ALC (SuperHoldCo) Limited

Directors' report and financial statements
Registered number 05424245
For the year ended 31 December 2014

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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 consolidated profit and loss account on page 5

Dividends

The Directors approved and paid a dividend payment of £7 8M in the year ended 31 December 2014 (2013 £5 9M)

Directors

The Directors who held office during the period were as follows

Name	Appointed	Resigned
Nicolas C Anderson	1 December 2009	
John G Connelly (alternate to Asif Ghafoor)	1 July 2013	
John Davies	16 May 2006	
Asif Ghafoor	25 January 2007	
Richard Taylor	16 May 2006	
Moira Turnbull-Fox	16 January 2013	18 December 2014
Paul M Kingshott (alternate to Richard Taylor)	1 January 2011	
Angela L Roshier (alternate to Moira Turnbull-Fox)	28 January 2011	18 December 2014
Angela L Roshier (alternate to Adam Waddington)	18 December 2014	
Samuel M White (alternate to Nicolas C 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 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 represented 35 days' (2013 56 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

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

Directors' report *(continued)*

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 strategic and directors' reports and the financial statements

The directors are responsible for preparing the Strategic and Directors' Reports and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare both the group and parent company 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 group and parent company and of their profit or loss 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 group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent 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 group 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 (SuperHoldCo) Limited

We have audited the financial statements of ALC (Superholdco) Limited for the year ended 31 December 2014 set out on pages 5 to 20 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 group's and parent company's affairs as at 31 December 2014 and of the group's 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 matter 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 by the parent company or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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
20 March 2015

Consolidated Profit and loss account

For the year ended 31 December 2014

	Note	**2014** **£000**	**2013** **£000**
Turnover	2	43,536	45,323
Cost of sales		(12,296)	(14,932)
Gross profit		**31,240**	**30,391**
Administrative expenses		(14,040)	(14,737)
Operating profit	3	**17,200**	**15,654**
Other interest receivable and similar income	6	251	265
Interest payable and similar charges	7	(4,788)	(5,287)
Profit on ordinary activities before taxation		**12,663**	**10,632**
Tax on profit on ordinary activities	8	(2,291)	(853)
Profit for the financial year		**10,372**	**9,779**

Notes on pages 9 to 20 form part of these financial statements

The profit above is 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

Consolidated Balance sheet

At 31 December 2014

	Note	2014 £000	2013 £000
Fixed assets			
Tangible assets	9	66,224	73,093
Current assets			
Debtors	11	10,942	15,748
Cash at bank and in hand		49,289	47,107
		60,231	**62,855**
Creditors amounts failing due within one year	12	(25,033)	(25,084)
Net current assets		**35,198**	**37,771**
Total assets less current liabilities		**101,422**	**110,864**
Creditors: amounts falling due after more than one year	13	(67,307)	(79,314)
Provision for liabilities	14	(9,679)	(10,686)
Net assets		**24,436**	**20,864**
Capital and reserves			
Called up share capital	15	10	10
Profit and loss account	16	24,426	20,854
Shareholders' funds		**24,436**	**20,864**

Notes on pages 9 to 20 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

Company Balance Sheet

At 31 December 2014

	Note	2014 £000	2013 £000
Assets			
Investments	10	10	10
Net assets		**10**	**10**
Capital and reserves			
Called up share capital	15	10	10
Equity shareholders' funds		**10**	**10**

Notes on pages 9 to 20 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

Consolidated Cash flow statement

For the year ended 31 December 2014

	Note	**2014 £000**	**2013 £000**
Net cash inflow from operating activities	18	25,260	23,286
Corporation tax paid		(2,078)	(1,716)
Capital expenditure	19	208	(1,403)
Equity dividends paid		(6,800)	(7,800)
Financing	19	(10,011)	(6,301)
Returns on investments and servicing of finance	19	(4,397)	(5,051)
Increase/(Decrease) in cash in the period	20	2,182	1,015

Notes on pages 9 to 20 form part of these financial statements

Consolidated Reconciliation of movements in shareholders' funds

For the year ended 31 December 2014

	2014 £000	**2013 £000**
Profit for the financial year	10,372	9,779
Dividends paid	(6,800)	(7,800)
Retained profit for the financial year	3,572	1,979
Opening shareholders' funds	20,864	18,885
Closing shareholders' funds	24,436	20,864

Notes to the financial statements

1. Accounting policies

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

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 31 December 2014 Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Fixed assets
The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is deemed to be an asset of the Company under Financial Reporting Standard 5 Application Note F This is based upon the relative weight of the various factors stated in FRS 5 and, particularly the impact of a combination of demand and residual value risks

Tangible fixed assets are depreciated to write off the cost of such assets less any residual value over their anticipated useful economic lives The anticipated useful economic lives are as follows

Commercial of the Shelf (COTS) vehicles	-	8 to 15 years, straight line
Military Special (MS) vehicles	-	8 to 16 years, straight line
Management Information System (MIS)	-	15 years, straight line
Tools & equipment	-	5 years, straight line

The cost of vehicles capitalised is the purchase price of the vehicle itself, together with any costs incurred in developing and acquiring the necessary vehicle specific support package to enable the MOD to use the vehicles

The residual values are 15% for Military Special and 22% for COTS vehicles The residual value for Military Special vehicles is set at this level as there is an obligation on the MOD to buy back these vehicles at the end of the contract based on this assumption The residual value of 22% for COTS vehicles is based on management's own assessment

Deferred revenue
The fleet owned by the MOD is sold to the Company for £1, but is being capitalised in the financial statements at its fair market valuation The resultant revaluation provision is amortised over the life of the contract

Loan issue costs
Loan issue costs are shown as a deduction from the loans, and are amortised over the life of the loan

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

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 translation are included in the profit and loss account

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Investments
Investments are stated at cost less any provision for impairment in value

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

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

Pension
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

Cash
Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

2. Analysis of turnover

	2014	2013
	£000	£000
By activity		
Service revenue	40,937	39,482
Sale of goods	2,599	5,841
	43,536	**45,323**

All turnover originates in the United Kingdom

Notes to the financial statements *(continued)*

3. Operating Profit

	2014 £000	2013 £000
Operating profit is stated after charging		
Depreciation	7,491	7,343
Profit on sale of fixed assets	140	(611)
Car lease payments	295	315

	2014 £000	2013 £000
Amounts receivable by the auditor and their associates in respect of:		
Audit of these financial statements	3	3
Audit of financial statements of subsidiaries	43	45
	46	**48**

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 (FMC) Limited 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)

Notes to the financial statements *(continued)*

6. Other interest receivable and similar income

	2014 £000	2013 £000
Bank interest	251	265

7. Interest payable and similar charges

	2014 £000	2013 £000
Loan stocks	1,005	1,061
Bank loans	1,154	1,310
Bank loans swaps	2,629	2,916
	4,788	5,287

8. Taxation

	2014 £000	2013 £000
UK Corporation tax		
Current tax on income for the period	2,450	1,815
Adjustment in respect of prior years	(32)	2
Overseas tax on income for the period	33	41
Overseas tax adjustment in respect of prior periods	-	-
Deferred tax arising in the period	(185)	45
Deferred tax adjustment in respect of prior periods	25	-
Deferred tax adjustment in respect of the changes to tax rate	-	(1,050)
Tax on profit on ordinary shares	2,291	853

Current Tax reconciliation	2014 £000	2013 £000
Profit on ordinary activities before taxation	12,663	10,632
UK Corporation tax there on at 21 50% (2013 23 25%)	2,722	2,472
Effects of		
Expenses not deductible for tax purposes	(493)	(703)
Depreciation of ineligible assets	121	125
Capital allowances for period in excess of depreciation	122	(157)
Other timing difference	78	103
German branch tax provision	33	41
Adjustment in respect of prior years	(32)	2
Overseas tax adjustment in respect of prior periods	-	-
Double taxation relief	(23)	(25)
Chargeable gains	-	-
Utilised losses brought forward	(77)	
Total current tax charge	2,451	1,858

Notes to the financial statements *(continued)*

8. Taxation (*continued*)

	2014 £000	2013 £000
At beginning of period	(770)	(628)
Paid	2,078	1,716
Prior year adjustments	32	(2)
Overseas tax	(33)	(41)
Current tax	(2,450)	(1,815)
	(1,143)	(770)

Deferred Tax

	2014 £000	2013 £000
At beginning of period	(7,043)	(8,048)
Prior year adjustment	(25)	-
Charge to the Profit & Loss current year	185	1,005
At the end of period	(6,883)	(7,043)

The elements of deferred taxation are as follows		
Difference between accumulated depreciation and Capital allowances	(6,809)	(6,891)
Other timing differences	(74)	(152)
	(6,883)	(7,043)

Notes to the financial statements *(continued)*

9. Tangible fixed assets

	MIS	COTS Vehicles	MS Vehicles	Tools and Equipment	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 December 2013	4,935	88,341	13,042	1,153	107,471
Reclassification	-	(23)	23	-	-
Additions	-	1,392	826	99	2,317
Disposals	-	(2,548)	(402)	-	(2,950)
At 31 December 2014	4,935	87,162	13,489	1,252	106,838
Depreciation					
At 31 December 2013	2,573	26,468	4,658	679	34,378
Reclassification	-	-	-	-	-
Charge for the year	318	5,840	1,249	84	7,491
Disposals	-	(1,026)	(229)	-	(1,255)
At 31 December 2014	2,891	31,282	5,678	763	40,614
Net book value					
As at 31 December 2013	2,362	61,873	8,384	474	73,093
As at 31 December 2014	2,044	55,880	7,811	489	66,224

During the year £690K of additions relate to the transfer of more legacy fleet at fair value

10. Investments (Company)

Shares in group undertakings

	2014
	£000
Cost	
At beginning and end of year	10

The undertaking in which the Company's interest at the year end is more than 20% is as follows

	Country of incorporation	Principal activity	Class & Percentage of ordinary shares held
ALC (HoldCo) Limited	United Kingdom	Holding company	£1 Ordinary shares – 100%
ALC (FMC) Limited	United Kingdom	PFI Operator	£1 Ordinary shares – 100%

In addition ALC (SPC) Limited is an indirect subsidiary as it is fully owned by ALC (HoldCo) Limited

Notes to the financial statements *(continued)*

11. Debtors

	2014 £000	2013 £000
Trade debtors	3,918	8,042
Other debtors	884	889
Prepayments and accrued income	6,140	6,817
	10,942	15,748

There are no amounts due after more than one year

12. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Bank Loans	13,455	12,561
Trade creditors	1,185	2,306
Corporation tax (Note 8)	1,143	770
Accruals and deferred income	7,624	7,470
Other Creditors	1,626	1,977
	25,033	25,084

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

	2014 £000	2013 £000
Bank Loans	57,298	68,202
Less unamortised issue costs	(145)	(228)
	57,153	67,974
Deferred income	10,154	11,340
	67,307	79,314

Analysis of debt	2014 £000	2013 £000
Debt can be analysed as falling due		
In the second to fifth year	46,914	46,502
Over five years	10,384	21,700
	57,298	68,202

Notes to the financial statements *(continued)*

13. Creditors: amounts falling due after more than one year (*continued*)

Bank loans are secured by charge over the assets of the company Bank Loans include loan stock issued to Amey Ventures Investments Limited and Babcock Defence and Security Investments Limited (see note 22) Outstanding at period end 2014 £8 0M (2013 £8 8M) The transaction entered into was at arm's length

Bank loans bear interest based on LIBOR The Company has entered into swap contracts covering all of the debt which hedges the company's interest rate exposure on senior debt Loan stock interest rate is set at 12%

The bank loans are repayable in six-monthly instalments commencing 31 March 2009 and ending on 9 June 2021

Analysis of deferred income:

	2014 £000	2013 £000
Fair value of fleet	12,549	13,556
Additions to fair value of fleet	690	640
Fair value of spares	559	635
	13,798	14,831
Less amortisation in the period	(1,770)	(1,724)
Deferred revenues at the end of the period	12,028	13,107
Less amounts shown as due within less than one year	(1,874)	(1,767)
Amounts falling due after more than one year	10,154	11,340

14. Provision for liabilities

	Deferred taxation £'000	Gain Share £'000	Other Provisions £'000	Total £'000
At beginning of year	**7,043**	**270**	**3,373**	**10,686**
Utilised during year	(160)	(109)	(838)	(1,107)
Additional amounts provided	-	-	100	100
At end of year	**6,883**	**161**	**2,635**	**9,679**

Notes to the financial statements *(continued)*

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

15. Called up share capital

	2014 £000	2013 £000
Allotted, called up and fully paid		
Equity 10,000 Ordinary shares of £1 00 each	10	10

16. Profit & loss account

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
At beginning of year	20,854	18,875	-	-
Profit for the year	10,372	9,779	6,800	7,800
Dividends paid	(6,800)	(7,800)	(6,800)	(7,800)
At end of the year	24,426	20,854	-	-

17. Commitments

Capital commitments at the end of the financial period, for which no provision has been made, are as follows

	2014 £000	2013 £000
Plant and equipment	346	1,236

18. Reconciliation of operating profit to operating cash flow

	2014 £000	2013 £000
Operating profit	17,200	15,654
Depreciation	7,491	7,343
Amortisation of bid and debt costs	869	869
Amortisation of deferred income on fair value of legacy assets	(1,769)	(1,724)
Profit on sale of fixed assets	(140)	(611)
(Increase)/Decrease in debtors	4,034	1,644
Increase in creditors	(2,425)	111
	25,260	23,286

Notes to the financial statements *(continued)*

19. Analysis of cash flow

	2014 £000	2013 £000
Return on investments & servicing of finance		
Interest received	236	355
Interest paid	(4,633)	(5,406)
	(4,397)	(5,051)
Capital expenditure		
Additions to tangible fixed assets	(1,626)	(3,277)
Sale of tangible fixed assets	1,834	1,874
	208	(1,403)
Financing		
Debt due within one year		
Repayment of secured loan	(10,011)	(6,301)
Debt due after more than one year		
	(10,011)	(6,301)

20. Analysis of net debt

	At beginning of year £000	Cash flow £000	At end of year £000
Cash in hand, at bank	47,107	2,182	49,289
Debt due within one year	(12,561)	(894)	(13,455)
Debt due after one year	(68,202)	10,904	(57,298)
Total	(33,656)	12,192	(21,464)

21. Leases

The commitments under non-cancellable operating leases are as follows

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

Notes to the financial statements *(continued)*

22. Related party disclosures

During the period, the group had transactions with its shareholders and their wholly owned group companies which are summarised below

	2014 £000
IT, Staff and other group services	
– Babcock Group companies	2,915
– Amey Group companies	4,774
The balances due to them at the period end is below	
– Babcock Group companies	-
– Amey Group companies	122
The balances due from them at the period end is below	
– Babcock Group companies	60
– Amey Group companies	4
Loan Stock (see note 13)	
Babcock Defence and Security Investments Limited	
– Amount outstanding at the period end	4,001
– Interest paid	513
–	
Amey Ventures Investments Limited	
– Amount outstanding at the period end	4,001
– Interest paid	513

With the exception of 10 staff employed directly by ALC (FMC) Limited in Germany, all other staff is seconded from either Babcock or Amey Group companies

The Company has taken advantage of the exemption available under FRS 8 – Related Party Transactions not to disclose transactions with other members of the ALC Group

23. Off Balance Sheet arrangements

The Company manages its exposure to interest risk on external loans by entering into an interest rate swap At the balance sheet date, the notional amount of the interest rate swap is £60 million (2013 £69 million) The swap fixes the interest rate on external loans to 4 73% (2013 4 73%) In the financial year ended 31 December 2014, the company paid £2 741 million (2013 £2 945 million) against the swap instrument The fair value of the interest rate swap is £6,689 million (2013 £7,263 million)

Notes to the financial statements *(continued)*

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

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 (SuperHoldCo) Limited

Directors' Strategic Report
Registered number 05424245
For the year ended 31 December 2014

Strategic report

Principal activities

The Company acts as a holding company for the ALC Group ("ALC" or the "Group") comprising ALC (HoldCo) Limited, ALC (SPC) Limited ("SPC") and ALC (FMC) Limited ("FMC")

The Company's principal activity is the operation of a 16 year Private Finance Initiative ("PFI") C Vehicle Capability Contract No change in the Company's activities is anticipated

Business Review

Overview

On 10 June 2005 ALC (SPC) Limited ("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 now 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 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 The main risk arising from the Company's financial instruments are detailed below

- **Interest rate risk:** The Company entered into interest swap contracts at the beginning of the Contract in order to hedge interest rates and set at a fixed level In accordance with the Facilities Agreement that SPC has, it was required to complete its draw-down of loan funding at the end of September 2008 This has resulted in SPC holding a large balance on deposits awaiting the purchase of vehicles and equipment in line with the ERRP The fall in bank base rates at the start of 2009 and the continued low rates has resulted in the interest generated on these funds reducing significantly, although the scale of this reduction has lessened as the funds have been gradually spent on the ERRP in subsequent years

- **Liquidity risk.** The overall pricing of the Contract was designed to ensure that sufficient funds were always available to pay its debt, with shareholders' guarantees in place to support any losses in FMC Full draw-down of contracted debt facilities was achieved in September 2008 and despite the reduction in interest generated latest forecasts do not suggest any problems with SPC meeting its loan repayment obligations as they fall due, albeit the level of Debt Service Cover Ratios have fallen slightly Repayment of the loans began in March 2009 and have continued each six months thereafter

Strategic report *(continued)*

- **Currency risk:** The weakening of the GBP in 2008 adversely impacted ALC's operating costs, but this has lessened in recent years 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

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

ALC'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

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12th March 2015