

Company Registration No 5358417

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2007



TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2007

Principal Activities and Business Review

On 24 May 2005, the Company entered into a Private Finance Initiative (PFI) concession contract with North Lanarkshire Council to design, build, finance and provide services within twenty four primary and secondary schools. The concession contract finishes on 31 March 2037.

No change in the Company's activities is anticipated.

Results and Dividends

The results for the year are set out on page 6. The profit for the year after taxation amounted to £1,343,000 (2006 £707,000 profit). The directors do not propose to pay any dividend in respect of the period ended 31 December 2007 (2006 £Nil). The directors expect the Company to continue its operations for the foreseeable future.

Key performance indicators

The key performance indicators during the construction and operational stage are:

- Schools become available on the scheduled date,
- The net cashflow is in line with (or better) than forecast.

As at 31 December 2007, the construction programme was on schedule, with no significant delays.

As at 31 December 2007, the cumulative net cash outflow before financing was £142.34m, compared to a forecast value of £148.17m. The variance is due to a timing difference which is expected to reverse over the course of construction.

Financial Risk Management

The financial risks which the Company is exposed to are credit risk, interest rate risk and liquidity risk.

Credit risk

The Company's credit risk is primarily attributable to its trade and finance lease receivables, each of which arise from its sole client, North Lanarkshire Council. The credit and cashflow risks are not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The majority of the Company's borrowings comprise an index-linked secured bond and an index-linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Company thereby mitigates any exposure to movements in the retail price index.

Liquidity risk

The Company's policy has throughout the year been that, to ensure continuity of funding, the majority of its borrowings should mature in more than five years.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

Supplier payment policy

The Company's policy is to pay suppliers thirty days from the date of receipt of the supplier's agreed invoice, unless otherwise contractually agreed, and this policy is made known to all suppliers on request. The number of suppliers' days outstanding at the end of the financial period was 1 day (2006 2 days)

Directors

The following persons were directors of the Company during the period -

N J E Crowther (resigned 12 December 2007)
M Fernandes (appointed 12 December 2007)
C L Spencer
M M B Ross
R K Sheehan

Since the end of the year

M M B Ross (resigned 15 January 2008)
H M Wills (appointed 15 January 2008)

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 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

Registered Office

The Company's Registered Office is 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX

By Order of the Board,



H M Wills
Director

31 July 2008

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these 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 UK Accounting Standards have been followed, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

We have audited the financial statements of Transform Schools (North Lanarkshire) Limited for the year ended 31 December 2007, which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 19. 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

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).

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

Basis of audit opinion

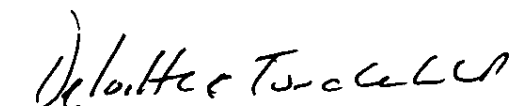
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
31 July 2008

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £'000	2006 £'000
Turnover	2	58,521	99,122
Cost of sales		(57,563)	(98,136)
Gross profit		<u>958</u>	<u>986</u>
Net operating expenses		<u>(856)</u>	<u>(339)</u>
Operating profit	3	102	647
Finance costs (net)	4	1,737	363
Profit on ordinary activities before taxation		<u>1,839</u>	<u>1,010</u>
Tax on profit on ordinary activities	5	<u>(552)</u>	<u>(303)</u>
Retained profit on ordinary activities after taxation for the financial year	15	<u><u>1,287</u></u>	<u><u>707</u></u>

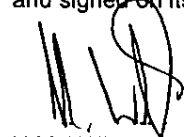
All the Company's activities were derived from continuing operations in the United Kingdom

There were no recognised gains or losses for both the current year and the preceding period other than those stated in the profit and loss account above, consequently no statement of total recognised gains and losses is presented

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
BALANCE SHEET
AT 31 DECEMBER 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	7	<u>15</u>	<u>18</u>
		<u>15</u>	<u>18</u>
Current assets			
Investments	6	2,852	26,530
Construction work in progress	8	11,440	21,564
Debtors - due within one year	9	3,922	2,855
Debtors - financial asset due within one year	10	9,773	6,559
Cash at bank and in hand		<u>3,867</u>	<u>8,096</u>
		<u>31,854</u>	<u>65,604</u>
Debtors - financial asset due after more than one year	10	142,264	90,924
Current liabilities			
Creditors amounts falling due within one year	11	(3,749)	(4,710)
Net current assets		<u>170,369</u>	<u>151,818</u>
Total assets less current liabilities		<u>170,384</u>	<u>151,836</u>
Creditors amounts falling due after more than one year			
Borrowings	12	(165,646)	(151,141)
Loan Stock	13	(2,756)	-
Net assets		<u><u>1,982</u></u>	<u><u>695</u></u>
Capital and reserves			
Called-up share capital	14	10	10
Profit and loss account	15	1,972	685
Shareholders' funds	16	<u><u>1,982</u></u>	<u><u>695</u></u>

These financial statements were approved by the Board of Directors on 31 July 2008
and signed on its behalf by -



H M Wills
Director

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1 Accounting policies

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout both the current year and preceding period, is set out below

a) Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards and under the historical cost convention. They include the result of the activities described in the directors' report, all of which are continuing.

FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Measurement

FRS 25 and FRS 26 are required to be adopted by listed companies. Transform Schools (North Lanarkshire) Funding plc (a Group company), holds listed debt and has therefore prepared its accounts in accordance with FRS 25 and FRS 26. The Company, its Parent and all Subsidiaries of Transform Schools (North Lanarkshire) Holdings Limited adopted FRS 25 and FRS 26 to ensure that consistent accounting policies are applied within the Group.

FRS 25 requires disclosures and presentation of financial instruments. The Company has continued to elect to take the exemption provided in paragraph 3C(b) of FRS 25 as it is included in the publicly available consolidated financial statements of Transform Schools (North Lanarkshire) Holdings Limited, which include disclosures that comply with FRS 25.

FRS 26 provides the requirements for the measurement, recognition and derecognition of financial instruments. Adoption of the standard results in the measurement of the Company's financial liabilities at amortised cost using the effective interest rate method.

FRS 29, which requires certain disclosures in respect of financial instruments, is applicable for periods beginning on or after 1 January 2007 and is required for entities applying FRS 26. The Company has elected to take the exemptions permitted in FRS 29 as the results are included in the publicly available consolidated financial statements of Transform Schools (North Lanarkshire) Holdings Limited, which include disclosures that comply with FRS 29.

b) Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as it is a wholly-owned subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, which prepares consolidated financial statements that include a cashflow statement and are publicly available.

c) Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided in the year. It has been determined in accordance with FRS 5 Application Note F "Private Finance Initiative and Similar Contracts" that the balance of risks and rewards derived from the underlying asset is not borne by the company and accordingly the asset created under the contract has been accounted for as a financial asset.

d) Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantially 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 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.

e) Construction Work In Progress

All construction costs including the capitalised interest on finance up to the date of commission and incidental costs are recorded as construction work in progress.

f) Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents original purchase cost. Depreciation is provided at rates calculated to write off the cost less any residual value of these assets on a straight-line basis (IT equipment 33% per annum, plant and equipment 10% per annum) over their estimated useful lives commencing when the assets are brought into use.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

1 Accounting policies (Continued)

g) Financial instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if they are not included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated over the term of the instrument.

h) Finance costs

Finance costs in relation to the senior secured bonds are recognised at a constant rate in accordance with the carrying value of these bonds.

i) Senior secured bonds and loans

Senior secured bonds and term loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period. The index-linked secured bonds and index-linked secured term loan are each valued at amortised cost, using the effective interest rate method, taking account of projected indexation across the term of the liability.

j) Financial asset

The financial asset recorded is equal to the amounts due for the fair value of the property. The financial asset is reduced in subsequent years as payments are received. Revenues received from North Lanarkshire Council are apportioned between capital repayments and operating revenue. The "finance income" element of the capital repayment is recorded using a property-specific rate and is shown within interest receivable. The remaining payments, being the full amounts received less the capital repayment and the imputed finance charge, are recorded within operating profit.

2 Turnover

	2007	2006
	£'000	£'000
Turnover by origin and destination		
United Kingdom	<u>58,521</u>	<u>99,122</u>

3 Operating profit / (loss)

	2007	2006
	£'000	£'000
Operating profit / (loss) is stated after charging		
Depreciation of equipment	4	4
Auditors' remuneration for audit services	<u>21</u>	<u>13</u>

The directors received no salary, fees or other benefits from the Company in the performance of their duties in either the current year or preceding period. The Company has no employees in the current year or preceding period. All costs of the directors and other staff are borne by the shareholders of the ultimate parent companies, who second their employees to the Company.

4 Finance costs (net)

	2007	2006
	£'000	£'000
Bank interest receivable	1,031	2,374
Interest receivable on financial asset	<u>7,073</u>	<u>1,822</u>
Interest receivable and similar income	<u>8,104</u>	<u>4,196</u>
Interest and fees payable on secured senior loan	(9,290)	(7,429)
Interest payable on secured subordinated loan stock	<u>(107)</u>	<u>-</u>
Interest payable and similar charges	<u>(9,397)</u>	<u>(7,429)</u>
Less amounts capitalised	3,030	3,596
Finance costs (net)	<u>1,737</u>	<u>363</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

5 Taxation	2007	2006
	£'000	£'000
Current tax	(552)	(293)
Deferred tax	-	(10)
	<u>(552)</u>	<u>(303)</u>
Tax reconciliation		
Profit on ordinary activities before taxation	<u>1,839</u>	<u>1,010</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(552)	(303)
Effects of		
Utilisation of tax losses	-	10
Current tax charge for the year	<u>(552)</u>	<u>(293)</u>
6 Investments	2007	2006
	£'000	£'000
Treasury Deposits	<u>2,852</u>	<u>26,530</u>
<u>Shown as</u>		
Current assets	<u>2,852</u>	<u>26,530</u>
	<u>2,852</u>	<u>26,530</u>
7 Tangible Fixed Assets	Plant & Equipment	Total
	£'000	£'000
<u>Cost</u>		
At 1 January 2007	22	22
Additions	1	1
At 31 December 2007	<u>23</u>	<u>23</u>
<u>Depreciation</u>		
At 1 January 2007	4	4
Charge for the year	4	4
At 31 December 2007	<u>8</u>	<u>8</u>
<u>Net Book Value</u>		
At 1 January 2007	18	18
At 31 December 2007	<u>15</u>	<u>15</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

8 Construction work in progress	2007	2006
	£'000	£'000
At 1 January	21,564	73,305
Interest payable and other financing costs	3,157	3,596
Construction and related costs	40,630	41,537
Transferred to financial asset	(53,911)	(96,874)
At 31 December	<u>11,440</u>	<u>21,564</u>

9 Debtors - due within one year	2007	2006
	£'000	£'000
Trade debtors	2,787	1,264
VAT debtor	427	430
Prepayments	690	356
Accrued income	18	805
	<u>3,922</u>	<u>2,855</u>

10 Financial Asset	2007	2006
	£'000	£'000
At 1 January	97,483	-
Transferred from construction work in progress	53,911	96,874
Less council income received in the year / period	(6,430)	(1,507)
Add interest income accruing	7,073	2,116
At 31 December	<u>152,037</u>	<u>97,483</u>

Included in the financial asset is an amount of £142,264,000 (2006 £90,924,000) due after more than one year

11 Creditors - due within one year	2007	2006
	£'000	£'000
Trade creditors	359	8
Accruals	2,838	4,409
Corporation tax payable	552	293
	<u>3,749</u>	<u>4,710</u>

12 Borrowings	2007	2007
	£'000	£'000
Borrowings		
Amounts owing to Transform Schools (North Lanarkshire) Funding plc	165,646	151,141
	<u>165,646</u>	<u>151,141</u>

Amounts owing to Transform Schools (North Lanarkshire) Funding plc represents a loan which is made up of the proceeds of £72,796,000, £5,850,000 and £9,150,000 index-linked secured bonds, a £70,000,000 loan from European Investment Bank and a £50,000 direct loan from Transform Schools (North Lanarkshire) Funding plc. The balance is stated after the deduction of unamortised issue costs. The terms and conditions applicable to Transform Schools (North Lanarkshire) Limited are the same as those applicable to Transform Schools (North Lanarkshire) Funding plc, copies of whose accounts are available from the registered office at Level 6, 350 Euston Road, Regent's Place, London, NW1 3AX.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

12 Borrowings (continued)

The borrowings are secured by a fixed and floating charge over the whole of the Company's undertaking and assets. The bond and loan contract contain covenants regarding, inter alia, performance by the Company of financial and non-financial obligations under the PFI contract. In circumstances of non-compliance, lenders' rights include direction of the Company's business, requirements for immediate repayment, and enforcement of security.

Borrowings are repayable in the following periods	£'000	£'000
Between one and two years	5,398	1,038
Between two and five years	11,850	10,487
After five years	148,398	139,616
	<u>165,646</u>	<u>151,141</u>

13 Other creditors amounts falling due after more than one year

	2007 £'000	2006 £'000
Loan stock	<u>2,756</u>	<u>-</u>
	<u>2,756</u>	<u>-</u>

The secured subordinated loan stock has been subscribed by the parent company, Transform Schools (North Lanarkshire) Holdings Limited. The loan stock bears interest at a rate of 7.55% above LIBOR, after a date to be determined and is repayable in instalments between 2008 and 2033. It is secured by second fixed and floating charges over the undertaking, property, assets and rights of the Company.

14 Called up share capital

	2007 £'000	2006 £'000
<i>Authorised, issued and fully paid share capital</i>		
10,000 Ordinary Shares of £1 each	<u>10</u>	<u>10</u>
	<u>10</u>	<u>10</u>

15 Reserves

	2007 £'000	2006 £'000
<u>Profit and loss account</u>		
At 1 January	685	(22)
Profit for the year	<u>1,287</u>	<u>707</u>
At 31 December	<u>1,972</u>	<u>685</u>

16 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Opening shareholders' funds/(deficit)	695	(12)
Profit in the year	<u>1,287</u>	<u>707</u>
Closing shareholders' funds	<u>1,982</u>	<u>695</u>

17 Capital commitments

	2007 £'000	2006 £'000
Contracted but not provided for	<u>17,647</u>	<u>42,966</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

18 Ultimate parent undertaking and controlling parties

The Company is a wholly-owned subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, which is incorporated in Great Britain and registered in England and Wales. One ordinary share is held by Transform Schools (North Lanarkshire) Intermediate Limited, which is incorporated in Great Britain and registered in England and Wales, on trust for Transform Schools (North Lanarkshire) Holdings Limited. The Directors consider the ultimate controlling parties to be Balfour Beatty PLC and Innisfree Limited acting as manager for Innisfree PFI Fund III LP, in equal shares.

The only company in which the result of Transform Schools (North Lanarkshire) Limited are consolidated is Transform Schools (North Lanarkshire) Holdings Limited. Copies of the financial statements are available from the registered office at 6th Floor, 350 Euston Road, Regent's Place, London NW1 3AX.

19 Related party transactions

As a wholly-owned subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, the company has taken advantage of the exemption in FRS 8 'Related party disclosures' from disclosing related party transactions with other group companies within these financial statements.