risk.

Cash investments and interest rate swap arrangement are with institutions of a suitable credit quality.

DIRECTORS' REPORT

Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies via its sub-contractors to reduce any damage that might be caused by the company's activities.

Employees

The company has no direct employees.

RESULTS

The results of the group are as set out in the profit and loss account on page 6. The directors do not recommend the payment of a dividend (2005: £nil).

DIRECTORS

The directors, who served throughout the year and at the date of this report, except as noted, are set out below:

G Birley-Smith (resigned 15 December 2006)
T J Dickie
R Goyal
M Lowry (appointed 8 February 2006)
R D Vince
C Field (appointed 15 December 2006)

None of the directors had any interests in the issued share capital of the group at 31 March 2006 or 31 March 2005.

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

1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

SECRETARY

M Lewis resigned as secretary on 27 June 2006 and L Smerdon was appointed in his place on 27 June 2006.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

T Dickie
Director
29 January 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial period which *give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and* of the profit or loss of the group for that period. 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;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularitie

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

We have audited the financial statements of Pyramid Schools Tameside (Holdings) Limited for the year ended 31 March 2006 which comprise consolidated profit and loss account, the balance sheets, consolidated cashflow statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also 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 with the company and other members of the group 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 or material inconsistencies with the financial statements.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the group and the company, 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 affairs of the company and the group as at 31 March 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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
29 January 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2006

	Note	2006 £'000	2005 £'000
TURNOVER		1,628	1,592
Cost of sales		(753)	(722)
GROSS PROFIT		875	870
Administrative expenses		(248)	(269)
OPERATING PROFIT	2	627	601
Net finance charges	3	(111)	(113)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		516	488
Tax on profit on ordinary activities	4	(167)	(154)
RETAINED PROFIT ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR	12	349	334

All activities derive from continuing operations.

There are no recognised gains and losses for the year other than items shown in the profit and loss account. Accordingly, no separate statement of recognised gains and losses has been presented.

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The result of the company in the year was £nil.

CONSOLIDATED BALANCE SHEET
31 March 2006

	Note	2006 £'000	2005 £'000
CURRENT ASSETS			
Debtors – due within one year	6	150	178
Debtors – due after one year	6	17,301	17,380
Cash at bank and in hand		2,058	1,895
		19,509	19,453
CREDITORS: amounts falling due *within one year*	7	(884)	(907)
NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES		18,625	18, 546
CREDITORS: amounts due after one year	8	(18,321)	(18,713)
Provisions for liabilities	9	(122)	-
NET ASSETS/(LIABILITIES)		182	(167)
CAPITAL AND RESERVES			
Called up share capital	11	6	6
Profit and loss account	12	176	(173)
EQUITY SHAREHOLDERS' FUNDS/ (DEFICIT)	13	182	(167)

These financial statements were approved by the Board of Directors on 29 January 2007

Signed on behalf of the Board of Directors

T Dickie

Director

COMPANY BALANCE SHEET
31 March 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Investment in subsidiary undertaking	5	2,088	2,088
		2,088	2,088
CREDITORS: amounts falling due after more than one year	8	(2,082)	(2,082)
NET ASSETS		6	6
CAPITAL AND RESERVES			
Called up share capital	11	6	6
EQUITY SHAREHOLDERS' FUNDS		6	6

These financial statements were approved by the Board of Directors on 29 January 2007

Signed on behalf of the Board of Directors

T Dickie

Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	14	645	492
Returns on investments and servicing of finance			
Interest paid		(1,380)	(1,405)
Interest received		1,293	1,292
		(87)	(113)
Net cash inflow before financing		558	379
Financing			
Secured senior loans repayment		(395)	(402)
Increase/(decrease) in cash in the year		163	(23)

(i) Reconciliation of net cash flow to movement in net debt

	Note	2006 £'000	2005 £'000
Increase/(decrease) in cash in the year		163	(23)
Cash outflow from loan financing		395	402
		558	379
Other non-cash changes		(23)	(24)
Net debt brought forward		(17,191)	(17,546)
Net debt at end of year	Note (ii)	(16,656)	(17,191)

(ii) Analysis of net debt

	31 March 2005 £'000	Cash flows £'000	Non-Cash flows £'000	31 March 2006 £'000
Cash at bank	1,895	163	-	2,058
Cash inflow from loan financing:				
Repayable within one year	(373)	395	(415)	(393)
Repayable after more than one year	(18,713)	-	392	(18,321)
	(17,191)	558	(23)	(16,656)

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted by the directors are described below. They have been applied consistently throughout the current and the preceding financial year, except as noted below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Group financial statements

The group accounts consolidate the accounts of the company and its subsidiary undertaking.

Turnover

The group's turnover is derived from activities in the United Kingdom and comprises the total invoice value, excluding VAT, of services rendered.

Accounting for PFI contracts (stock)

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing the schools, including finance costs, are shown as work in progress. On completion of the construction, credit is taken for the deemed sale, which is recorded within turnover. The construction expenditure and associated costs are reallocated to cost of sales. Amounts receivable are classified as a financial asset receivable (PFI contract).

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue.

Fair value of derivatives

During the period the company adopted the presentation requirements of FRS 25 *Financial instruments; disclosure and presentation* for the first time. The fair values are disclosed under note 17. There is no impact on the primary financial statements.

Investments

Investments held as fixed assets are stated at cost plus loans, less provision for impairment.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Derivative financial instruments

The group holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract.

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

2. OPERATING PROFIT

The company and group had no employees during the year other than the directors (2005: none). Emoluments paid to related parties for directors' services to the company were £21,709 (2005: £36,640).

The audit fee for the group and the company in the current and preceding year was borne by a shareholder.

3. NET FINANCE CHARGES

	2006 £'000	2005 £'000
Interest receivable and similar income:		
Bank interest	99	90
Interest receivable on financial asset	1,194	1,202
Net interest receivable	1,293	1,292
Interest payable and similar charges:		
SWAPS debt	(127)	(138)
Senior debt	(988)	(1,001)
Loan stock	(265)	(266)
Amortisation of issue costs	(24)	-
	(1,404)	(1,405)
Net interest payable	(111)	(113)

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
Current tax charge for the year (see below)	-	-
Deferred tax:		
Timing differences, origination and reversal	(167)	(154)
Total tax for the year	(167)	(154)
Factors affecting the tax charge in the year:		
Profit on ordinary activities before tax	516	488
Tax charge on profit on ordinary activities before tax at standard rate of 30% (2005: 30%)	(155)	(146)
Contract income posted directly to the balance sheet	(21)	(18)
Capital allowances in excess of depreciation	225	300
Utilisation of tax losses	(49)	(136)
Current tax for the year	-	-

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

5. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Company	
	2006	2005
	£'000	£'000
Balance brought forward and carried forward	2,088	2,088

The company's subsidiary undertaking, Pyramid Schools (Tameside) Limited, is wholly owned and incorporated in Great Britain. Its activity is to provide design, build, finance and operate the services under a Private Finance Initiative concession contract.

6. DEBTORS

	Group	
	2006	2005
	£'000	£'000
Due within one year:		
Trade debtors	35	32
Accrued income	17	16
Prepayments and other debtors	19	8
Financial asset	79	77
Deferred tax (note 10)	-	45
	150	178
Due after one year:		
Financial asset	17,301	17,380
Total debtors	17,451	17,558

7. CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	Group	
	2006	2005
	£'000	£'000
Senior secured loan (net of unamortised issue costs) (see note 8)	393	373
Trade creditors	-	73
Accruals and deferred income	401	374
VAT liability	90	87
	884	907

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

8. CREDITORS: AMOUNTS DUE AFTER ONE YEAR

	Group		Company	
	2006	**2005**	**2006**	**2005**
	£'000	**£'000**	**£'000**	**£'000**
Subordinated loan stock - repayable after five years	2,082	2,082	2,082	2,082
Senior secured loan:				
Repayable between two and five years	2,242	2,037	-	-
Repayable after five years	14,294	14,915	-	-
	18,618	19,034	2,082	2,082
Less: unamortised issue costs	(297)	(321)	-	-
	18,321	18,713	2,082	2,082

The secured senior loan represents amounts borrowed under a facility agreement with a bank. The loan bears interest at a margin over LIBOR and is repayable in instalments between 2003 and 2028. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached.

The subordinated loan stock represents loan notes issued by a bank and a shareholder. The loan notes bear interest at 12.75% and repayment is due between September 2029 and September 2030.

In order to hedge against interest variations on the senior secured loan, the company has entered into an interest rate swap agreement with a bank whereby at monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount.

9. PROVISION FOR LIABILITIES

	2006	**2005**
	£'000	**£'000**
Deferred tax (note 10)	122	-

10. DEFERRED TAX

	2006	**2005**
	£'000	**£'000**
Opening balance	(45)	(199)
Credit to the profit and loss account	167	154
Closing balance	122	(45)
Deferred tax consists of the following:		
Depreciation in excess of capital allowances	(1,103)	(901)
Deferred receipts under contract	2,463	2,044
Losses	(1,238)	(1,188)
Deferred tax liability/(asset)	122	(45)

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

11. CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised, called up, allotted and fully paid:		
6,000 ordinary shares of £1 each	6	6

12. PROFIT AND LOSS ACCOUNT

	2006 £'000	2005 £'000
Profit and loss brought forward	(173)	(507)
Profit for the year	349	334
Profit and loss carried forward	176	(173)

13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)

	2006 £'000	2005 £'000
Equity shareholder's deficit brought forward	(167)	(501)
Profit for the year	349	334
Equity shareholders' funds/(deficit) carried forward	182	(167)

There were no other movements on reserves other than the profit for the year as stated above.

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Operating profit	627	601
Expenditure on work in progress (PFI contract)	-	(3)
Decrease in debtors	70	54
Decrease in creditors	(52)	(184)
Decrease in debt issue costs	-	24
Net cash inflow from operating activities	645	492

15. CONTROLLING PARTIES

The immediate parent companies are Interserve PFI Holdings plc and Uberior Infrastructure Investments Ltd who each hold 50% of the company. The ultimate parent companies are Interserve Plc and Bank of Scotland. In the opinion of the directors neither company is a controlling party.

NOTES TO THE ACCOUNTS
Year ended 31 March 2006

16. RELATED PARTY TRANSACTIONS

Parties	Services	Amounts paid during the year ended 31 March 2006 £'000	Amounts receivable at 31 March 2006 £'000	Amounts paid during the year ended 31 March 2005 £'000	Amounts payable at 31 March 2005 £'000
Interserve Plc and its subsidiary undertakings	Construction and management services	779	8	770	63
Bank of Scotland	Services	11	-	16	-

Amounts payable at 31 March 2006 and 31 March 2005 are included within trade creditors and accruals and deferred income.

The company has taken advantage of the exemptions in FRS 8 "Related Party Disclosures" not to disclose transactions with group undertakings.

17. FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

	2006 £'000	2005 £'000
Fair value of interest rate swap at period end (Adverse)	(1,547)	(1,008)

In 19 June 2002 the company entered into a twenty five year fixed interest rate swap arrangement to hedge its exposure to the effect of interest rate fluctuations.

The swap was effected on a notional amount of £18,102,820 payable in semi-annual amounts between 30 September 2003 and 30 September 2027.