Company Registration No 5358417

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2009

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

The directors have pleasure in presenting their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2009

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 7 The profit for the year after taxation amounted to £197,000 (2008 £563,000) The directors do not propose to pay any dividend in respect of the period ended 31 December 2009 (2008 £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, and
- the net cash-flow is in line with or better than forecast

As at 31 December 2009, the construction programme was complete, with minor works outstanding
As at 31 December 2009, the cumulative net cash outflow before financing was £135 9m, compared to a forecast value of £138 7m The variance is due to a timing difference which is expected to reverse over the course of the project

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 throught 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

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2009

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 19 days (2008 4 days)

Directors

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

J Graham	
C L Spencer	(resigned 16 July 2009)
R K Sheehan	
K Walker	(appointed 16 July 2009)
H M Wills	(resigned 31 March 2010)
A Campbell	(appointed 31 March 2010)

Provision of Information to Auditors

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 aware of that information

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

Auditors

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an AGM

Registered Office

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

By Order of the Board,

Nichol Sheehan

R K Sheehan
Director

26 April 2010

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) 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 thta 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
- prepare the financial statements on a 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 and 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 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

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of Transform Schools (North Lanarkshire) Limited as at 31 December 2009, and

b) the Directors' report includes a fair review of the development and performance of the business and the financial position of Transform Schools (North Lanarkshire) Limited, together with a description of its principal risks and uncertainties

Signed on behalf of the Board of Directors of Transform Schools (North Lanarkshire) Limited on 26 April 2010

Michael Sheehan

R K Sheehan
Director

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 2009, which comprise the Profit and Loss AccountBalance 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 section 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 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 explained more fully in the Directors' Responsibilties 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 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 Boards's (APB's) Ethical Standards for Auditors

Scope of the audit of the 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

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

Andrew J. Kelly

Andrew J Kelly (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
26 April 2010

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Turnover	2	**8,221**	30,798
Cost of sales		**(7,029)**	(29,457)
Gross profit		**1,192**	1,341
Net operating expenses		**(1,132)**	(1,245)
Operating profit	3	**60**	96
Finance costs (net)	4	**214**	698
Profit on ordinary activities before taxation		**274**	794
Tax on profit on ordinary activities	5	**(77)**	(231)
Profit on ordinary activities after taxation for the financial year	14	**197**	563

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

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
AT 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	7	11	13
		11	13
Current assets			
Investments	6	15,605	13,440
Construction work in progress	8	-	-
Debtors - due within one year	9	2,277	3,338
Debtors - FRS 5 finance debtor due within one year	10	11,658	11,126
Cash at bank and in hand		164	2,474
Deferred tax asset		-	-
		29,704	30,378
Debtors - FRS 5 finance debtor due after more than one year	10	165,640	165,281
Current liabilities			
Creditors amounts falling due within one year	11	(3,495)	(4,260)
Borrowings amounts falling due within one year	12	(5,772)	(5,134)
		(9,267)	(9,394)
Net current assets		186,077	186,265
Total assets less current liabilities		186,088	186,278
Creditors amounts falling due after more than one year			
Borrowings	12	(183,346)	(183,733)
Net assets		2,742	2,545
Capital and reserves			
Called up share capital	13	10	10
Profit and loss account	14	2,732	2,535
Shareholders' funds	15	2,742	2,545

These financial statements were approved by the Board of Directors on 26 April 2010 and signed on its behalf by -

R K Sheehan
Director

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 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
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

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

b) 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

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 FRS 5 finance debtor

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 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 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

1 Accounting policies (Continued)

f) 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

f) 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

g) 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

h) 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 accouting 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

i) FRS 5 finance debtor
The FRS 5 finance debtor recorded is equal to the amounts due for the fair value of the property The FRS 5 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

2 Turnover

	2009	2008
Turnover by origin and destination	£'000	£'000
United Kingdom	8,221	30,798

3 Operating profit

	2009	2008
Operating profit is stated after charging	£'000	£'000
Depreciation of equipment	2	2
Auditors' remuneration for the audit of company's annual accounts	14	17

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 costs (net)

	2009	2008
	£'000	£'000
Bank interest receivable	147	449
Interest receivable on FRS 5 finance debtor	11,188	10,319
Interest receivable and similar income	11,335	10,768
Interest and fees payable on secured senior loan	(9,303)	(10,118)
Interest payable on secured subordinated loan stock	(1,818)	(1,202)
Interest payable and similar charges	(11,121)	(11,320)
Less amounts capitalised	-	1,250
Finance costs (net)	214	698

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2009

5 Taxation	**2009 £'000**	2008 £'000
Current tax	(77)	(231)
Deferred tax	-	-
	(77)	(231)
Tax reconciliation		
Profit on ordinary activities before taxation	274	794
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	(77)	(223)
Effects of		
Corporation tax rate at 30%	-	(4)
Corporation tax paid for year ended 31 December 2006	-	(4)
Current tax charge for the year	(77)	(231)

6 Investments	**2009 £'000**	2008 £'000
Treasury Deposits	15,605	13,440
Shown as		
Current assets	15,605	13,440
	15,605	13,440

7 Tangible Fixed Assets	**Plant & Equipment £'000**	Total £'000
Cost		
At 1 January 2009	23	23
Additions	-	-
At 31 December 2009	23	23
Depreciation		
At 1 January 2009	10	10
Charge for the year	2	2
At 31 December 2009	12	12
Net Book Value		
At 1 January 2009	13	13
At 31 December 2009	11	12

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2009

8 Construction work in progress

	2009 £'000	2008 £'000
At 1 January	**-**	11,440
Interest payable and other financing costs	**-**	1,250
Construction and related costs	**518**	11,255
Transferred to FRS 5 finance debtor	**(518)**	(23,945)
At 31 December	**-**	-

9 Debtors - due within one year

	2009 £'000	2008 £'000
Trade debtors	**1,742**	2,900
Prepayments	**255**	331
Accrued income	**280**	107
	2,277	3,338

10 Debtors - FRS 5 finance debtor

	2009 £'000	2008 £'000
At 1 January	**176,407**	152,037
Transferred from construction work in progress	**518**	23,945
Less council income received in the year	**(10,815)**	(9,894)
Add interest income accruing	**11,188**	10,319
At 31 December	**177,298**	176,407

Included in the FRS 5 finance debtor is an amount of £165,640,000 (2008 £165,281,000) due after more than one year

11 Creditors - due within one year

	2009 £'000	2008 £'000
Accruals and deferred income	**1,383**	2,290
Trade creditors	**117**	690
Accruals	**1,489**	748
VAT creditor	**503**	305
Corporation tax payable	**3**	227
	3,495	4,260

12 Borrowings

	2009 £'000	2008 £'000
Borrowings		
Amounts owing to Transform Schools (North Lanarkshire) Funding plc	**189,118**	188,867
	189,118	188,867

Borrowings are repayable in the following periods	£'000	£'000
Within one year	**5,772**	5,134
Between one and two years	**5,646**	6,072
Between two and five years	**19,369**	16,000
After five years	**158,331**	161,661
	189,118	188 867

12 Borrowings (continued)

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

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	**2009**	2008
	£'000	£'000
Allotted, issued and fully paid share capital		
10,000 Ordinary Shares of £1 each	**10**	10
	10	10

14 Profit and loss account	**2009**	2008
	£'000	£'000
At 1 January	**2,535**	1,972
Profit for the year	**197**	563
At 31 December	**2,732**	2,535

15 Reconciliation of movements in shareholders' funds	**2009**	2008
	£'000	£'000
Opening shareholders' funds	**2,545**	1,982
Profit for the year	**197**	563
Closing shareholders' funds	**2,742**	2,545

16 Capital commitments	**2009**	2008
	£'000	£'000
Contracted but not provided for	**-**	728

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 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

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