Kent Education Partnership Limited

Annual report and financial statements

for the year ended 31 December 2006

Registered number 05480731

Kent Education Partnership Limited

Annual report and financial statements for the year ended 31 December 2006

Kent Education Partnership Limited

Directors' report
for the year ended 31 December 2006

The directors submit their report and the audited financial statements of the company for the year ended 31 December 2006

Principal activities and business review

The principal activity of the company continued to be that of design, construction and management services, including related financing arrangements for six schools in Kent (Hugh Christie Technology College, The Malling School, Holmesdale Technology College, Aylesford School Sports College, The North School and Ellington School for Girls)

The company has net debt of £68 million, with net cash outflow from operating activities of £51 million for the period

Business environment

The company operates in a PFI market under strict contractual obligations The industry is heavily geared and so company's have to differentiate themselves on affordability, innovation (both design and funding solutions) as well as identifying and satisfying the needs of all stakeholders

Future outlook

The project continues to perform in line with the modelled expectations and management of the scheme both logistically and financially remains under control We remain confident that we will maintain our current level of performance and keep penalty payments to a minimum

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks affecting the company are considered to relate to supply chain failure of the building contractor, treasury management and control and review of the insurance cover and lifecycle profile

Risks are formally reviewed by the board and appropriate processes put in place to mitigate them If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company

Key performance indicators ("KPIs")

Given the monthly reviews undertaken by the management relating to operational issues and the strict contractual obligations undertaken by all related parties to the company, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

The directors consider the use of the base case financial model as a suitable benchmark to measure the company against

Directors' report
for the year ended 31 December 2006 (continued)

Dividends and transfers to reserves

No dividend is proposed The amount transferred to reserves is set out in the profit and loss account on page 5

Directors

The directors of the company during the year ended 31 December 2006, and subsequently, were

N Dawson
T Sharpe
A Handford
C Jones
J Gibson
M Pugh

Directors' interests in shares

The directors held no beneficial interests in the share capital of the company during the year according to the register maintained by the company under Section 325 of the Companies Act 1985

Political and charitable contributions

The Company made no political contributions during the year Donations to UK charities amounted to £Nil

Statement of disclosure of information to the auditors

The directors of the company who held office at the date of approval of this annual report confirm that

- So far as they are aware, there is no relevant audit information, of which the company's auditors are unaware, and

- All the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

Kent Education Partnership Limited

Directors' report
for the year ended 31 December 2006 (continued)

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in liquidity risk and interest rate risk The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs

The company's financial instruments comprise fixed rate borrowings, the main purpose of which is to raise finance for the company's operations The company does use derivative financial instruments and has entered into interest rate swaps, the purpose of which is to manage interest rate risks on the company's borrowings and as such, hedge accounting is applied

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors are implemented by the company's finance department The department has a policy and procedures manual that sets out specific guidelines to manage interest rate risk and circumstances where it would be appropriate to use financial instruments to manage these

Liquidity risk

The company minimises the risk of uncertain funding in its operations by having committed facilities available It actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions

Interest rate cash flow risk

The company seeks to minimise its exposure to an upward change in interest rates while enabling the company to benefit from a fall in interest rates by borrowing at fixed rates and, where overall borrowing costs can be reduced, by using interest rate swaps to convert such borrowings from fixed to floating rates At the year end all the company's fixed rate borrowings were at floating rates after taking account of interest rate swaps The directors will revisit the appropriateness of this policy should the company's operations change in size or nature

Credit risk

Where debt finance is utilised it is subject to pre-approval by the board of directors and such approval is limited to financial institutions with an AA rating or better The amount of exposure to any individual counterparty is subject to a limit which the board reassess annually

By Order of the Board

T Sharpe
Secretary
25 October 2007

Kent Education Partnership Limited

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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, in which case there should be supporting assumption or qualification as necessary

The directors confirm they have complied with the above requirements in preparing the financial statements

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 its financial statements comply with the Companies Act 1985 They have general responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Kent Education Partnership Limited

Independent auditors' report to the members of Kent Education Partnership Limited

We have audited the financial statements of Kent Education Partnership Limited for the year ended 31 December 2006 which comprise Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

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) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Kent Education Partnership Limited

Independent auditors' report to the members of Kent Education Partnership Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss 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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Gatwick, 19 October 2007

Kent Education Partnership Limited

Profit and loss account
for the year ended 31 December 2006

Continuing Operations	Notes	2006 £'000	2005 £'000
Turnover	1	**2,411**	-
Operating costs		**(2,447)**	-
Operating loss	4	**(36)**	-
Administrative expenses		**(36)**	-
Profit on ordinary activities before interest & taxation		**(72)**	-
Interest receivable and similar income	5	**544**	6
Interest payable and similar charges	5	**(500)**	(6)
Loss on ordinary activities before taxation		**(28)**	-
Taxation on profit on ordinary activities	6	**167**	-
Profit for the financial year		**139**	-

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom during the year

There is no difference between the profit for the year as shown in the profit and loss account and its historical cost equivalent

The company has no recognised gains or losses other than the result for 2006 and 2005 stated above and therefore no separate statement of total recognised gains and losses has been presented

Kent Education Partnership Limited

Balance sheet
as at 31 December 2006

	Notes	2006 £'000	2005 £'000
Current assets			
Debtors amounts falling due within one year	7	**3,598**	428
Debtors amounts falling due in more than one year	7	**71,887**	18,531
Cash at bank and in hand		**927**	257
		76,412	19,216
Creditors: amounts falling due within one year	8	**(10,066)**	(5,674)
Total assets less current liabilities		**66,346**	13,542
Creditors: amounts falling due in more than one year	8	**(66,197)**	(13,532)
Net assets		**149**	10
Capital and reserves			
Called up share capital	11	**10**	10
Profit and loss reserve	12	**139**	-
Total shareholder's funds		**149**	10

No powers exist for the entity's owners to amend the financial statements after they have been issued

The financial statements on pages 7 to 15 were approved by the Board on 25 October 2007 and signed on its behalf by

Martin Pugh

Director

Kent Education Partnership Limited

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom A summary of the more important accounting policies, which have been applied consistently, are set out below

Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes All turnover originates in the United Kingdom

The company recognises income when it has fully fulfilled its contractual obligations In accordance with Financial Reporting Standard 5 – Application Note G, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

Contract debtor

Amounts recoverable under long term Private Finance Initiative contracts are transferred to a contract debtor in accordance with the requirements of Financial Reporting Standard 5 Application Note F – Private Finance Initiative and Similar Contracts The amounts receivable (which may include the costs of construction of related assets) are treated as a long-term contract debtor from the commencement of the operating contract, with a constant proportion of the net revenue arising from the project (after allowing for the expected costs of operating and maintenance), being allocated to remunerate the contract debtor Imputed interest receivable is allocated to the contract debtor using a property specific rate to generate a constant rate of return over the life of the contract Over the course of the contract term, the contract debtor is expected to be fully repaid

Interest capitalisation

All interest payable and receivable during the construction period was transferred to the contract debtor in accordance with the requirements of Financial Reporting Standard 5 Application Note F – Private Finance Initiative and Similar Contracts Now the project is operational all interest will be expensed to the profit and loss account

1 Principle accounting policies (continued)

Accruals and provisions

These are recognised when there is a present obligation, whether legal or constructive, as a result of past events for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation

Financial instruments

The company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates Financial instruments used to hedge interest rates are valued at cost Receipts and payments on interest rate instruments are recognised in the profit and loss account over the economic life of the instrument or underlying position being hedged, within net interest Gains or losses arising on hedging instruments, which do not qualify as hedges for accounting purposes, are taken to the profit and loss account as they arise

Discounts, premia and related costs of debt issue are charged to the profit and loss account over the life of the instrument to which they relate

The Fair value of Interest rate swaps is based on market price of comparable instruments at the balance sheet date

2 Cash flow statement

At 31 December 2006, the company was a wholly owned subsidiary of Kent Education Partnership (Holdings) Limited, which prepared consolidated group financial statements including a group cash flow statement In accordance with Financial Reporting Standard Number 1 (revised) no cash flow statement is therefore included in these financial statements

3 Segment reporting

The company's activities consist of project development on operations in the United Kingdom

4 Operating loss

The company had no employees during the year The directors have no contract of service with the company No remuneration was paid to the directors in respect of their services to the company

The audit fee in respect of the company was £10,000 (2005 £5,800) for the year In addition the company bore the audit fee of £2,600 (2005 £1,200) on behalf of its parent company during the year The auditors received no further remuneration (2005 £nil)

5 Net interest and similar charges

	2006	2005
	£'000	£'000
Bank interest receivable	37	6
Interest on contract debtor	544	-
Interest transferred to contract work in progress	(37)	-
Interest receivable and similar income	**544**	6

	2006	2005
Interest payable on term loans	(2,774)	(144)
Other	-	(6)
Interest transferred to contract work in progress	2,274	144
Interest payable and similar charges	**(500)**	(6)

£2,237,483 (2005 £144,204) of net capitalised borrowing costs have been amortised to the Profit and Loss account and then transferred to the Contract Work in Progress at the year end

Interest is imputed on the contract debtor using the property specific rate of 6 30%

6 Taxation on profit on ordinary activities

There is a deferred tax asset which has been recognised due to the certainty of future profits

	2006	2005
Analysis of charge in period	£'000	£'000
Current tax		
UK corporation tax on profits of the period	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(167)	-
Tax on profit on ordinary activities	**(167)**	-

Notes to the financial statements for the year ended 31 December 2006 (continued)

7 Debtors

	2006	2005
	£'000	£'000
Amounts falling due within one year		
Other debtors and prepayments	**1,021**	-
Taxes	**678**	428
Deferred tax asset	**167**	-
Contract debtor work in progress	**1,732**	-
	3,598	428
Amounts falling due in more than one year		
Contract debtor work in progress	**71,887**	18,531

Included within the contract debtor work in progress is £2,237,483 (2005 £144,204) of capitalised borrowing costs

8 Creditors

	2006	2005
	£'000	£'000
Amounts falling due within one year		
Bank borrowings	**1,789**	-
Trade creditors	**520**	39
Accruals and deferred income	**7,757**	5,635
	10,066	5,674
Amounts falling due in more than one year		
Bank borrowings	**66,197**	13,532
	66,197	13,532

Included within Bank borrowings are offset unamortised issue costs amounting to £1,307,281 (2005 £1,001,610)

Notes to the financial statements for the year ended 31 December 2006 (continued)

8 Creditors (continued)

Bank borrowings relate to senior and equity bridge facilities granted by a group of banks led by Sumitomo Mitsui Banking Corporation Europe Limited The senior facility is for a total value of £88,558,000 and the equity bridge facility of £9,103,000 The equity bridge facility is fully drawn down Loan issue costs have been offset against bank borrowings and are amortised over the year of the loan in accordance with the provisions of Financial Reporting Standard 4

The senior loan facility of £88,558,000 is repayable in fifty three six-monthly instalments As at the 31 December 2006 the total amount outstanding on the facility is £60,190,493

Interest is charged on amounts drawn under the facilities based on the floating LIBOR rates The equity bridge facility is repayable in full on 31 May 2008 Interest is also charged on amounts drawn under this facility based on the floating LIBOR rate

The group has entered into swap arrangements with Sumitomo Mitsui Banking Corporation Europe Limited in order to fix the base interest rate (LIBOR) of 4 67% applied to those balances on the facilities to 2034 The fair value of the swap arrangement at the year end was £48,830,088 The term loans and working capital facilities are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the group and by a floating charge over the group's undertakings and assets

9 Loans & borrowings

Maturity of bank debt	**2006**	2005
	£'000	£'000
In one year or less	**1,789**	-
In more than one year, but not more than two years	**11,166**	**1,789**
In more than two years but not more than five years	**6,305**	**6,332**
In more than five years	**48,726**	**5,411**
	67,986	**13,532**

Kent Education Partnership (Holdings) Limited has committed to £9,103,000 of a 12 10% coupon subordinated loan facility to this company Kent Education Partnership (Holdings) Limited has in turn received corresponding commitments from its shareholders in proportion to their shareholdings

The company will use this facility to repay the equity bridge loan in full on 31 May 2008

Notes to the financial statements for the year ended 31 December 2006 (continued)

10 Provisions for liabilities and charges

Provision for deferred taxation	2006	2005
	£'000	£'000
At 1 January	**-**	-
Credit to the profit and loss account for the year (note 6)	**167**	-
At 31 December	**167**	-

The elements of deferred taxation are as follows,

	2006	2005
	£'000	£'000
Difference between accumulated depreciation and capital allowances and accelerated finance costs	**538**	-
Tax losses	**(371)**	-
	167	-

11 Called up share capital

	2006	2005
	£'000	£'000
Authorised, allotted, called up and fully paid		
10,000 Ordinary shares of £1 each	**10**	10

12 Reconciliation of movement in shareholders' funds

	2006	2005
	£'000	£'000
Result for the financial period	**139**	-
Opening shareholders' funds	**10**	10
Closing shareholders' funds	**(18)**	10

Notes to the financial statements for the year ended 31 December 2006 (continued)

13 Commitments

Under the terms of a contract dated 7 October 2005 with Costain Limited, a company related to Costain Engineering & Construction Limited and William Verry Limited, the group was committed to payments totalling £45,829,478 and £45,838,398 respectively, in respect of design and construction services Payments were made as the design and construction work progressed Payments in the year ended 31 December 2006 totalled £27,564,501 (2005 £4,695,500) and £31,087,538 (2005 £7,747,390) respectively Currently a retention bond is in place for both contractors

14 Related Party disclosures

At the year end there was £7,450 (2005 £38,996) payable to Bilfinger Berger BOT Limited and £Nil (2005 £1,154,624) payable to Costain Limited and £Nil (2005 £4,311,657) payable to William Verry Limited by the group

15 Ultimate parent undertaking

The company is a wholly owned subsidiary of Kent Education Partnership (Holdings) Limited, a company which files consolidated financial statements in England The share capital of Kent Education Partnership (Holdings) Limited is held sixty percent by Bilfinger Berger BOT Limited, thirty percent by Costain Engineering & Construction Limited with the remaining ten percent held by William Verry Limited All shareholders are companies incorporated in the United Kingdom

Bilfinger Berger BOT is owned wholly by Bilfinger Berger AG, a company registered in Germany

Bilfinger Berger AG prepares group financial statements and copies can be obtained from - The Secretary, Bilfinger Berger AG, Carl Reiss Platz, D-68185 – Mannheim, Germany