

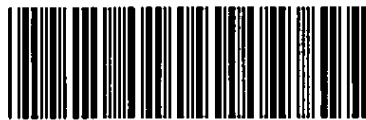
Company Registration No 5366823

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2006**

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**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

The directors have pleasure in submitting their annual report and audited consolidated financial statements for the year ended 31 December 2006

**Principal Activities and Business Review**

The Company is an investment holding Company whose sole business is the holding of an investment in its wholly owned subsidiary Transform Schools (North Lanarkshire) Limited

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

**Results and Dividends**

The results for the year are set out on page 5. The profit for the year after taxation amounted to £707,000 (2005 £22,000 loss). The directors do not propose to pay any dividend in respect of the period ended 31 December 2006 (2005 £Nil). The directors expect the Company to continue its operations for the foreseeable future.

**Subsequent Events**

On 5 July 2007, Transform Schools (North Lanarkshire) Funding plc (another company in the same Group) sold the remaining £9,150,000 nominal variation bonds, in order to fund extensions for two schools and the construction of an additional school. The proceeds from the sale were £9,726,084.

**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 2006, the construction programme was on schedule, with no significant delays.

As at 31 December 2006, the cumulative net cash outflow before financing was £113.43m, compared to a forecast value of £116.03m. The variance is due to a timing difference which is expected to reverse over the course of construction.

**Financial Risk Management**

The Directors' approach to financial risk management is provided in note 15.

**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 2 days (2005 2 days).

**Directors**

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

M Archbold	(Resigned 25 April 2006)
J D Harris	(Resigned 7 July 2006)
M J Hudson	(Resigned 11 August 2006)
N J E Crowther	
C L Spencer	(Appointed 25 April 2006)
M M B Ross	(Appointed 11 August 2006)
R K Sheehan	(Appointed 27 November 2006)

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**DIRECTORS' REPORT (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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,



R K Sheehan  
Director

31 July 2007

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS 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.

## **TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**

### **INDEPENDENT AUDITORS' REPORT**

#### To the Members of Transform Schools (North Lanarkshire) Holdings Limited

We have audited the consolidated financial statements of Transform Schools (North Lanarkshire) Holdings Limited for the year ended 31 December 2006, which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes numbered 1 to 23. 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 Group's and 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 Group's and Company's affairs as at 31 December 2006 and of the Group's 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*

**Deloitte & Touche LLP**  
**Chartered Accountants and Registered Auditors**  
London  
31 July 2007

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**GROUP PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

		<u>Group</u> <b>2006</b>	<u>Group</u> <b>2005</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Turnover</b>	<b>2</b>	<b>99,122</b>	<b>-</b>
<b>Cost of sales</b>		<b>(98,136)</b>	<b>(32)</b>
<b>Gross profit / (loss)</b>		<u><b>986</b></u>	<u><b>(32)</b></u>
<b>Net operating expenses</b>		<b>(339)</b>	<b>-</b>
<b>Operating profit / (loss)</b>	<b>3</b>	<u><b>647</b></u>	<u><b>(32)</b></u>
<b>Finance costs (net)</b>	<b>4</b>	<b>363</b>	<b>-</b>
<b>Profit / (loss) on ordinary activities before taxation</b>		<u><b>1,010</b></u>	<u><b>(32)</b></u>
<b>Tax on profit / (loss) on ordinary activities</b>	<b>5</b>	<u><b>(303)</b></u>	<u><b>10</b></u>
<b>Retained profit / (loss) on ordinary activities after taxation for the financial year</b>	<b>17</b>	<u><u><b>707</b></u></u>	<u><u><b>(22)</b></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) HOLDINGS LIMITED**  
**BALANCE SHEETS**  
**AT 31 DECEMBER 2006**

	Notes	Group		Company	
		2006	2005	2006	2005
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	8	-	23,175	60	60
Tangible assets	9	18	3	-	-
		<u>18</u>	<u>23,178</u>	<u>60</u>	<u>60</u>
<b>Current assets</b>					
Investments	8	26,530	48,477	-	-
Construction work in progress	10	21,564	73,305	-	-
Debtors - due within one year	11	2,855	2,174	-	-
Debtors - financial asset due within one year	12	6,559	-	-	-
Cash at bank and in hand		8,096	1,683	-	-
Deferred tax asset		-	10	-	-
		<u>65,604</u>	<u>125,649</u>	<u>-</u>	<u>-</u>
Debtors - financial asset due after more than one year	12	90,924	-	-	-
<b>Current liabilities</b>					
Creditors amounts falling due within one year	13	(4,710)	(7,009)	-	-
<b>Net current assets</b>		<u>151,818</u>	<u>118,640</u>	<u>-</u>	<u>-</u>
<b>Total assets less current liabilities</b>		<u>151,836</u>	<u>141,818</u>	<u>60</u>	<u>60</u>
Creditors amounts falling due after more than one year	14	(151,091)	(141,780)	-	-
<b>Net assets</b>		<u><u>745</u></u>	<u><u>38</u></u>	<u><u>60</u></u>	<u><u>60</u></u>
<b>Capital and reserves</b>					
Called-up share capital	16	60	60	60	60
Profit and loss account	17	685	(22)	-	-
Equity shareholders' funds / (deficit)	18	<u>745</u>	<u>38</u>	<u>60</u>	<u>60</u>

These financial statements were approved by the Board of Directors on 31 July 2007  
and signed on its behalf by -



R K Sheehan  
Director

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**GROUP CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £'000	2005 £'000
<b>Net cash outflow from operating activities</b>	19(a)	<b>(42,652)</b>	<b>(66,204)</b>
<b>Returns on investment and servicing of finance</b>			
Interest received		2,080	2,136
Interest and fees paid		<u>(4,329)</u>	<u>(4,434)</u>
		<u>(2,249)</u>	<u>(2,298)</u>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		<u>(19)</u>	<u>(3)</u>
		<u>(19)</u>	<u>(3)</u>
<b>Cash outflow before financing</b>		<u><b>(44,920)</b></u>	<u><b>(68,505)</b></u>
<b>Management of liquid resources</b>			
Current asset investments		<u>45,122</u>	<u>(71,652)</u>
		<u>45,122</u>	<u>(71,652)</u>
<b>Financing</b>			
Issue of ordinary shares		-	60
Increase in secured senior loans		<u>6,211</u>	<u>141,780</u>
		<u>6,211</u>	<u>141,840</u>
<b>Increase in cash in the period</b>	19(c)	<u><b>6,413</b></u>	<u><b>1,683</b></u>



**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**1 Accounting policies**

A summary of the principal accounting policies of the Group, 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 accounting standards and under the historical cost convention

*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 the Group to provide certain disclosures in respect of its financial instruments and also governs the manner in which its financial instruments are presented.

FRS 26 provides the requirements for the measurement, recognition and derecognition of financial instruments. Adoption of the standard results in the remeasurement of the Company's financial liabilities at amortised cost using the effective interest rate method. The Company's current asset investments will be valued at fair value.

*b) Group financial statements basis of consolidation*

The Group financial statements include the financial statements of the Company and of its Subsidiary undertakings for the year ended 31 December 2006. All intercompany balances, transactions and profits are eliminated on consolidation.

*c) Investments*

Investments in the subsidiary undertakings are stated at cost. The carrying value of investments is reviewed annually by the directors to determine whether there has been any impairment.

*d) 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. Accordingly, when construction is complete, the asset created under the contract will be accounted for as a financial asset.

*e) 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.

*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 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.

*g) 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.

*h) Construction Work In Progress*

The directly attributable costs of construction work in schools not complete at the balance sheet date are held as construction work in progress.

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**1 Accounting policies (Continued)**

*i) 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.

*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 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 Turnover**

Turnover by origin and destination

United Kingdom

<b>Group</b>	
<b>2006</b>	<b>2005</b>
<b>£'000</b>	<b>£'000</b>
<b>99,122</b>	<b>-</b>

**3 Operating profit / (loss)**

Operating profit / (loss) is stated after charging

Depreciation

Auditors' remuneration for Group audit services

<b>Group</b>	
<b>2006</b>	<b>2005</b>
<b>£'000</b>	<b>£'000</b>
<b>4</b>	<b>-</b>
<b>16</b>	<b>19</b>

The audit fee for the Company was borne by Transform Schools (North Lanarkshire) Limited in both the current year and preceding period and amounted to £1,000 (2005 £1,000).

The directors received no salary, fees or other benefits from the group in the performance of their duties in either the current year or preceding period. The Group and Company have no employees in the current year or preceding period. All costs of the directors and other staff are borne by the shareholders, who second their employees to the Company's subsidiary.

**4 Finance costs (net)**

Bank interest receivable

Interest receivable on financial asset

Interest receivable and similar income

Interest and fees payable on secured senior loan

Interest payable and similar charges

Less amounts capitalised

Finance costs (net)

<b>Group</b>	
<b>2006</b>	<b>2005</b>
<b>£'000</b>	<b>£'000</b>
<b>2,374</b>	<b>2,136</b>
<b>1,822</b>	<b>-</b>
<b>4,196</b>	<b>2,136</b>
<b>(7,429)</b>	<b>(4,434)</b>
<b>(7,429)</b>	<b>(4,434)</b>
<b>3,596</b>	<b>2,298</b>
<b>363</b>	<b>-</b>

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**5 Taxation**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Current tax	(293)	-
Deferred tax	(10)	10
	<b>(303)</b>	<b>10</b>
<u>Tax reconciliation</u>		
Profit / (loss) on ordinary activities before taxation	<b>1,010</b>	<b>(32)</b>
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	<b>(303)</b>	<b>10</b>
Effects of		
Utilisation of tax losses	<b>10</b>	-
Tax losses carried forward	-	(10)
Current tax charge for the year	<b>(293)</b>	<b>-</b>

**6 Dividends**

No dividends are paid or payable

**7 Profit for the financial period transferred to reserves**

The profit for the financial period dealt with in the financial statements of the Company, Transform Schools (North Lanarkshire) Holdings Limited, was £Nil (2005 £Nil) As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company

**8 Investments**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Shares in subsidiary undertaking [a]	-	-	60	60
Short term deposits [b]	<b>26,530</b>	<b>71,652</b>	-	-
	<b>26,530</b>	<b>71,652</b>	<b>60</b>	<b>60</b>

**[a] Shares in Subsidiary Undertaking**

Cost

At 1 January	-	-	60	-
Additions	-	-	-	60
At 31 December	-	-	<b>60</b>	<b>60</b>

*Principal subsidiary undertakings*

The parent Company has investments in the following subsidiary undertakings

Name	Transform Schools (North Lanarkshire) Limited
Activity	PFI Concession Company
Country of incorporation	Great Britain
Shareholding	100%

Name	Transform Schools (North Lanarkshire) Funding PLC
Activity	PFI Concession Company
Country of incorporation	Great Britain
Shareholding	100%

**[b] Short Term Deposits**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Shown as				
Current asset	<b>26,530</b>	<b>48,477</b>	-	-
Non-current asset	-	<b>23,175</b>	-	-
	<b>26,530</b>	<b>71,652</b>	<b>-</b>	<b>-</b>

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**9 Tangible Fixed Assets**

	<b>Group</b>		<b>Company</b>	
	Plant & Equipment	Total	Plant & Equipment	Total
	£'000	£'000	£'000	£'000
<u>Cost</u>				
At 1 January 2006	3	3	-	-
Additions	19	19	-	-
At 31 December 2006	22	22	-	-
<u>Depreciation</u>				
At 1 January 2006	-	-	-	-
Charge for the year	4	4	-	-
At 31 December 2006	4	4	-	-
<u>Net Book Value</u>				
At 1 January 2006	3	3	-	-
At 31 December 2006	18	18	-	-

**10 Construction work in progress**

	<b>Group</b>		<b>Company</b>	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
At 1 January / On incorporation	73,305	-	-	-
Interest payable and other financing costs	3,596	2,298	-	-
Construction and related costs	41,537	71,007	-	-
Transferred to financial asset	(96,874)	-	-	-
At 31 December	21,564	73,305	-	-

**11 Debtors - due within one year**

	<b>Group</b>		<b>Company</b>	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Trade debtors	1,264	-	-	-
VAT debtor	430	1,732	-	-
Prepayments	356	442	-	-
Accrued income	805	-	-	-
	2,855	2,174	-	-

**12 Financial asset**

	<b>Group</b>		<b>Company</b>	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
At 1 January / On incorporation	-	-	-	-
Transferred from construction work in progress	96,874	-	-	-
Less Council income received in the period	(1,507)	-	-	-
Add Interest income accruing	2,116	-	-	-
At 31 December	97,483	-	-	-

Included in the financial asset is an amount of £90,924,000 (2005 £Nil) due after more than one year

**13 Creditors amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Trade creditors	8	5,715	-	-
Accruals	4,409	1,294	-	-
Corporation tax payable	293	-	-	-
	4,710	7,009	-	-

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**14 Creditors amounts falling due after more than one year**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowings	<b>151,091</b>	<b>141,780</b>	-	-
<i>Borrowings repayable as follows</i>	<b>Group</b>	<b>2006</b>	<b>Company</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Between one and two years	<b>1,038</b>	-	-	-
Between two and five years	<b>10,487</b>	9,665	-	-
After five years	<b>139,566</b>	132,115	-	-
	<b>151,091</b>	<b>141,780</b>	-	-

Borrowings represent amounts owing by Transform Schools (North Lanarkshire) Funding plc, which is made up of the proceeds of £72,796,000 and £5,850,000 index linked secured bonds and a £70,000,000 loan from European Investment Bank. 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.

The index-linked secured bonds due 2036 of £87,796,000 were created on 8 June 2005, of which £72,796,000 were issued and sold. During the year, the Company issued £6,211,050 (nominal value £5,850,000) of variation bonds to finance additional construction. The Company has a nominal value of £9,150,000 variation bonds remaining (2005 £15,000,000) which may be issued to finance certain contingencies.

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.

**15 Derivatives and other financial instruments**

The Group'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 Group has not entered into derivative transactions. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risks arising from the Group'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 year.

As permitted by FRS 25, short term debtors and creditors have been omitted from all disclosures pertaining to financial instruments.

*Interest rate risk*

All of the Group'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 Group thereby mitigates any exposure to movements in the retail price index.

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
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**15 Derivatives and other financial instruments (Continued)**

*Liquidity risk*

The Group'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

*Currency risk*

There is no currency risk in the Group

*Interest rate profile*

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

	<b>Index-linked</b>	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Borrowings</b>	<b>151,091</b>	<b>141,780</b>

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

At 31 December 2006 the Group had the following committed facilities

	<b>Total</b>	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Variation bonds (nominal value)</b>	<b>9,150</b>	<b>15,000</b>
	<b>9,150</b>	<b>15,000</b>

On 5 July 2007, Transform Schools (North Lanarkshire) Funding plc (another company in the same Group) sold the remaining £9,150,000 nominal variation bonds, in order to fund extensions for two schools and the construction of an additional school. The proceeds from the sale were £9,726,084.

The Group had undrawn committed borrowing facilities at 31 December 2006, in respect of which all conditions precedent had been met, as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Expiring in more than 30 years</b>	<b>9,150</b>	<b>15,000</b>
	<b>9,150</b>	<b>15,000</b>

*Fair values*

	<b>Book Value</b>		<b>Fair Value</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Primary financial instruments held or issued to finance the Group's operations</b>				
Index-linked bonds (excluding unamortised arrangement fees)	82,386	74,528	87,244	80,278
Index-linked loans (excluding unamortised arrangement fees)	73,141	71,592	65,551	66,826

Market value has been used to determine the fair value of the index linked bonds. The fair value of the index linked loan has 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 United Kingdom gilt yield curve and an assumed credit spread consistent with that of the index linked bond have been used in calculating an appropriate discount rate.

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
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**16 Called up share capital**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Authorised, issued and fully paid share capital</i>				
30,000 ordinary 'A' shares of £1 each	30	30	30	30
30,000 ordinary 'B' shares of £1 each	30	30	30	30
	<b>60</b>	<b>60</b>	<b>60</b>	<b>60</b>

In all respects the 'A' and 'B' shares rank pari passu and the same rights are attached to each

**17 Reserves**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Profit and loss account</i>				
At 1 January / On incorporation	(22)	-	-	-
Profit / (loss) for the year	707	(22)	-	-
At 31 December	<b>685</b>	<b>(22)</b>	<b>-</b>	<b>-</b>

**18 Reconciliation of movements in equity shareholders' funds**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening equity shareholders' funds	38	-	60	-
Shares issued in year	-	60	-	60
Profit / (loss) for the period	707	(22)	-	-
Closing equity shareholders' funds	<b>745</b>	<b>38</b>	<b>60</b>	<b>60</b>

**19 (a) Reconciliation of operating loss to net cash outflow from operating activities**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit / (loss)	647	(32)
Depreciation	4	-
Decrease / (increase) in construction work in progress	55,337	(71,007)
Increase in debtors	(671)	(2,174)
Increase in financial asset	(95,367)	-
(Decrease) / increase in creditors	(2,602)	7,009
Net cash outflow from operating activities	<b>(42,652)</b>	<b>(66,204)</b>

**19 (b) Analysis and reconciliation of net debt**

	<b>At 1 January 2006</b>	<b>Cash flow</b>	<b>Other non cash changes</b>	<b>At 31 December 2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	1,683	6,413	-	8,096
Secured senior loans	(141,830)	(6,211)	(3,050)	(151,091)
Liquid Resources	71,652	(45,122)	-	26,530
	<b>(68,495)</b>	<b>(44,920)</b>	<b>(3,050)</b>	<b>(116,465)</b>

**TRANSFORM SCHOOLS (NORTH LANRKSHERE) HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**19 (c) Reconciliation of net cash flow to movement in net debt**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Increase in cash	<b>6,413</b>	1,683
Cash inflow from secured senior loans	<b>(6,211)</b>	(141,830)
Cash inflow / (outflow) from decrease (increase) in liquid resources	<b>(45,122)</b>	71,652
Change in net debt resulting from cash flows	<b>(44,920)</b>	(68,495)
Other non-cash changes	<b>(3,050)</b>	-
Movement of net debt in the period	<b>(47,970)</b>	(68,495)
<b>Net debt as at 1 January / On incorporation</b>	<b>(68,495)</b>	-
<b>Net debt as at 31 December</b>	<b>(116,465)</b>	(68,495)

**20 Contingencies**

The Company, in support of bank loan agreements made by its subsidiary, Transform Schools (North Lanarkshire) Limited, has committed to make a minimum level of investment in its subsidiary, of £16,428,768 (2005 £15,603,706), by way of subordinated loan stock by 2008

**21 Capital commitments**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contracted but not provided for	<b>42,966</b>	<b>73,222</b>	-	-

**22 Related party transactions**

During the year, the value of work certified as complete under contracts between the Company and subsidiaries of Balfour Beatty plc for the construction and refurbishment of schools and the provision of services within schools, was £42,372,000 (2005 £69,457,000) Amounts accrued as at 31 December 2006 totalled £3,370,000 (2005 £5,646,000)

Staff are seconded to the Company from subsidiaries of Balfour Beatty plc Amounts payable for their services and associated costs during the period totalled £489,000 (2005 £350,000) Amounts accrued at 31 December 2006 totalled £Nil (2005 £92,000)

Amounts payable by the Company's subsidiary to Innisfree PFI Fund III LP for the services of the Directors of Group companies during the year totalled £27,000 (2005 £6,000), of which £6,000 (2005 £6,000) was accrued at the year end

Amounts payable by the Company's subsidiary to a subsidiary of Balfour Beatty plc for the services of the Directors of Group companies during the year totalled £20,000 (2005 £6,000), of which £3,000 (2005 £6,000) was accrued at the year end

**23 Controlling parties**

The ultimate controlling parties are Balfour Beatty PLC and Innisfree Nominees Limited acting as nominee for Innisfree PFI Fund III LP, in equal shares