Company Registration No. 5358417

Transform Schools (North Lanarkshire) Limited

Report and Financial Statements

31 December 2012

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Transform Schools (North Lanarkshire) Limited

Report and financial statements 2012

Contents

Transform Schools (North Lanarkshire) Limited
For the year ended 31 December 2012

Directors' report

The directors have pleasure in presenting their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2012

Principal activities and business review

The Company's principal activity is the operation of a Private Finance Initiative (PFI) concession contract with North Lanarkshire Council

On 24 May 2005, the Company entered into a 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

On 1st February 2012 Balfour Beatty Plc sold its 50% shareholding in the company to Equitix Education 2 Limited On 18 April 2012, Innisfree PFI Fund III completed the sale of its beneficial interest in 50% of the company's shares and loan notes to Innisfree PFI Secondary Fund (ISF) and Innisfree PFI Secondary Fund 2 LP (ISF2)

The directors do not expect any significant change in the Company's activities in the following financial year

Results and dividends

The result for the year is set out on page 7 The profit for the year after taxation amounted to £1,517,000 (2011 £1,100,000) The directors paid dividends of £1,500,000 in respect of the year ended 31 December 2012 (2011 £500,000) 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, and
- the net cash-flow is in line with or better than forecast

As at 31 December 2012, the construction programme was complete, with minor works outstanding

As at 31 December 2012, the cumulative net cash outflow before financing was £98 6 m, compared to a forecast value of £105 9m The variance (when compared with the Financial Close model) is due to working capital timing differences which are expected to reverse over the remaining life of the project

Going concern

The Company believes that future economic benefits will cover the obligations that arose from the financing of the construction of the project for North Lanarkshire Council

The directors have also considered the ability of North Lanarkshire Council (the Council) to continue to pay the Unitary fees, due under the Concession contract, to the Company and do not consider this to be a material risk The Company's forecasts and projections, taking into account reasonably possible counterparty performance, show the Company expects to be able to continue to operate for the full term of the concession

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Directors' report

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 cash-flow 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 liquidity risk is principally managed through financing the group by means of long term borrowings, with an amortising profit that matches the expected availability of funds from the Company's operating activities In addition, the Company maintains reserve bank accounts to provide short term liquidity against future debt service and other expenditure requirements

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 37 days (2011 22 days) based on the average daily amount invoiced by suppliers during the year

Directors

The following were directors of the Company during the year

J Graham	
R K Sheehan	
R W Christie	(appointed 1 February 2012)
J E Haan	(appointed 1 February 2012)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report

Directors' share interests

No director had any interest in the issued share capital of the Company or any other Group Company at 31 December 2012 (2011 £nil)

Political and charitable contributions

The Company made no political or charitable contributions during the year (2011 £nil)

Transform Schools (North Lanarkshire) Limited
For the year ended 31 December 2012

Directors' report

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor 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

R K Sheehan
Director

19 April 2013

Registered office

8 White Oak Square

London Road

Swanley

Kent

BR8 7AG

Directors' responsibilities statement

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) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 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, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions 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 2006 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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's 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 2012 which comprise the profit and loss account, balance sheet and the related notes 1 to 18 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on matters prescribed in the Companies Act 2006

In our opinion the information in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Transform Schools (North Lanarkshire) Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Makhan Chahal FCA
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 April 2013

Transform Schools (North Lanarkshire) Limited

Profit and loss account
For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	7,377	6,681
Cost of sales		(6,313)	(5,791)
Gross profit		1,064	890
Net operating expenses		(685)	(567)
Operating profit	3	379	323
Finance income (net)	4	1,663	1,173
Profit on ordinary activities before taxation		2,042	1,496
Tax on profit on ordinary activities	5	(525)	(396)
Profit on ordinary activities after taxation for the financial year	14	1,517	1,100

Continuing Operations

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

Statement of total recognised gains and losses

There were no recognised gains or losses for either the current year and the preceding year 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
As at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	7	6	7
		6	7
Current assets			
Investments	6	15,756	15,607
Construction work in progress	8	-	-
Debtors due within one year	9	2,585	2,714
Debtors finance debtor due within one year	10	13,473	12,880
Cash at bank and in hand		383	932
		32,197	32,133
Debtors finance debtor due after more than one year	10	161,578	163,309
Current liabilities			
Creditors amounts falling due within one year	11	(3,651)	(3,585)
Borrowings amounts falling due within one year	12	(6,824)	(6,355)
		(10,475)	(9,940)
Net current assets		183,300	185,502
Total assets less current liabilities		183,306	185,509
Creditors: amounts falling due after more than one year			
Borrowings	12	(179,426)	(181,646)
Net assets		3,880	3,863
Capital and reserves			
Called up share capital	13	10	10
Profit and loss account	14	3,870	3,853
Total equity shareholders' funds	15	3,880	3,863

The financial statements of Transform Schools (North Lanarkshire) Limited, registered number 5358417 were approved by the Board of Directors on 19 April 2013

Signed on behalf of the Board of Directors

R K Sheehan
Director

Transform Schools (North Lanarkshire) Limited

Notes to the financial statements
For the year ended 31 December 2012

1. Accounting policies

A summary of the principal accounting policies of the Company, all of which have been applied consistently, throughout both the year and preceding year, 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

b) Going Concern

The current economic conditions create some general uncertainty The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified The Directors have also considered the ability of the council to continue to pay unitary fees due under the concession contract to the Group and do not consider this to be a material risk The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

c) FRS 25 Financial Instruments Presentation and FRS 26 Financial Instruments Recognition and 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 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

d) Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) 1996 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 cash flow statement and are publicly available

e) Turnover

Turnover represents the value net of value added tax, and discounts of goods provided to customers and work carried out in respect of services provided to customers 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 Finance debtor

Transform Schools (North Lanarkshire) Limited

Notes to the financial statements
For the year ended 31 December 2012

1. Accounting policies (continued)

f) Taxation

Current 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 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 Timing differences are differences between the Company's taxable profits and its results stated in the financial statements that arise from the inclusion of gains or losses in tax assessment periods different from those in which they are recognised in the financial statements A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of the evidence available, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

g) 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

h) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment 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

i) Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities 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

j) 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

k) 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

l) Finance debtor

The Finance debtor recorded is equal to the amounts due for the fair value of the property The Finance debtor 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

Notes to the financial statements
For the year ended 31 December 2012

2. Turnover

	2012 £'000	2011 £'000
Turnover by origin and destination		
United Kingdom	7,377	6,681

3 Operating profit

Operating profit is stated after charging

	2012 £'000	2011 £'000
Depreciation of equipment	1	2
Auditors' remuneration for the audit of company's annual accounts	14	14

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 year The Company has no employees in the current year or preceding year 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 income (net)

	2012 £'000	2011 £'000
Bank interest receivable	108	68
Interest receivable on Finance debtor	11,926	11,649
Interest receivable and similar income	12,034	11,717
Interest on intercompany loan with Transform Schools (North Lanarkshire) Holdings Limited	(10,371)	(10,544)
Finance income (net)	1,663	1,173

Transform Schools (North Lanarkshire) Limited

Notes to the financial statements
For the year ended 31 December 2012

5. Taxation

	Group 2012 £'000	2011 £'000
Current tax	(525)	(396)
	(525)	(396)
Tax reconciliation		
Profit on ordinary activities before taxation	2,042	1,496
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	(500)	(396)
Movement in short term timing differences	34	-
Adjustments in respect of previous periods	(59)	-

A reduction in the main UK corporation tax rate to 23% was substantively enacted in July 2012 and will be effective from 1 April 2013

The tax charge for the period differs from the standard rate of corporation tax in the UK of 24 5% due to the differences highlighted in the table above

6. Short term investments

	2012 £'000	2011 £'000
Treasury deposits	15,756	15,607
Shown as Current assets	15,756	15,607

Short-term deposits include £10,160k (2011 £10,013k) restricted from use in the business, being held in the Company's reserve accounts

Notes to the financial statements
For the year ended 31 December 2012

7. Tangible fixed assets

	Plant & equipment £'000	Total £'000
Cost		
At 1 January 2012	23	23
Additions	-	-
At 31 December 2012	23	23
Depreciation		
At 1 January 2012	16	16
Charge for the year	1	1
At 31 December 2012	17	17
Net book value		
At 31 December 2012	6	6
At 31 December 2011	7	7

8. Construction work in progress

	2012 £'000	2011 £'000
At 1 January	-	-
Construction and related costs	218	53
Transferred to Finance debtor	(218)	(53)
At 31 December	-	-

9. Debtors. due within one year

	2012 £'000	2011 £'000
Trade debtors	2,120	2,004
Prepayments	345	408
Accrued income	120	215
Corporation tax debtor	-	87
	2,585	2,714

Notes to the financial statements
For the year ended 31 December 2012

10 Debtors. Finance debtor

	2012 £'000	2011 £'000
At 1 January	176,189	177,249
Transferred from construction work in progress	218	53
Less council income received in the year	(13,282)	(12,762)
Add interest income accruing	11,926	11,649
At 31 December	175,051	176,189

Included in the Finance debtor is an amount of £161,578,000 (2011 £163,309,000) due after more than one year Included in the above debtor is an amount of £10,175,000 (2011 £10,175,000) which relates to interest capitalised during the construction period

11 Creditors: due within one year

	2012 £'000	2011 £'000
Accrued interest	1,399	1,421
Trade creditors	727	807
Accruals	799	875
VAT creditor	449	482
Tax Creditor	277	-
	3,651	3,585

12. Borrowings

	2012 £'000	2011 £'000
Borrowings		
Amounts owing to Transform Schools (North Lanarkshire) Funding plc	186,250	188,001

Borrowings are repayable in the following periods

	2012 £'000	2011 £'000
Within one year	6,824	6,355
Between one and two years	7,118	6,813
Between two and five years	21,336	21,246
After five years	150,972	153,587
	186,250	188,001

The bonds and EIB loan 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

Notes to the financial statements
For the year ended 31 December 2012

12. Borrowings (continued)

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 the 6 month LIBOR, and is repayable in instalments between 2009 and 2033 It is secured by second fixed and floating charges over the undertaking, property, assets and rights of the Company

13. Called up share capital

	2012 £'000	2011 £'000
Allotted, issued and fully paid		
10,000 Ordinary shares of £1 each	10	10

14. Profit and loss account

	2012 £'000	2011 £'000
At 1 January	3,853	3,253
Profit for the year	1,517	1,100
Dividends paid	(1,500)	(500)
At 31 December	3,870	3,853

15. Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Opening shareholders' funds	3,863	3,263
Profit for the year	1,517	1,100
Dividends paid	(1,500)	(500)
Closing shareholders' funds	3,880	3,863

16. Capital commitments

	2012 £'000	2011 £'000
Contracted but not provided for	-	-

Notes to the financial statements
For the year ended 31 December 2012

17. 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 The directors consider the ultimate controlling parties to be Equitix Education 2 Limited and Innisfree Nominees Limited acting as manager for Innisfree PFI Secondary Fund LP and Innisfree PFI Secondary Fund 2 LP, in equal shares

On 1st February 2012 Balfour Beatty Plc sold its 50% shareholding in the company to Equitix Education 2 Limited On 18 April 2012, Innisfree PFI Fund III completed the sale of its beneficial interest in 50% of the company's shares and loan notes to Innisfree PFI Secondary Fund (ISF) and Innisfree PFI Secondary Fund 2 LP (ISF2)

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 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG

18. 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