

Company Registration No.5358471

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2008

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors have pleasure in presenting their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2008.

Principal activities

The Company's principal activity is the financing of Transform Schools (North Lanarkshire) Limited's operation of 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 principal activities is anticipated.

Results and dividends

The result for the year after taxation amounted to £Nil (2007: £Nil). The directors do not propose to pay any dividend in respect of the year ended 31 December 2008 (2007: £Nil). The directors expect the Company to continue its operations for the foreseeable future.

Key performance indicators

The key performance indicator is that the Company is able to service the funding requirements through interest and capital repayments. This is achieved through the successful operation of Transform Schools (North Lanarkshire) Limited's PFI concession contract and that its net cash flow is in line with or better than forecast.

As at 31 December 2008, Transform Schools (North Lanarkshire) Limited's cumulative net cash outflow before financing was £154.39m, compared to a forecast value of £148.82m. The variance is due to a timing difference which is expected to reverse over the course of construction.

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. Trade creditors of the Company at 31 December 2008 were £Nil (2007: £Nil).

Directors

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

M. Fernandes	(resigned 20 October 2008)
C.L. Spencer	
R.K. Sheehan	
H.M. Wills	(appointed 15 January 2008)
M.M.B. Ross	(resigned 15 January 2008)
J. Graham	(appointed 20 October 2008)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

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 of that information.

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

Directors' interests

No director had any interest in the issued share capital of the Company or other group company.

Financial Risk Management

The Directors' approach to financial risk management is provided in Note 10.

Auditors

Deloitte 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,



R.K. Sheehan
Director

27 April 2009

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
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 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; and
- 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 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.

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
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 loss of Transform Schools (North Lanarkshire) Funding Plc as at 31 December 2008; 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) Funding Plc, together with a description of its principal risks and uncertainties.

Signed on behalf of the Board of Directors of Transform Schools (North Lanarkshire) Funding Plc on 27 April 2009



R.K. Sheehan
Director

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

We have audited the financial statements of Transform Schools (North Lanarkshire) Funding plc for the year ended 31 December 2008, which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movement in Shareholders' Funds and the related notes 1 to 15. 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

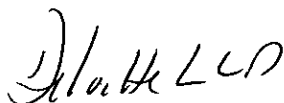
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of its result 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 LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
27 April 2009

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £'000	2007 £'000
Turnover		-	-
Cost of sales		<u>-</u>	<u>-</u>
Gross profit		-	-
Net operating expenses		<u>-</u>	<u>-</u>
Operating profit		<u>-</u>	<u>-</u>
Interest receivable and similar income	4	11,321	9,289
Interest payable and similar charges	4	<u>(11,321)</u>	<u>(9,289)</u>
		-	-
Profit on ordinary activities before taxation		<u>-</u>	<u>-</u>
Taxation on profit on ordinary activities	5	<u>-</u>	<u>-</u>
Retained profit on ordinary activities after taxation for the financial year	12	<u><u>-</u></u>	<u><u>-</u></u>


All activities are 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) FUNDING PLC
BALANCE SHEET
AT 31 DECEMBER 2008

	Notes	2008 £'000	2007 £'000
Current assets			
Debtors: amounts falling due within one year	6	7,424	935
Debtors: amounts falling due after more than one year	7	183,733	165,646
Current liabilities			
Creditors: amounts falling due within one year	8	(2,290)	(935)
Borrowings: amounts falling due within one year	9	(5,134)	-
Net current assets		<u>183,733</u>	<u>165,646</u>
Total assets less current liabilities		183,733	165,646
Creditors: amounts falling due after more than one year	9	(183,683)	(165,596)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
Shareholders' funds		<u>50</u>	<u>50</u>

These financial statements were approved by the Board of Directors on 27 April 2009
and signed on its behalf by :-


.....
R.K. Sheehan

Director

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £'000	2007 £'000
Profit for the financial year	<u>-</u>	<u>-</u>
Net increase in shareholders' funds	<u>-</u>	<u>-</u>
Opening shareholders' funds	<u>50</u>	<u>50</u>
Closing shareholders' funds	<u>50</u>	<u>50</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 3. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in note 10 to the financial statements. This note to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The current economic conditions create some general uncertainty. The directors have reviewed the company'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 Company and do not consider this to be a material risk. The Company's forecasts and projections, taking account of 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 annual report and accounts.

b) FRS 25 Financial Instruments: Presentation, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosure

FRS 25 and FRS 26 are required to be adopted by listed companies. The 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.

(c) 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.

(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) Finance costs

Finance costs of debt are charged in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

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.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

1 Accounting policies (Continued)

g) Senior secured bonds and term loan

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.

2 Remuneration of Directors and employees

Directors emoluments for the year amounted to £Nil (2007: £Nil). The company has no employees (2007: None).

3 Auditors' remuneration

The audit fee for the Company was borne by Transform Schools (North Lanarkshire) Limited in both the current year and preceding year and amounted to £1,000 (2007: £1,000).

	2008 £'000	2007 £'000
4 Interest		
Interest receivable and similar income comprises:		
Interest on intercompany loan to Transform Schools (North Lanarkshire) Limited	11,321	9,289
Interest payable and similar charges comprises:		
Interest and fees on bonds and loan	11,321	9,289

5 Taxation

The results for the year do not give rise to a tax charge (2007: £Nil).

	2008 £'000	2007 £'000
6 Debtors - due within one year		
Amounts owing from Transform Schools (North Lanarkshire) Limited	7,424	935
	7,424	935

	2008 £'000	2007 £'000
7 Debtors: amounts falling due after more than one year		
Amounts owing from Transform Schools (North Lanarkshire) Limited	183,733	165,646
	183,733	165,646

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, £17,194,683 subordinated loan stock and a £50,000 direct loan. 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 (see Note 9).

	2008 £'000	2007 £'000
8 Creditors: amounts falling due within one year		
Accruals and deferred income	2,290	935
	2,290	935

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

9 Borrowings	2008 £'000	2007 £'000
Borrowings	188,817	165,596
	188,817	165,596
Borrowings:		
Index-linked secured bonds	95,414	92,070
Index-linked secured loan	76,208	73,526
Subordinated debt	17,195	-
	188,817	165,596
<u>Repayable as follows:</u>		
Within one year	5,134	-
Between one and two years	6,072	5,398
Between two and five years	16,000	11,850
After five years	161,611	148,348
	188,817	165,596

The index-linked secured bonds due 2036 of £87,796,000 were created on 8 June 2005, all of which were issued and sold. Interest on the bonds is payable semi-annually at a rate of 2.343% plus RPI indexation, commencing on 30 September 2005. Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2036.

The index linked bank secured term loan is from the European Investment Bank with repayments commencing September 2008 and semi-annually thereafter until September 2034. The loan bears interest at a rate of 1.95% plus RPI indexation. The bank loan has certain covenants attached.

The borrowings are secured by a fixed and floating charge over the whole of the Company's undertaking and assets.

The secured subordinated loan stock has been subscribed by Transform Schools (North Lanarkshire) Funding plc. 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.

10 Financial instruments

The Company's financial instruments comprise borrowings. The main purpose of these financial instruments is to raise finance for the Transform Schools (North Lanarkshire) Group operations. The Company has not entered into derivative transactions. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments be undertaken. The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

Interest rate risk

The company's exposure to adverse movements in interest rates on its borrowings is matched by an equal but opposite exposure on amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Liquidity risk

The Company's policy throughout the year has been that, to ensure continuity of funding, all of its borrowings should be matched by amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Currency risk

There is no currency risk in the company.

Credit risk

Credit risk is mitigated as the counterparties are related parties.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

10 Financial instruments (Continued)

Interest rate profile

The interest rate profile of the Company's financial liabilities was as follows:

	Index-linked	
	2008	2007
	£'000	£'000
Borrowings	188,817	165,596

The index-linked bonds have interest payable at a rate of 2.343% plus RPI indexation on a principal amount that is also subject to RPI indexation.

The bank term loan has interest payable at a rate of 1.95% plus RPI indexation on a principal amount that is also subject to RPI indexation.

The loan stock has interest payable at a rate of 7.55% above LIBOR.

Borrowing facilities

The Company had no more undrawn committed borrowing facilities at 31 December 2008.

Fair values

	Book Value		Fair Value	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Primary financial instruments held or issued to				
Index-linked bonds	96,004	92,632	69,798	96,924
Index-linked loans (excluding unamortised arrangement fees)	76,599	73,900	78,317	67,598
Subordinated loan stock	18,504	2,756	10,641	1,155

Market value has been used to determine the fair value of the index-linked bonds.

The fair value of the index linked loan and the subordinated debt have been calculated by discounting the expected future cash flows at prevailing interest rates. Expected future cash flows have been calculated assuming that future increases in the Retail Price Index are constant at 2.5%. The UK gilt yield curve and an assumed credit spread of 1% for the index linked loan and 1% for the subordinated debt, have been used as appropriate discount rates.

11 Called-up share capital

	2008	2007
	£'000	£'000
<i>Authorised:</i>		
Equity: 50,000 ordinary shares of £1.00 each	50	50
<i>Allotted, called up and fully paid</i>		
Equity: 50,000 ordinary shares of £1.00 each	50	50

12 Profit and loss account

	2008	2007
	£'000	£'000
At 1 January	-	-
Result for the year	-	-
At 31 December	-	-

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

13 Commitments

Capital commitments at the end of the financial year are £Nil (2007: £Nil).

14 Related party disclosure

Transform Schools (North Lanarkshire) Funding plc has issued £87,796,000 bonds and borrowed £70,000,000 from the European Investment Bank and issued £17,194,693 and lent these funds less issue costs on to a fellow subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, Transform Schools (North Lanarkshire) Limited.

It also made a £50,000 direct loan to Transform Schools (North Lanarkshire) Limited in 2005.

Interest receivable from Transform Schools (North Lanarkshire) Limited for the year amounted to £11,321,000 (2007: £9,289,000)

15 Ultimate parent undertakings and controlling parties

The Company is a 99.998% 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) Funding Plc 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.