

Company Registration No. 4985527

**FALCON SUPPORT SERVICES
(HOLDINGS) LIMITED**

Report and Financial Statements

Year ended 31 March 2006



FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2006

| CONTENTS | Page |
|--|-------------|
| Officers and professional advisers | 1 |
| Directors' report | 2 |
| Statement of directors' responsibilities | 4 |
| Independent auditor's report | 5 |
| Profit and loss account | 6 |
| Balance sheet | 7 |
| Company balance sheet | 8 |
| Consolidated cash flow statement | 9 |
| Notes to the accounts | 10 |

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2006

Directors:

M J Webber
P I Ball
G Birley-Smith
J W Ward
D Paterson

Registered Office:

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire
RG10 9JU

Auditors:

Deloitte & Touche LLP
Chartered Accountants
London

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

DIRECTOR'S 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 a holding company, owned equally by its ultimate controlling parties Interserve Plc and Innisfree PFI III Fund, with one wholly owned subsidiary undertaking, Falcon Support Services Limited.

Falcon Support Services Limited's principal activity is to undertake a Private Finance Initiative (PFI) concession contract with the MOD, to design, build, finance and operate accommodation facilities at the Fleet Accommodation Centre at Devonport, Plymouth. The contract was signed on 6 July 2004. Building activities commenced from that date and are anticipated to complete in March 2008. Service operations on the existing buildings commenced in October 2004 and will run for 24.5 years from that date.

There have not been any changes in the groups'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 group's profit and loss account on page 6, the group's turnover has increased by £6.6 million over the prior year and the loss after tax has increased by £0.8 million. The turnover increase is due to the group having a full year's operations in the current year in comparison with only six months last year. The loss increased in the year due to bearing a full year of financing charges in the current year.

The consolidated balance sheet on page 7 of the financial statements shows that the group's financial position at the year end has, in both net liabilities and cash terms, increased proportionally to stage of completion of both building and operations in comparison with the prior year.

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

The group'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 directors believe that further key performance indicators for the group are not necessary or appropriate for an understanding of the *performance or position of the business*.

PRINCIPAL RISK AND UNCERTAINTIES

The group'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. Its main exposure is to financial risks as detailed in the following section.

FINANCIAL RISK MANAGEMENT

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

Interest rate risk

The group 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 group'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 group adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations at all times.

Credit risk

The group receives the bulk of its revenue from a government department and therefore is not exposed to significant credit risk.

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

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

DIRECTOR'S REPORT (continued)

ENVIRONMENT

The group 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 group's activities.

EMPLOYEES

The group has no direct employees as detailed in note 2.

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 AND THEIR INTERESTS

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

M J Webber

P I Ball

C J Duxbury (resigned 19 October 2005)

G Birley-Smith

J W Ward

D Paterson (appointed 19 October 2005)

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

Each of the persons who are 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 audit 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.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



J W Ward
Director

21 September 2006

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 the group as at the end of the financial year and of the profit or loss of the group 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;
- 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 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 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 irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

We have audited the financial statements of Falcon Support Services (Holdings) Limited for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 16. 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 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

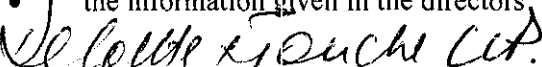
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 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 affairs of the company and group as at 31 March 2006, and of its loss 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

Chartered Accountants and Registered Auditors
London, United Kingdom

21 September 2006

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT****Year ended 31 March 2006**

| | Note | 31 March 2006 £'000 | 31 March 2005 £'000 |
|---|-------------|------------------------------------|------------------------------------|
| Turnover | 1 | 11,664 | 5,003 |
| Cost of sales | | <u>(10,848)</u> | <u>(4,868)</u> |
| GROSS PROFIT | | 816 | 135 |
| Administrative expenses | | <u>(684)</u> | <u>(141)</u> |
| OPERATING PROFIT/(LOSS) | 2 | 132 | (6) |
| Interest payable and similar charges | 3 | <u>(2,127)</u> | <u>(811)</u> |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (1,995) | (817) |
| Tax credit on loss on ordinary activities | 4 | <u>599</u> | <u>245</u> |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE PERIOD | 12 | <u><u>(1,396)</u></u> | <u><u>(572)</u></u> |

All activities derive from continuing operations.

There are no recognised gains and losses for the period 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 (2005: £ nil).

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED**CONSOLIDATED BALANCE SHEET****31 March 2006**

| | Note | 2006 £'000 | 2005 £'000 |
|---|------|-----------------|-----------------|
| CURRENT ASSETS | | | |
| Work in progress | 6 | 39,562 | 18,780 |
| Debtors | 7 | 2,471 | 1,562 |
| Cash at bank and in hand | | 1,590 | 476 |
| | | <u>43,623</u> | <u>20,818</u> |
| CREDITORS: amounts falling due within one year | 8 | <u>(3,944)</u> | <u>(2,442)</u> |
| NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES | | 39,679 | 18,376 |
| CREDITORS: amounts falling due after more than one year | 9 | <u>(41,637)</u> | <u>(18,938)</u> |
| NET LIABILITIES | | <u>(1,958)</u> | <u>(562)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 11 | 10 | 10 |
| Profit and loss account - deficit | 12 | <u>(1,968)</u> | <u>(572)</u> |
| EQUITY SHAREHOLDERS' DEFICIT | 13 | <u>(1,958)</u> | <u>(562)</u> |

These financial statements were approved by the Board of Directors on 21 September 2006.

Signed on behalf of the Board of Directors



J W Ward

Director

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

31 March 2006

| | Note | 2006 £'000 | 2005 £'000 |
|--|-------------|-----------------------|-----------------------|
| FIXED ASSETS | | | |
| Investment in subsidiary undertaking | 5 | <u>10</u> | <u>10</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>10</u> | <u>10</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 11 | <u>10</u> | <u>10</u> |
| EQUITY SHAREHOLDERS' FUNDS | | <u>10</u> | <u>10</u> |

These financial statements were approved by the Board of Directors on 21 September 2006.

Signed on behalf of the Board of Directors



J W Ward

Director

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended to 31 March 2006

| | Note | 31March 2006 £'000 | 31March 2005 £'000 |
|--|---------------|--------------------------|--------------------------|
| Net cash outflow from operating activities | 14 | (19,135) | (17,456) |
| Returns on investments and servicing of finance | | | |
| Interest paid | | (2,176) | (851) |
| Interest received | | 49 | 40 |
| | | (2,127) | (811) |
| Net cash outflow before use of liquid resources and financing | | (21,262) | (18,267) |
| Financing | | | |
| Issue of shares | | - | 10 |
| Secured senior loans | | 22,376 | 18,733 |
| | | 22,376 | 18,743 |
| Increase in cash | Note (i) (ii) | 1,114 | 476 |

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

| | | | |
|---------------------------------------|-----------|----------|----------|
| Increase in cash | | 1,114 | 476 |
| Cash inflow from secured senior loans | | (22,376) | (18,733) |
| Net debt at 31 March 2006 | Note (ii) | (21,262) | (18,257) |

(ii) Analysis of net debt

| | At 31/03/2005 £'000 | Cashflow £'000 | Other non-cash charges £'000 | At 31/03/2006 £'000 |
|------------------------------------|---------------------------|-------------------|---------------------------------------|---------------------------|
| Cash at bank | 476 | 1,114 | - | 1,590 |
| Secured senior loans: | | | | |
| Repayable after more than one year | (18,733) | (22,376) | - | (41,109) |
| | (18,257) | (21,262) | - | (39,519) |

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

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 are described below and have been applied consistently in both the current and preceding years.

During the period the group adopted the presentation requirements of FRS 25 *Financial instruments: disclosure and presentation* for the first time. The fair values are disclosed in note 10. There is no impact on the primary financial statements.

Accounting convention

The financial statements are prepared under the historical cost accounting rules.

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 (work in progress)

During the period of construction, costs incurred as a direct consequence of designing and constructing the facilities, excluding finance costs, are shown as work in progress.

On completion, 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.

Investments

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

Taxation

Current tax, including UK Corporation tax, is provided at amounts expected to be paid 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 or 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.

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

2. OPERATING PROFIT/(LOSS) FOR THE PERIOD

| | 2006 | 2005 |
|---|--------------|--------------|
| | £'000 | £'000 |
| This is stated after charging: | | |
| Auditors' remuneration - audit services | 5 | 4 |
| - other services | 3 | - |
| | <u>8</u> | <u>4</u> |

The group had no employees during the period (2005: nil). Service fees are payable to the companies ultimate shareholders for the directors' services to the group during the period.

3. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2006 | 2005 |
|-----------------------------|----------------|--------------|
| | £'000 | £'000 |
| Interest receivable: | | |
| Bank interest | 49 | 40 |
| | <u>49</u> | <u>40</u> |
| Interest payable: | | |
| SWAPS debt | (271) | (81) |
| Senior debt | (1,855) | (741) |
| LOC charges | (40) | (29) |
| Other financing fees | (10) | - |
| | <u>(2,176)</u> | <u>(851)</u> |
| | <u>(2,127)</u> | <u>(811)</u> |
| Net interest payable | (2,127) | (811) |

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

4. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

| | 2006 £'000 | 2005 £'000 |
|--|---------------|---------------|
| United Kingdom corporation tax at 30% (2005: 30%) | - | - |
| Deferred tax: | | |
| Timing differences, origination and reversal | 599 | 245 |
| Total tax credit for the year | 599 | 245 |
| Factors affecting the tax credit in the year: | | |
| Loss on ordinary activities before tax | (1,995) | (817) |
| Tax credit on loss on ordinary activities before tax at standard rate of 30% | 599 | 245 |
| Tax losses | (599) | (245) |
| Current tax credit for the year | - | - |

5. INVESTMENT IN SUBSIDIARY UNDERTAKING

| | Company 2006 £'000 | Company 2005 £'000 |
|---|--------------------------|--------------------------|
| Shares at cost: | | |
| Opening balance | 10 | - |
| Addition in period (9,999 Ordinary shares of £1 each) | - | 10 |
| Closing balance | 10 | 10 |

The company's subsidiary undertaking, Falcon Support Services Limited, is wholly owned and incorporated in Great Britain. Its activity is to provide design, build, finance and operational services under a Private Finance Initiative concession contract.

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

6. WORK IN PROGRESS

| | Group 2006 £'000 | Group 2005 £'000 |
|---|------------------------|------------------------|
| Work in progress (PFI contract) | | |
| Cost and net book value brought forward | 18,780 | - |
| Additions in the period | 20,782 | 18,780 |
| | <hr/> | <hr/> |
| Cost and net book value carried forward | 39,562 | 18,780 |
| | <hr/> | <hr/> |

Work in progress includes £5,288,000 of capitalised development costs (2005: £5,193,000).

7. DEBTORS

| | Group 2006 £'000 | Group 2005 £'000 |
|---|------------------------|------------------------|
| Trade debtors | 1,284 | 974 |
| Other tax and social security | 343 | 343 |
| Deferred tax asset | 844 | 245 |
| | <hr/> | <hr/> |
| | 2,471 | 1,562 |
| | <hr/> | <hr/> |
| Deferred tax asset | | |
| Balance at 1 April | 245 | - |
| Credit to profit and loss account | 599 | 245 |
| | <hr/> | <hr/> |
| Balance at 31 March | 844 | 245 |
| | <hr/> | <hr/> |
| Deferred tax consists of the following: | | |
| Losses | 844 | 245 |
| | <hr/> | <hr/> |
| Deferred tax asset | 844 | 245 |
| | <hr/> | <hr/> |

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group 2006 £'000 | Group 2005 £'000 |
|------------------------------|------------------------|------------------------|
| Trade creditors | 3,586 | 2,334 |
| Accruals and deferred income | 358 | 108 |
| | <hr/> | <hr/> |
| | 3,944 | 2,442 |
| | <hr/> | <hr/> |

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group 2006 £'000 | Group 2005 £'000 |
|--------------------------------------|---------------------------------|---------------------------------|
| Equity bridge loan | | |
| Repayable between two and five years | 10,025 | 10,025 |
| Senior secured loan: | | |
| Repayable between two and five years | 6,739 | 4,091 |
| Repayable after five years | 24,345 | 4,617 |
| | <hr/> | <hr/> |
| | 41,109 | 18,733 |
| Retention fund | 528 | 205 |
| | <hr/> | <hr/> |
| | 41,637 | 18,938 |
| | <hr/> | <hr/> |

The secured senior loan represents amounts borrowed under a facility agreement with Bank of Scotland. The loan bears interest at a margin over LIBOR and is repayable in instalments between 2008 and 2027. The loan is secured by fixed and floating charges over the property, assets and rights of Falcon Support Services Limited, and has certain covenants attached.

In order to hedge against interest variations on the loan, Falcon Support Services Limited 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.

The equity bridge loan represents amounts borrowed under a facility agreement with Bank of Scotland. The loan bears interest at a margin over LIBOR and is repayable by 31 March 2008.

10. FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

| | Group and Company 2006 £'000 | 2005 £'000 |
|--|---|-----------------------|
| Fair value of interest rate swap liability at period end | 6,805 | 4,154 |
| | <hr/> | <hr/> |

In July 2004 Falcon Support Services Limited entered into a 24 year fixed interest rate swap arrangement to hedge an exposure to the effect of interest rate fluctuations.

The swap was affected on a maximum notional amount of £86.9million payable in monthly amounts between July 2004 and September 2027.

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

11. CALLED UP SHARE CAPITAL

| | Group and Company | |
|---|--------------------------|--------------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Authorised, called up, allotted and fully paid 10,000 ordinary shares of £1 each | <u>10</u> | <u>10</u> |

9,998 shares of £1 each were issued at par on 7 July 2004.

12. RECONCILIATION OF PROFIT AND LOSS ACCOUNT

| | Group | Group |
|---------------------------------|----------------|--------------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Loss for the year | (1,396) | (572) |
| Opening profit and loss account | <u>(572)</u> | <u>-</u> |
| Closing profit and loss account | <u>(1,968)</u> | <u>(572)</u> |

13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' DEFICIT

| | Group | Group |
|--|----------------|--------------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Opening equity shareholders' funds | (562) | - |
| Loss for the year attributable to shareholders | (1,396) | (572) |
| Shares issued during year | <u>-</u> | <u>10</u> |
| Closing equity shareholders' deficit | <u>(1,958)</u> | <u>(562)</u> |

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

14. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Group | Group |
|--|-----------------|-----------------|
| | 31 March | 31 March |
| | 2006 | 2005 |
| | £'000 | £'000 |
| Operating profit/(loss) | 132 | (6) |
| Increase in debtors | (310) | (1,317) |
| Increase in creditors | 1,825 | 2,647 |
| Increase in work in progress | (20,782) | (18,780) |
| Net cash outflow from operating activities | <u>(19,135)</u> | <u>(17,456)</u> |

15. CONTROLLING PARTIES

The immediate parent companies are Interserve PFI 2003 Limited and Innisfree PFI Fund III who each hold 50% of the company.

In the directors' opinion the ultimate controlling parties are Interserve Plc and Innisfree PFI III Fund, who own the company equally. Interserve Plc is incorporated in Great Britain and registered in England and Wales. Innisfree PFI III Fund is a limited partnership registered in England and Wales.

These are the smallest and largest group accounts that are prepared of which the company is a member. No other group accounts are prepared.

FALCON SUPPORT SERVICES (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2006

16. RELATED PARTY TRANSACTIONS

The following disclosures are required by FRS 8 "Related Party Disclosures":

| Parties | Services | Amounts paid during the year to 31 March 2006 £'000 | Amounts payable at 31 March 2006 £'000 | Amounts paid during the year to 31 March 2005 £'000 | Amounts payable at 31 March 2005 £'000 |
|---|--|--|--|--|--|
| | | | | | |
| Interserve Plc and its subsidiary undertakings | Construction and management services | 35,427 | 3,848 | 20,474 | 2,336 |
| Innisfree PFI III Fund | Services | 43 | 9 | 67 | 4 |

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