ALC (FMC) Limited

Directors' report and financial statements
Registered number 05424243
For the year ended 31 December 2014

Contents

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014

The results for the year are set out in the profit and loss account on page 5

Dividends

The Directors approved and paid a dividend payment of £6 8M in the year ended 31 December 2014 (2013 £7 8M)

Directors

The Directors who held office during the period were as follows

Name	Appointed	Resigned
Nicolas C Anderson	1 December 2009	
Paul Bean	13 March 2013	24 July 2014
John Connelly (alternate to Asif Ghafoor)	23 July 2013	
John R Davies	28 April 2006	
Gillian Duggan	13 March 2013	
Asif Ghafoor	23 July 2007	
Richard H Taylor	28 April 2006	
Paul M Kingshott (alternate to Richard Taylor)	1 January 2011	
Samuel M White (alternate to Nicolas Anderson)	1 April 2013	

Supplier payment policy

When entering into commitments for the purchase of services and goods the Company gives due consideration to quality, price and the terms of payment Suppliers are made aware of these terms The Company abides by these terms where it is satisfied that suppliers have provided the services or goods in accordance with such agreed terms and conditions In the event of disputes, every effort is made to resolve things quickly

The amount due to the Company's trade creditors at 31 December 2014 represents 16 days' (2013 29 days') average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 2006, Statutory Instrument 2008/410 schedule 7 part 5 12

Directors' report *(continued)*

Employees

Diversity
Our aim is to ensure that no job applicant, employee or former employee receives less favourable treatment on the grounds of colour, race, nationality, ethnic or national origin, religious belief, sex, sexual orientation, marital status, age or as a consequence of unlawful discrimination relating to disability

Disabled employees
The Company gives consideration to applications for employment from disabled persons where the disabled person may adequately cover the requirements of the job Disabled persons are employed under the normal contract terms and conditions Career development and promotion is provided wherever appropriate

Employee involvement
It is the ALC Group ("Group") policy to communicate with and involve all employees, subject to commercial and practical limitation, in matters affecting their interests at work and to inform them of the performance of their Business Employees are provided with information about the Business, which is supplemented by regular team briefings The Company makes full use of its intranet and a quarterly internal communications magazine to provide current information to its employees

Disclosure of information to auditor

The directors who held office at the date of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the Board

Samuel M White
Director

Registered Office
The Sherard Building
Edmund Halley Road
Oxford
OX4 4DQ

12th March 2015

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 judgments 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 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 have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report to the members of ALC (FMC) Limited

We have audited the financial statements of ALC (FMC) Limited for the year ended 31 December 2014 set out on pages 5 to 16 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 set out on page 3, 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 the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www frc org uk/auditscopeukprivate

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 2014 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent 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

Clare Partridge (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Leeds, LS1 4DW
10 March 2015

Profit and loss account

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Turnover	2	27,339	31,823
Cost of sales		(12,581)	(17,116)
Gross profit		**14,758**	**14,707**
Administrative expenses		(5,375)	(5,843)
Operating profit	3	**9,383**	**8,864**
Other interest receivable and similar income	6	38	35
Profit on ordinary activities before taxation		**9,421**	**8,899**
Tax on profit on ordinary activities	7	(2,038)	(2,125)
Profit for the financial year		**7,383**	**6,774**

Notes on pages 8 to 16 form part of these financial statements

The results above are all derived from continuing operations There are no recognised gains and losses for the period other than those recorded in the profit and loss account

There are no differences between the amounts reported in the profit and loss account and their historical cost equivalent

Balance sheet
At 31 December 2014

	Note	2014 £000	2013 £000
Fixed assets			
Tangible assets	8	489	474
Current assets			
Debtors	9	5,731	6,497
Cash at bank and in hand		9,728	10,178
		15,459	**16,675**
Creditors amounts falling due within one year	10	(5,245)	(6,107)
Net current assets		**10,214**	**10,568**
Total assets less current liabilities		**10,703**	**11,042**
Creditors: amounts falling due after more than one year	11	(408)	(483)
Provision for liabilities	12	(2,796)	(3,643)
Net assets		**7,499**	**6,916**
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account	15	7,499	6,916
Shareholders' funds		**7,499**	**6,916**

Notes on pages 8 to 16 form part of these financial statements

These financial statements were approved by the board of directors on 12th March 2015 and were signed on its behalf by

Samuel M White
Director

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2014

	2014 £000	2013 £000
Profit for the financial year	**7,383**	**6,774**
Dividends paid	(6,800)	(7,800)
Retained profit/(loss) for the financial year	583	(1,026)
Opening shareholders' funds	6,916	7,942
Closing shareholders' funds	**7,499**	**6,916**

Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules The financial statements have been prepared on a going concern basis The Directors feel this is appropriate as the Company has considerable financial resources together with a long term contract to provide C Vehicle Capability to the Ministry of Defence and therefore the Directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

Under Financial Reporting Standard ("FRS") 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a wholly owned subsidiary of ALC (SuperHoldCo) Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of ALC (SuperHoldCo) Limited, within which this Company is included, can be obtained from the address given in note 17

Fixed assets

Tangible fixed assets are depreciated on a straight line basis to write off the cost of such assets less any residual value over their anticipated useful economic lives

The anticipated useful lives are as follows

Tools & equipment	-	5 years straight line
Van racking	-	4 years straight line

Where equipments have been purchased to meet a specific MOD demand over an agreed period, the life of the asset is taken to be the same as this agreed period

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translations are included in the profit and loss account

Leases
Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease

Taxation
The charge for taxation is based on the taxable profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Tax, including tax relief for losses if applicable, is charged on profits on ordinary activities and amounts charged or credited to reserves as appropriate

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Turnover

Turnover represents the amounts derived from the provision of goods and services to customers and excludes VAT

Turnover from services is recognised when the service provided to the customer has been completed This largely represents the monthly service fee, together with other services provided such as repair work

Turnover from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to or picked up by the customer This largely represents the sale of spare parts

2. Analysis of turnover

	2014 £000	2013 £000
By activity		
Service revenue	22,911	24,828
Sale of goods	4,428	6,995
	27,339	**31,823**

All turnover originates in the United Kingdom

3. Operating Profit

	2014 £000	2013 £000
Operating profit is stated after charging		
Depreciation	84	103
Lease payments	295	315
Amounts receivable by the auditor and their associates in respect of:		
Audit of these financial statements	20	17
	20	**17**

Notes to the financial statements *(continued)*

4. Remuneration of directors

Directors' emoluments for the period amounted to £nil (2013 £nil)

5. Staff numbers and costs

All UK staff are seconded in from the parent companies and not employed directly by ALC ALC does reimburse the parent companies for the payroll costs of all secondees In Germany, ALC employs 10 (2013 14) people directly The analysis of ALC's total UK and German staff numbers is shown in the table below

	2014 (No)	2013 (No)
Technical	51	49
Administration	59	62
	110	111

The aggregate payroll costs of these persons were as follows

	2014 £000	2013 £000
Wages and salaries	3,798	3,826
Social security costs	443	489
Other pension costs	389	406
	4,630	**4,721**

The above payroll cost includes the cost of employees in Germany of 2014 £635K (2013 £604K)

6. Other interest receivable and similar income

	2014 £000	2013 £000
Bank interest	38	35

Notes to the financial statements *(continued)*

7. Taxation

	2014 £000	2013 £000
UK Corporation tax	2,017	2,095
Adjustment in respect of prior years	2	2
Overseas tax on income for the period	33	41
Overseas tax adjustment in respect of prior periods	-	-
Deferred tax arising in the period	(11)	(43)
Deferred tax adjustment in respect of prior years	(4)	-
Deferred tax adjustment in respect of the changes in tax rate	1	30
Tax on profit on ordinary shares	2,038	2,125

Current Tax reconciliation

	2014 £000	2013 £000
Profit on ordinary activities before taxation	9,421	8,899
UK Corporation tax thereon at 21 5% (2013 23 25%)	2,025	2,069
Effects of		
Expenses not deductable	3	2
Capital allowances for the period in excess of depreciation	(9)	8
Other timing differences	21	41
German branch tax provision	33	41
Adjustment in respect of prior years	2	2
Overseas tax adjustment in respect of prior periods	-	-
Double taxation relief	(23)	(25)
Total current tax charge	2,052	2,138

Current Tax	**2014 £000**	**2013 £000**
At beginning of period	(1,050)	(1,871)
Paid	2,392	2,959
Charge to the Profit & Loss	(2,052)	(2,138)
At the end of period	(710)	(1,050)
Comprising		
Current tax payable (Note 10)	(710)	(770)
Inter company payable (Note 10)	-	(280)
	(710)	(1,050)

Notes to the financial statements *(continued)*

7. Taxation (*continued*)

Deferred Tax

	2014 £000	2013 £000
At beginning of period	254	241
Prior year adjustment	4	-
Charge to the Profit & Loss	9	13
At the end of period	267	254

The elements of deferred taxation are as follows		
Difference between accumulated depreciation and capital allowances	(3)	9
Other timing differences	270	245
	267	254

8. Tangible fixed assets

	Tools & Equipment £000	Van Racking £000	Other £000	Total £000
Cost or valuation				
Balance at beginning of year	809	144	199	1,152
Additions	99	-	-	99
Disposals	-	-	-	-
Balance at the end of year	908	144	199	1,251
Depreciation				
Balance at beginning of year	335	144	199	678
Charge for the year	84	-	-	84
Disposals	-	-	-	-
Balance at the end of year	419	144	199	762
Net book value				
As at 31 December 2013	474	-	-	474
As at 31 December 2014	489	-	-	489

Notes to the financial statements *(continued)*

9. Debtors

	2014 £000	2013 £000
Trade Debtors	204	391
Amount due from group undertakings	3,944	4,658
Deferred Taxation (Note 7)	267	254
Other Debtors	884	891
Prepayments and accrued income	432	303
	5,731	6,497

10. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	564	1,366
Amount due to group undertakings (Note 7)	-	280
Tax payable (Note 7)	710	770
Other creditors	32	17
Accruals and deferred income	3,939	3,674
	5,245	6,107

11. Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Deferred Fair Value of Spares	408	483

	2014 £000	2013 £000
Deferred Fair Value of Spares at 1 January	559	634
Net amount released to Profit and Loss in the period	(76)	(75)
Deferred Fair Value of Spares at 31 December 2014	483	559
Less amounts shown as less than 1 year (in accruals and deferred income)	(75)	(76)
	408	483

Notes to the financial statements *(continued)*

12. Provision for liabilities

	Gain Share	Other Provisions	Total
	£'000	£'000	£'000
At beginning of year	**270**	**3,373**	**3,643**
Utilised during year	(109)	(838)	(947)
Additional amounts provided	-	100	100
	161	**2,635**	**2,796**

The Gain Share provision relates to the disposal of legacy equipment The gain share is accounted for in the Profit and Loss account on an overall projected percentage gain basis This amount is gradually reducing as further sales are made

Other provisions relate to certain contractual risks that have arisen that ALC has made provision against

13. Pension schemes

The Company does not operate a pension scheme All UK staff are seconded in from the parent companies and as such are eligible to participate in the relevant Company's pension scheme All German staff are directly employed by ALC (FMC) Limited and they are not part of any pension scheme however the Company is contributing to their personal pension funds

14. Called up share capital

	2014	2013
	£	£
Allotted, called up and fully paid		
Equity 1 Ordinary share of £1 00 each	1	1

Notes to the financial statements *(continued)*

15. Profit and loss account

	2014 £000	2013 £000
At beginning of the year	6,916	7,942
Profit for the year	7,383	6,774
Dividends paid per one ordinary share	(6,800)	(7,800)
At end of the year	**7,499**	**6,916**

16. Commitments

	2014 £000	2013 £000
Operating leases (other than land and buildings) which expire		
Within one year	237	248
Between 2 – 5 years	303	117
	540	**365**

Notes to the financial statements *(continued)*

17. Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of ALC (SuperHoldCo) Limited in the United Kingdom ALC (SuperHoldCo) Limited has no single ultimate parent undertaking or controlling party by virtue of the Company's joint ownership and joint control by Amey Ventures Investments Limited and Babcock Defence and Security Investments Limited

Amey Ventures Investments Limited itself a joint venture company held jointly between Amey Investments Limited and DIF Infra JV UK Limited since 14 December 2009 Amey Investments Limited is a wholly owned subsidiary undertaking of Amey plc group whose ultimate parent is Ferrovial, S A , a company incorporated in Spain DIF Infra JV UK Limited is a wholly owned subsidiary of DIF Infrastructure UK Partnership, whose ultimate parent is DIF Infrastructure II B V (NL), a company incorporated in The Netherlands

Babcock Defence and Security Investments Limited is a wholly owned subsidiary undertaking of Babcock International Group Plc

The largest and smallest group in which the results of the Company are consolidated is that headed by ALC (SuperHoldCo) Limited The consolidated accounts of this group are available to the public and may be obtained from The Sherard Building, Edmund Halley Road, Oxford, OX4 4DQ

ALC (FMC) Limited

Directors' Strategic Report
Registered number 05424243
For the year ended 31 December 2014

Strategic report

Principal activities

The Company's principal activity is the operation of the service element of a 16 year Private Finance Initiative (the "C Vehicle Contract") through a subcontract arrangement with ALC (SPC) Limited ("SPC"), wherein the Company is responsible for the service element of the provision of C Vehicle Capability on a global basis No change in the Company's activities is anticipated

Business Review

Overview

On 10 June 2005, SPC entered into a 16 year Contract with the Secretary of State for Defence (the "C Vehicles Capability Contract") to provide C Vehicle Capability to the Ministry of Defence ("MOD" or "the Authority") under the Government's Private Finance Initiative The provision of the service was subcontracted by SPC to ALC (FMC) Limited ("FMC"), the principal subcontractor, for the full 16 years Together the two companies of SPC and FMC are known as "ALC" The service provider, SPC, holds all the equipment, bid costs and funding for the project

The C Vehicle Capability Contract provides the MOD with a worldwide capability to use an extensive range of construction and field mechanical handling equipment This equipment is operated largely by the Royal Engineers and the Royal Logistic Corps and are specifically designed and specified to support the MOD on operations In late 2006 the Equipment Replacement and Refurbishment Programme ("ERRP") started with the disposal of a number of assets that had already been identified as being surplus to requirement, together with the trials and testing and consequent purchase of new vehicles and ancillaries to ensure that the soldier in the field has the best possible equipment that is up to date and reliable In line with the ERRP, this process has continued through 2014 with over 95% (by value) of the contracted ERRP having been delivered Training is also given in respect of all equipment to ensure optimal use and maintenance

Services in respect of vehicle allocation and maintenance are managed in-house via the Fleet Management System, which can be accessed by both the MOD and ALC Services provided by sub-contractors, most of whom were an integral part of the bidding process, include spares provision, access to online and hard copy technical publications, training of plant operators and maintainers, transporting of equipment, hiring in/out of commercial equipment to optimise the fleet holding, together with the provision of IT services to support the business-wide processes

Praise for the project and the service provided has been given at the highest of levels by the MOD together with recognition in the Public Private Finance Awards in 2007 where ALC's C Vehicle Capability was voted the Best Operational Defence Scheme ALC gained the ISO 9001 Quality accreditation in 2007 and during 2008 has achieved further management systems accreditations in Health and Safety (BS18001) and Environmental (ISO 14001) These accreditations have been maintained during 2014 with ALC winning a further Gold RoSPA award during the year in recognition of its continued high level of performance in Occupational Health ALC has not had any RIDDOR accidents for over 3 years now

The C Vehicle project is thoroughly integrated across the armed services from senior command levels to soldiers in the field, with all the support functions provided, such as logistics and training, directly supporting current Operations

Strategic report *(continued)*

Progress in 2014

Noteworthy achievements by ALC in 2014 have been

- Agreeing and implementing the findings of the PFI Efficiency Review through ALC's eighth Contract change which has helped maintained the C Vehicle capability relevant to today's military requirements and incorporated similar RAF equipment
- Completing ALC's 4th Year of providing Field Service Representatives to the MOD to support the maintenance of equipment on Operations in Afghanistan and safely withdrawing all personnel back to the UK
- Delivering the 1641th new equipment under the ERRP - 63 pieces of equipment were procured in 2014, including a further 50 lighting towers to meet RAF demands
- Progress continues to be made with a number of both externally and internally resourced refurbishment projects, most notably the CAT D5N bulldozer refurbishment
- Cumulatively, since the start of the Contract, has given back to the MOD £12 5M of disposal gain share for equipment being replaced under the ERRP
- Further developing an improved fleet management information system capability to aid management decision making
- Promoting an improved culture of cyber and information security within the business
- Re-launching a 'Target Zero – let's make it happen together' health and safety campaign
- Presenting the 8th Fleet Survey Report to the Authority

2015 Strategy

As in 2014, ALC will be looking to continue improving and optimising its service delivery processes during 2015 and ensure they are sustainable as the business needs change

Key focuses during 2015 will be

- Raising internal standards for quality and safety management to offset the dangers of complacency arising in a long-term contract
- Working with the MOD to improve End User engagement with a focus on reducing unnecessary expenditure
- Undertaking a joint review of the current contract to identify opportunities to make the follow-on contract more affordable
- Regeneration of the equipment returning from Afghanistan so that its residual life meets the current standard
- Continue with the in-house refurbishment of equipment in accordance with the ERRP
- Reinforcing the Quality, Health and Safety, Environmental and Security management systems and behavioural culture
- Continuing to promote the "ALC Way" as a method to sustain continuous improvement in service delivery and ensure all staff understand who ALC's ultimate customers are and what they can do to support them
- Continuing the business' focus on developing an improved understanding of our cost drivers and the maintenance trends on the equipment fleet to ensure their availability levels can be sustained through the contract term and enhancing our engineering and information quality
- Preparing the 9th Fleet Survey Report for the Authority

Project risks and uncertainties

ALC runs a joint service delivery risk register with the MOD which is reviewed at quarterly joint review meetings, with all risks being managed actively and collectively A recurring risk on this register relates to the risk to ALC from the MOD's use of its own fleet management system, known as JAMES Whilst ALC and the MOD have worked together in the last year to ensure that necessary data transfer requirements are being met, there is still room for improvement in End User engagement and this remains an area of focus

Strategic report *(continued)*

ALC is exposed to a number of financial risks These are effectively managed with our increased knowledge base of the machinations of the contract

- Demand – the MOD requesting less equipment than anticipated at Contract Award This risk is mitigated by a minimum "take or pay level" to reduce exposure and the opportunity to earn 'third party revenue' as an offset
- Demand volatility – the locations and numbers of transactions required to deliver the service may exceed that assumed at Contract Award This is mitigated by the Contract rules on minimum hire periods, the management of equipment movement by ALC's operations team and the changes in transport risk arrangements introduced in the PFI Efficiency Review
- Pricing risk – this is the assumption made to calculate the amount of labour and materials required to deliver the service Pricing was based on previous parent company experience of operating in this field and continues to be proved accurate
- Foreign exchange risk – is kept under review by the Board with a view that hedge contracts are to be applied where considered appropriate Whilst most of ALC's costs are in GBP, a strengthening of the Euro against the GBP has the potential to put cost pressure on ALC and the impact of this is kept under review The ERRP contracts delivered during 2014 were all denominated in GBP and the few remaining contracts are also denominated in GBP ALC has a relatively small exposure to Euro denominated operational costs incurred in Germany and any spare parts sourced from European suppliers
- Economic pressure – other than interest rate risk (see below), ALC is largely unaffected by the impact of heightened economic pressure directly (due to the existence of the minimum take or pay level of charge within the contract), but there is a risk that it will be impacted indirectly by a subcontractor or supplier failing, although, this situation has not had any adverse impact on ALC during 2014 Management continue to keep the situation under close scrutiny and work closely with and support its suppliers
- Government Budgetary pressures - resulting in the MOD's Private Finance Unit (PFU) wishing to explore the possibility of renegotiating some of the Authority's PFI contracts ALC participated in a PFU lead 'PFI Efficiency Review' in 2013 and its findings were implemented during 2014 through a Contract change that is acknowledged to have generated savings for the MOD overall Further areas of potential joint efficiency will be explored in 2015

Financial risk management policies and objectives

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities Board approval is required for the use of any new financial instrument and the Company's ability to do so is restricted by covenants in its existing funding agreements

- **Interest rate risk:** The fall in bank base rates at the start of 2009 has resulted in the interest generated on funds on deposit reducing significantly
- **Currency risk** The weakening of the GBP in 2008 adversely impacted ALC's operating costs, but this has lessened in recent years to some extent with the strengthening of the GBP Further, any residual impact has been more than offset by continuing efforts in the year to improve efficiency and remove unnecessary cost from the business As mentioned above, ALC's exposure to foreign currency risk on the ERRP has been minimal in 2014
- **Bank default.** ALC has a policy of spreading its investment of deposits ALC invests across five mainstream banks, all of whom were S&P long term credit rated 'A-' or better at 31 December 2014 Having a mix of banks that ALC can invest funds with has also enabled ALC to maximize the return it generates on funds invested

Strategic report *(continued)*

KPI measurement

Measurement of contract performance falls into two categories external with the MOD and internal with shareholders and lenders Contractual KPIs, that aim to ensure ALC is providing the required level of service to the military user of ALC's equipment, are measured with the MOD on a monthly basis and reported to the ALC board ALC's financial and operational performance is reviewed monthly with the shareholders In 2014 (as in 2013) there were no KPI performance deductions incurred by ALC and only minimal deductions for unavailability of equipment due to breakdowns ALC will continue to strive in 2015 to achieve service delivery to the Authority with zero penalties and continues to improve its methods of tracking internal operating performance measures

Overall Performance

FMC's financial results and, hence the return on investment for shareholders, are reflective of the high level of service performance that ALC continues to provide to the MOD The partnership between the MOD and ALC continues to go from strength to strength due to the specific aims of both parties wishing to ensure success for the Contract and ultimately the service provided to the soldier in the field as the end user This was reinforced in 2014 by the MOD and ALC both continuing to build on a joint vision and strategic objectives set in 2012 for the project ALC will continue to strive to build upon its success and aims to continue to be a supplier of choice for the MOD and continue to meet their evolving capability requirements

By order of the Board

Samuel M White
Director

Registered Office
The Sherard Building
Edmund Halley Road
Oxford
OX4 4DQ

12th March 2015