Aspire Defence Limited

Strategic report, Directors' report and financial statements

Registered number 05572542

31 December 2020

Contents

Strategic Report

Principal activities

The Company's principal activity is that of a Private Finance Initiative contractor for Project Allenby/Connaught (the "Project").

The Project involves the design and build of military living accommodation, other similar structures, supporting infrastructure and amenities at garrison sites around Salisbury Plain and in Aldershot, the demolition and refurbishment of various assets in those areas, and the provision of certain hard and soft facilities maintenance services to those assets and to other existing assets at the sites and associated locations for the Ministry of Defence ("the Authority") over the contract duration. A project agreement was signed on 6 April 2006 and was amended and restated on 31 October 2016 (the "Project Agreement") to include further scope associated with the Army Basing Programme ("ABP"). The Project has a thirty-five-year duration from 2006.

Business Review

Solid progress has again been made during 2020 on all aspects of the Project despite the difficult operating conditions posed by the Coronavirus pandemic, and potential risks surrounding Brexit.

On 23 March 2020, Prime Minister Johnson announced a national lockdown to control the spread of Coronavirus, which was relaxed gradually over the Summer. A second wave of the pandemic occurred in the Autumn, and Government introduced various "tiers" of restrictions which varied in time and geography. A Christmas with limited socialisation was followed by a third lockdown in early 2021.

After a brief hiatus following the 23 March announcement as rules and guidance were considered, understood and clarified, delivery of the Project scope continued throughout 2020. The Authority applied Government guidance for PFI contractors: during the three-month period from 1 April to 30 June ("the Covid Period") the Authority granted relief against various contractual measures of performance, and the Company worked closely with its sub-contractors, the Authority, and the Army to ensure that an appropriate, coordinated and effective response to the virus was put in place across the estate with a view to continuing to deliver the ABP Works and the Services whilst at the same time ensuring the safety of employees, soldiers and members of the public. In respect to the Services, the Company, its subcontractor and the Authority agreed Essential Services Plans to provide key, and some additional, services during the Covid Period, such as by enhancing cleaning regimes using staff redeployed from roles impacted by Government restrictions. In respect of the ABP Works progress continued but some delays and material shortages were experienced initially.

During the Covid Period the Authority continued to make Unitary Payments as normal, and the Company continued to pay its supply chain as normal. It was not necessary for the Company to take advantage of schemes introduced by Government to assist businesses such as the Coronavirus Job Retention Scheme (i.e. Furlough), the Coronavirus Large Business Interruption Loan Scheme, the Covid-19 Corporate Financing Facility and arrangements to defer Value Added Tax liabilities. Therefore, the pandemic did not have a material impact on cashflows.

From 1 July 2020, the Company and its sub-contractors returned to normal contractual terms, outputs and measures, and in relation to the hard and soft facilities management aspects of the Project scope, the Company continued to provide services at or above contractual performance and availability targets.

The construction aspects of the original Project scope were completed in 2015. In 2016 the Company agreed with the Authority and arranged with its supply chain to include further scope associated with ABP that was required on the geographic footprint of the Project. The Company has provided further accommodation and facilities to enable troops to return from Germany in 2019, and hard and soft facilities management to those assets and their occupants until the end of the Project in 2041. During 2020 and despite the pandemic, 35 *(2019: 93)* ABP related assets were delivered successfully out of approximately 205 that form the ABP related works. In aggregate, 194 ABP related assets have been accepted into service ("AIS") and the ABP related works are approximately 96% complete.

Strategic Report *(continued)*

Business Review *(continued)*

On 23 June 2016 the UK's electorate voted to leave the European Union ("EU"). Subsequently, Government commenced negotiations of the terms of the UK's departure, with a view to Brexit occurring on 29 March 2019. Following extensions of time and a General Election, the UK left the EU on 31 January 2020, and an 11-month transitional period ended on 31 December 2020. At the time of writing Brexit has not had a material impact on the Project.

During 2020, the Company reported turnover of £275m *(2019: £398m)* and a resultant profit before taxation of £25.6m *(2019: £26.9m)* which, after tax, increased shareholders' funds by £20.9m *(2019: £21.8m)*. The Company used these reserves to pay interim dividends of £21m *(2019: £21m)*, leaving net assets of £5.8m *(2019: £6.1m)* at the end of the year. The decrease in revenue is attributable to the timing of achievement of completion milestones associated with the ABP related works, which are drawing to a close. The decrease in profit is attributable to the effect of lower margin recognition on construction activities relative to service related activities and to lower net financial income reflecting repayment of debt and low interest rates. At the end of the year the Company had cash and short-term investments of £180.4m *(2019: £180.0m)* having paid interest of £76.6m *(2019: £78.6m)* and repaid principal of £38.1m *(2019: £36.5m)* on senior and junior funding out of positive operating cashflow from the Project, which has also reduced the Finance Asset, and the associated imputed interest receivable.

The Company completes a Payment Practices Report bi-annually which is available online. It does not engage in reverse factoring for its suppliers.

In December 2020 Project won the gold award for the Best Operational Project – Social Infrastructure at the Partnership Awards and was commended on the Project's ability to change the original arrangements and the evidence of collaboration between the parties.

The Company continues to be accredited as an "Investor in People", and its quality and environmental management systems remain certificated to ISO standards 9001 and 14001.

Key Risks and Uncertainties

Aspire Defence Limited is a special purpose vehicle formed to perform the Project. The Company is dependent on an income stream from one customer and timely receipt of cash from its investments to meet its commitments as they fall due.

The Project Agreement allocates numerous responsibilities to the Company. However, the contractual arrangements for the Project are structured so as to minimise risks inherent to the Project which are retained by the Company.

The risks assumed by the Company are largely passed on to insurers or Aspire Defence Capital Works ("ADCW") or Aspire Defence Services ("ADS") as sub-contractors (see note 18), subject to agreed limits of liability. Only to the extent that any subcontractor, or if applicable its guarantor, or insurer, fails to meet their obligations or claims by the Company exceed their limits of liability, is the Company at risk.

In relation to the capital expenditure required for the ABP related works, the arrangements are structured to ensure the Company is not at risk from any cost overruns arising, which would either be borne by ADCW or the Authority depending on the cause.

The principal contractual risks retained directly by Aspire Defence Limited relate to: lifecycle works to the estate; insurance premia; overhead cost overruns; indexation, interest and credit risks, and termination of the Project Agreement.

As noted in the Business Review on 23 June 2016 the UK's electorate voted to leave the European Union ("EU"). Subsequently, Government commenced negotiations of the terms of the UK's departure, with a view to Brexit occurring on 29 March 2019. Following extensions of time and a General Election, the UK left the EU on 31 January 2020, and an 11-month transitional period ended on 31 December 2020.

Strategic Report *(continued)*

Key Risks and Uncertainties *(continued)*

As explained above most of the risks linked to the works and the services have been subcontracted to ADCW and ADS on a fixed price basis, and deductions that may arise for performance beneath contractual thresholds are passed down the supply chain, insulating the Company. Whilst Brexit discussions were continuing the Directors considered the Company's business, and made enquiries of its immediate supply chain, to ensure it and they were prepared. The sub-contractors' concerns principally relate to availability of EU produced foodstuffs and materials, and EU labour. The sub-contractors have developed contingency plans to ensure disruption to supplies and resources, and cost pressures are kept to a minimum for instance by sourcing supplies from the UK. At the time of writing, Brexit has not had a material impact on the Project, however, the Directors will continue to monitor the situation.

On 4 January 2021 a third Lockdown was announced. At the time of writing the Lockdown is gradually being released, infections, hospitalisations and fatalities have reduced substantially, and the number of people vaccinated is increasing rapidly. However, there continues to be a risk a new variant will emerge and infections will escalate again. The long term and full effects of the pandemic are not known, but the Company considers it is well placed to continue to provide the Services and deliver the remaining ABP related assets.

Going Concern

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment including the consideration of the impact of Coronavirus is contained within note 1b).

Key Performance Indicators

Performance of the Services

The Authority has the ability to levy financial penalties and/or require remedial action in the event that either performance standards are not achieved or accommodation is not available according to detailed criteria set out in the Project Agreement. The Company can recover such deductions from its contractors in certain circumstances.

The Company monitors actual performance against anticipated performance. During 2020 availability deductions levied by the Authority were £41k *(2019: £41k)* and were fully recovered from the Company's contractors. In respect of the year ended 31 December 2020 (excluding the Covid Period), the Company's performance against this measure was therefore satisfactory.

In relation to the Covid Period, these performance measures were temporarily suspended by agreement with the Authority and alternative measures monitored, which were also satisfactory.

Completion of the ABP Works

Completion of the works according to the agreed schedule is a key indicator of satisfactory performance under the design and build scope of the Project. The Authority has the ability to levy financial penalties in the event of late delivery. The Company can fully recover any such deductions from its contractor. The Company monitors actual performance against anticipated performance. During 2020, no deductions were levied by the Authority *(2019: £nil)*. In respect of the year ended 31 December 2020, the Company's performance against this measure was therefore satisfactory.

Variations

The Authority can instruct variations to the Project Agreement, for example, to alter existing assets or to construct new assets or to vary the hard and soft facilities management services. The Company monitors actual performance against anticipated performance. In respect of the year ended 31 December 2020, the Company's performance against this measure was satisfactory.

Strategic Report *(continued)*

Key Performance Indicators *(continued)*

Financial Performance

The Company has modelled the anticipated financial outcome of the Project across its full term, and the Board sets budgets for each year. The Company monitors actual financial performance against anticipated performance. As at 31 December 2020, despite actual financial performance being beneath budgetary targets the Company's performance against this measure was deemed satisfactory given the unforeseen adverse economic environment and operating conditions.

Safety Performance

The Company is committed to providing a safe environment for its employees and those impacted by its activities. The Company monitors actual performance against anticipated performance. No employees were injured during the year *(2019: nil)*. In respect of the year ended 31 December 2020, the Company's performance against this measure was therefore satisfactory.

Section 172(1) Statement

The Directors believe that effective corporate governance is critical to delivering the strategy and creating long term value for the shareholders. The Directors also recognise the importance of wider stakeholders in delivering the strategy and achieving a sustainable business.

Each Director is fully aware of the obligations set out in Section 172 of the Companies Act 2006 ("Section 172") to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of the members as a whole, and in doing so have regard to the matters set out in Section 172 sub paragraphs a) to f).

The paragraphs below (following the structure of Section 172(1) sub-paragraph wording) summarise how the Board has had regard for these matters in coming to decisions previously and during 2020, including in relation to the payment of interim dividends:

a) The likely consequences of any decision in the longer term:

The Board oversees the development and periodic update of financial models to forecast cashflows, revenues and costs, and assets and liabilities over the remaining term of the Project Agreement. The Board considers the forecast assumptions and the results of the financial modelling, including compliance with certain financial ratios specified in the Project's financing agreements, and their robustness to downside sensitivity tests.

The Company operates a full distribution policy as is customary in leveraged finance transactions. Distributions are paid subject to compliance with certain covenants in the financing arrangements designed to ensure the Company can meet its commitments as they fall due, in particular the achievement of certain financial ratios in historic and future periods, and an obligation to maintain certain cash reserves at specified levels. The Project Agreement expires in 2041 after which it is expected that the Company will be wound up and any remaining assets distributed to the shareholders.

b) The interests of the Company's employees:

The Board believes the interests of the Company's employees are best served by a sustainable long-term business. The Board also reviews the employees' remuneration annually and operates a discretionary bonus scheme under which awards are made subject to the achievement of certain corporate and personal objectives which are aligned to the Company's goals. The Board approved a budget to provide employees with relevant training and continuing professional development, health care support and other benefits. The Company is accredited to a level of "Gold" within the Investor in People scheme.

Strategic Report *(continued)*

Section 172(1) Statement *(continued)*

During 2020 a particular focus has been placed on employees' wellbeing during the Coronavirus pandemic.

All employees have been involved with, and briefed on, decisions and developments as circumstances changed during the year. Wherever possible all employees were encouraged to work from home using technology and office equipment provided by the Company and to work flexibly around their domestic circumstances. Where it was necessary for employees to attend the workplace increased health measures were put in place, such as additional cleaning regimes, and appropriate personal protective equipment. To maximise social distancing the Company has introduced office capacity constraints and one-way systems, and reconfigured desk areas.

c) The need to foster business relationships with suppliers, customers and others:

The Company's only customer is the Authority under a contract until 2041 and the Company has two substantial sub-contractors in similarly long-term arrangements. The Board has established and fosters a joint governance regime for the Project that ranges from the tactical to the strategic with the Authority's and the sub-contractors' representatives to ensure that issues that emerge are dealt with appropriately, at the right level of seniority, and in a collaborative and sustainable manner. The Directors have promoted the development of a shared vision with the Authority and the sub-contractors and approved budgets to collocate all stakeholders.

During the Coronavirus pandemic the Company has adapted its services in order to help the Army particularly given the Army's on-going role supporting Government's response to the pandemic. This included enhanced cleaning across the garrisons, supporting 24/7 operations in some buildings and provision of food for isolating soldiers. Furthermore, the Company has, where possible, paid suppliers earlier than the specified contractual timeframes.

The Company regularly meets with, and reports to, its controlling creditors and their technical advisers. Many aspects of the Company's business are limited by the need to obtain creditor consent, and the Board promotes the need for collaborative and sustainable working relationships with these parties.

d) The impact on the Company's operations on the community and the environment:

The Board has approved a budget to support the community within the Company's geographic footprint at garrisons in Aldershot and around Salisbury Plain, and Army related charities. For example, during the Coronavirus pandemic the Company and its sub-contractors supported the local population with efforts to keep community facilities and businesses therein open where possible.

The Board has also supported the management's and employees' efforts to reduce the Company's environmental impact. For example, the Company is considering only providing electric or hybrid vehicles as company cars, and carbon emissions from travel to Board meetings have been off set with tree planting.

e) The desirability of the Company maintaining a reputation for high standards of business conduct:

The Board has approved a Code of Conduct and periodically ensures the Company's processes and procedures are compliant with the Bribery Act 2010 and other similar legislation. The Board reviews gift and hospitality registers periodically, and ensures employees are regularly reminded of, and trained in, compliance with Law.

f) The need to act fairly as between members of the Company:

A Shareholders' Agreement provides a right for shareholders to nominate a Director or Directors to the Board based on shareholdings. All four shareholders have Board representation and participate in discussion and decisions.

Strategic Report *(continued)*

Board Membership and Gender Diversity

The Company had nine male directors and two female directors during the year. The Company had 18 employees throughout the year, on average nine male and nine female employees.

By order of the Board,

A. R. McColl
COMPANY SECRETARY

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD
27 May 2021

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

Results and dividend

The results for the year are set out on page 16.

The Directors paid interim ordinary dividends in respect of the current year of £21,303,828 *(2019: £21,026,967)* and do not propose a final ordinary dividend in respect of the current year *(2019: £nil).*

Financial instruments

The Company's funding has been arranged using the principles of project finance with the terms of the financial instruments, and the resulting profile of the debt service costs, tailored to match the expected revenues arising from the Project Agreement.

The Company borrowed £1.46bn from Aspire Defence Finance plc ("ADF") in 2006 which is repayable in instalments between 2014 and 2040. The Company also borrowed £119.9m from ADF between 2008 and 2012 which is repayable in instalments between 2014 and 2034 (see Note 14).

Other disclosures in respect of financial instruments are given in Note 17.

Employees

Information relating to employee numbers and remuneration is given in Note 5.

Governance and Regulation

The Modern Slavery Act 2015 requires companies to report publicly steps to ensure their operations and supply chains are free of trafficking and slavery. Further details are set out in the Group's Modern Slavery Act Transparency Statement on the website: http://aspiredefence.co.uk/

Directors' Liabilities

The directors have the benefit of a qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) as they maintain Directors' and Officers' insurance in respect of the Company and its directors, and the Company has indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties. This insurance and these indemnities were in force throughout the financial year and up to the date of approval of these accounts.

Future Business Developments

The Company's activities are restricted to the Project by the nature of the financing arrangements, and the Project Agreement provides for service delivery to the Authority by the Company until April 2041, unless it is terminated in accordance with its provisions. From time to time the Authority instructs changes to the services or the works.

The ABP related works were materially completed during 2020. The company expects them to be fully completed by 2022 and for service delivery to continue in its current form for the foreseeable future.

Directors' report *(continued)*

Directors and Directors' interests

The Directors who held office during the year or have been appointed subsequently, were as follows:

Director	Position
A Barrie	Non Executive Director
G Beazley-Long	Non Executive Director
D Brooking	Non Executive Director
A R McColl	Finance Director
P Meffan	Non Executive Director
A H Moore	Chairman
N Sparrow	Non Executive Director
S Springett	Non Executive Director
A Thomson	Chief Executive
M Webber	Non Executive Director
E G Wegener	Non Executive Director

According to the Register of Directors' Interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them, during the year.

Disclosure of information to auditor

The Directors who held office at the date of approval 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Audit Committee

The Company is a subsidiary of Aspire Defence Holdings Limited. The Board of Aspire Defence Holdings Limited has constituted an Audit Committee. The Audit Committee is responsible to that Board for satisfying itself that the financial affairs of the Group's companies are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the companies in the Group and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the Company; and to review the need to carry out changes proposed by any internal audits carried out by the shareholders. The Audit Committee is comprised of the Non-Executive Directors appointed by each shareholder and is chaired by the Chairman.

Directors' report *(continued)*

Auditors

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

Engagement with suppliers, customers and others in a business relationship with the Company

The Strategic report includes a statement on how the company engages with suppliers, customers and others in a business relationship.

Streamlined Energy and Carbon Reporting ("SECR")

The Company has completed an SECR for the year to 31 December 2020, this is the first SECR produced.

During the year ended 31 December 2020 the Company estimates it:

- produced 3.71 tonnes of carbon dioxide equivalent through the consumption of gas and fuel for the purposes of transport, this is based on the number of business miles taken by petrol and diesel vehicles
- produced 10.39 tonnes of carbon dioxide equivalent through the use of electricity for its activities including for transport, based on kWh of electricity consumed converted using the Carbon Trust conversion rates
- consumed 66,080 kWh in gas, electricity and other fuels in the UK, based on gas and electricity consumed in the Company's office

The Company followed the 2013 UK Government environment reporting guidance.

The Company has calculated its intensity ratio for gas and electricity used for the year ended 31 December 2020 is 22 kgCO2e/m2 of floor space used in its offices

The Company has partially offset carbon emissions through tree planting schemes, and reduced energy use and emissions by using video conferencing facilities.

The Company has targeted a reduction in its emissions by 10% in 2021 through energy saving projects such as introducing LED lighting, and increases in recycling.

By order of the Board

A. R. McColl
COMPANY SECRETARY

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD

27 May 2021

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have 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.

Independent Auditor's Report to the Member of Aspire Defence Limited

Opinion

We have audited the financial statements of Aspire Defence Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

Independent Auditor's Report to the Member of Aspire Defence Limited *(continued)*

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent turnover recognition, in particular the risk of bias in the accounting estimate for service concession contract turnover, the risk that profit is inappropriately recognised on costs unrelated to the service concession contract and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Recalculating service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- Assessing the reasonableness of the cost forecasts (used to calculate service revenue) by considering the historical accuracy of the previous forecasts as well as changes to forecast cost estimates relating to future years and evaluating the appropriateness of cost estimates and assessing whether or not estimates showed any evidence of management bias based on our knowledge of the Company and experience of the industry in which it operates.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Independent Auditor's Report to the Member of Aspire Defence Limited *(continued)*

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Member of Aspire Defence Limited *(continued)*

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 May 2021

Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	*2*	**275,140**	398,436
Cost of sales		**(249,774)**	(372,957)
Gross profit		**25,366**	25,479
Administrative expenses		**(3,359)**	(3,487)
Profit before interest and tax		**22,007**	21,992
Financial income	*6*	**80,148**	83,538
Financial expenses	*7*	**(76,596)**	(78,621)
Net financing income		**3,552**	4,917
Profit before tax	*3*	**25,559**	26,909
Taxation	*8*	**(4,619)**	(5,113)
Profit for the financial year		**20,940**	21,796
Total comprehensive income for the year		**20,940**	21,796

All amounts arise from continuing operations.

The notes on pages 20 to 43 form part of these financial statements.

Balance Sheet
at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Trade and other receivables	*9*	**1,201,109**	1,252,259
Current assets			
Trade and other receivables	*10*	**81,846**	78,215
Current tax asset		**164**	-
Investments	*11*	**170,006**	178,126
Cash at bank and in hand		**10,437**	1,925
		262,453	258,266
Total assets		**1,463,562**	1,510,525
Liabilities			
Current liabilities			
Trade and other payables	*12*	**(51,396)**	(52,376)
Loan from group undertakings	*14*	**(39,357)**	(37,711)
Current tax liabilities		**-**	(2,602)
		(90,753)	(92,689)
Non-current liabilities			
Loan from group undertakings	*14*	**(1,324,202)**	(1,363,044)
Accruals and deferred income	*13*	**(12,602)**	(13,058)
Long-term provisions	*15*	**(30,235)**	(35,600)
		(1,367,039)	(1,411,702)
Total liabilities		**(1,457,792)**	(1,504,391)
Net assets		**5,770**	6,134
Equity			
Issued share capital	*16*	**50**	50
Retained earnings		**5,720**	6,084
		5,770	6,134

The notes on pages 20 to 43 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 May 2021 and were signed on its behalf by:

A. R. McColl
Finance Director
Registered number 5572542

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019	50	5,315	5,365
Total Comprehensive income for the year	-	21,796	21,796
Dividends	-	(21,027)	(21,027)
Balance at 31 December 2019	50	6,084	6,134
Total Comprehensive income for the year	-	20,940	20,940
Dividends	-	(21,304)	(21,304)
Balance at 31 December 2020	50	5,720	5,770

Statement of Cash Flows
for the year ended 31 December 2020

	Note	**2020**	2019
		£'000	£'000
Cash flow from operating activities			
Profit before tax		**25,559**	26,909
Adjustments for:			
Financial income	*6*	**(80,148)**	(83,538)
Financial expense	*7*	**76,596**	78,621
Profit before interest and tax before changes in working capital		**22,007**	21,992
Decrease in trade and other receivables		**126,551**	141,695
Decrease in trade and other payables		**(491)**	(13,863)
Decrease in deferred capital grant contribution	*13*	**(432)**	(386)
Decrease in provisions	*15*	**(5,365)**	-
Cash generated from operations		**142,270**	149,438
Tax paid		**(7,385)**	(5,024)
Net cash inflows from operating activities		**134,885**	144,414
Cash flows from investing activities			
Interest received		**1,116**	1,473
Investments proceeds received / (made)		**8,120**	(32,544)
Net cash inflows / (outflows) from investing activities		**9,236**	(31,071)
Cash flows from financing activities			
Interest paid		**(76,189)**	(78,161)
Repayment of borrowings		**(38,116)**	(36,481)
Dividends paid		**(21,304)**	(21,027)
Net cash outflows from financing activities		**(135,609)**	(135,669)
Net increase / (decrease) in cash and cash equivalents		**8,512**	(22,326)
Cash and cash equivalents at the beginning of the year		**1,925**	24,251
Cash and cash equivalents at the end of the year		**10,437**	1,925

Cash and cash equivalents comprise cash balances and call deposits.

Notes

(forming part of the financial statements)

1 Accounting policies

(a) Corporate Information

Aspire Defence Limited (the "Company") is a private company limited by shares incorporated and domiciled in England, UK, with a registered office in Aspire Business Centre, Ordnance Road, Tidworth, SP9 7QD, England

(b) Basis of preparation

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides including the impact of Covid-19, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Specifically, the Directors have considered if, in downside scenarios, the Company's operational performance would lead to deductions being awarded against the Company in accordance with the terms of the Project Agreement sufficient to cause an event of default under either the terms of the Bonds or the Project Agreement. To date, Covid-19 has had no material adverse impact on the Company's cashflows, or the service levels provided and there is no indication of heightened risk of subcontractor failure. As a result, the cashflow forecasts indicate that, even in downside scenarios, the Company will be able to meet its liabilities as they fall due.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Impact of new and revised standards

Definition of Material (Amendments to IAS 1 and IAS 8): the new standard has had no impact on the financial statements of the Company.

Standards, amendments and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. These are not mandatory until the period stated and have therefore not been adopted in the current year. Unless otherwise stated, the Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the future financial statements of the Company.

Effective Date	New standards or amendments
To be confirmed	Classification of liabilities as current or non-current (Amendments to IAS 1)
To be confirmed	Annual Improvements to IFRS Standards 2018-2020

(c) Measurement convention

The financial statements are prepared on the historical costs basis.

Notes *(continued)*

1 Accounting policies *(continued)*

(d) Accounting estimates and critical judgements

The financial statements contain estimated figures that are based on assumptions made by the Company about the future or that are otherwise uncertain. Judgements involving estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

In applying the accounting policies set out in Note 1, the Company has had to make certain estimates about complex transactions or those involving uncertainty about future events. The critical estimates made in the Statement of Accounts are:

Accounting for the Project Agreement and finance receivables requires estimation of appropriate margin to recognise on expected costs which include construction, insurance, maintenance, periodic lifecycle replacements, and finance receivable interest rates, which are based on forecasts.

Lifecycle costs are a significant proportion of future expenditure. Given the length of the Company's Project Agreement, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impact on results. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared using an asset management tool and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

To illustrate the impact of this critical judgement, the Company has quantified the financial effect of adjusting the lifecycle cost forecast until 2041 by +/- 10%. If lifecycle costs were forecast to be 10% higher, the profit after tax reported in 2020 would have been £7.5m (i.e. lower by £13.5m). If lifecycle costs were forecast to be 10% lower, the profit after tax reported in 2020 would have been £45.6m (i.e. higher by £24.5m). Both calculations include an adjustment to historic long term revenue recognition that would manifest in "in-year" results.

A lifecycle cost provision has been made, representing management's estimate of lifecycle obligations incurred but expected to be payable over time in accordance with a contractual agreement (see Note 15).

There are no critical judgements which do not involve estimates.

Notes *(continued)*

1 Accounting policies *(continued)*

(e) Revenue

At the outset of the Project the Company determined the appropriate treatment of the principal assets of, and income streams in accordance with International Financial Reporting Interpretations Committee – Interpretation 12 – Service Concession Arrangements (IFRIC 12). Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services to private sector operators. Control of the asset remains in public hands but the private sector operator is responsible for construction activities as well as for operating, servicing and maintaining the public sector infrastructure. Assets constructed by Private Finance Initiative ("PFI") concession companies are classified in the financial statements as financial assets or intangible assets, depending on whether the grantor or user has primary responsibility to pay the operator for the concession services. The Company's asset has been classified as a financial asset under this classification.

The Company adopted IFRS 15 on 1 January 2018 under which, revenue must be allocated to each component of the contract on the basis of relative fair values based on standalone selling prices, requiring a margin on all components. A margin is applied to costs on an individual service line basis with margins ranging from 1% to 25%.

Unitary charge income is allocated between revenue and the finance asset so as to generate a constant return in respect of the finance asset over the life of the contract. The element of revenue, described as 'service revenue' (see Note 2), reflects the income allocated to the services provided as part of the overall project. 'Construction revenue' (see Note 2) reflects the income allocated in accordance with stage of completion of the construction contract. A range of margins are applied to costs charged to the income statement in order to calculate the service revenue. These margins are calculated as total income forecast to be receivable over the concession, less all the lifecycle and other operating costs forecast to be payable over the concession.

Revenue is recognised at the fair value of the consideration received for goods and services provided in the normal course of business net of value added tax. Revenue from contracting activities which includes service revenue and construction revenue represents the value of work carried out during the year including amounts not yet invoiced. Interest income receivable on the finance asset is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

(f) Capital grant contributions and deferred bid costs

An initial capital grant contribution of £32m by the Authority set off against initial bid costs of £14.2m are included within deferred income in the balance sheet and credited to profit or loss over the life of the contract. Amortisation is calculated based on proportion of accumulated service margin to date compared to total service margin expected over the whole contract.

(g) Finance income and initial financial charges

Finance income comprises interest income on funds invested. Income is recognised as it accrues in profit or loss, using the effective interest method. Finance interest income is detailed under Note 1(j) Service concession receivables.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Initial finance costs of £22m arising in connection with the arrangement of loan finance are offset against the carrying value of the loan and are amortised through profit or loss over the period of the loan using the effective interest rate method.

Notes *(continued)*

1 Accounting policies *(continued)*

(h) Long term contracts

In accounting for the construction related and operational services contract, revenue and expenses are recognised in accordance with the stage of completion of the contract. Under the stage-of-completion method, contract costs, revenue and the resulting profit are recognised in the period in which the work is performed. Contract costs incurred that relate to future activities are deferred and recognised as inventory. Provision is made for any losses as soon as they are foreseen.

(i) Taxation

Income tax on the profit or loss for the year comprises current tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The amount of deferred tax within the Company is immaterial and is therefore no longer provided for.

(j) Post-retirement benefits

The Company operates a defined contribution pension scheme. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Notes *(continued)*

1 Accounting policies *(continued)*

(k) Services concession receivables

Assets constructed by PFI concession companies (an operator) under IFRIC 12 are classified in the financial statements as financial assets or intangible assets, depending on whether the grantor or user has primary responsibility to pay the operator for the concession services. The Company's asset has been classified as a finance asset under this classification.

The operator is paid for its services over the period of the concession, which is governed by a contract that sets out performance standards, mechanisms for adjusting prices and arrangements for arbitrating disputes.

The finance asset represents an interest bearing, long term receivable. The cost of the finance asset at any one time is equal to the accumulated value of service delivery plus accumulated interest charged to the finance asset less unitary charge received to date.

Service delivery revenue is recognised at the fair value of the consideration received for goods and services provided in the normal course of business net of value added tax.

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

(l) Provisions

The Lifecycle provision represents management's estimate of historical lifecycle obligations incurred but which are expected to be payable over time in accordance with a contractual agreement. The provision is expected to be used over the remainder of the contract. Its value is dependent on, inter alia, forecasts of future costs, indexation and estimates of periodic replacement frequencies (see Note 15).

(m) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes *(continued)*

1 Accounting policies *(continued)*

(m) Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets
(a) Classification
On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. All the Company's financial assets are classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents comprise cash balances and call deposits. The Company is obliged to maintain funded reserve accounts for certain eventualities and risks (see note 11).

(b) Subsequent measurement and gains and losses
Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities at amortised cost - These liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit and loss.

(iii) Impairment

The Company recognises loss allowances for expected credit losses ("ECLs" or "ECL") on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Notes *(continued)*

1 Accounting policies *(continued)*

(m) Financial Instruments (continued)

(iii) Impairment (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than an agreed period of days past due

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(n) Leases

Under IFRS 16 a lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. At the inception of a contract, the Company assessed whether a contract is, or contains, a lease.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes *(continued)*

2 Revenue

	2020	2019
	£'000	£'000
Service revenue	**198,448**	184,848
Construction	**69,105**	207,455
Sub-total	**267,553**	392,303
Client variations and other change orders	**6,811**	5,440
Amortisation of capital grant income	**776**	693
	275,140	398,436

(i) Contract balances

The following table provides information about opening and closing receivables, finance asset and contract liabilities from the Project Agreement with the Authority.

	2020	2019
	£'000	£'000
Receivables	**34,952**	32,872
Finance asset	**1,239,399**	1,285,591

The finance asset primarily relates to the company's rights to consideration for work completed but not billed at the reporting date on the Project Agreement. The finance asset is transferred to receivables when the rights become unconditional.

The amount of revenue recognised in the current period from performance obligations satisfied (or partially satisfied) in previous periods was £nil *(2019: £nil)*.

Significant changes in the finance asset during the period are as follows:

	2020	2019
	£'000	£'000
Opening finance asset	**1,285,590**	1,331,188
Unitary Payment invoiced and paid	**(360,974)**	(492,542)
Transfers from finance assets recognised at the beginning of the period to receivables	**(31,933)**	(27,389)
Revenue recognised	**267,553**	392,303
Interest recognised	**79,163**	82,030
Closing finance asset	**1,239,399**	1,285,590

Notes *(continued)*

2 Revenue *(continued)*

(ii) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2021 **£'000**	2022 **£'000**	2023 **£'000**	2024-41 **£'000**
Service revenue	207,447	205,432	217,284	5,298,724
Construction	48,488	8,985	4,482	-
Total	**255,935**	**214,417**	**221,766**	**5,298,724**

(iii) Contract bid costs

	2020 **£'000**	2019 £'000
Bid costs balance	**10,400**	10,743

Contract bid costs are amortised when the related revenues are recognised. In current period, the amount of amortisation was £344k *(2019: £307k)* and the impairment loss recognised was £nil *(2019: £nil)*.

3 Profit before tax

Profit before tax is stated after charging:	**2020** **£'000**	2019 £'000
Auditor's remuneration		
Audit of the annual financial statements	**26**	25

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Aspire Defence Holdings Limited.

4 Remuneration of Directors and key management personnel

The Chief Executive and the Finance Director are employed by the Company and are remunerated for their services to the Aspire Defence Holdings Group as a whole. The Chairman is also remunerated by the Company for services to the Aspire Defence Holdings Group as a whole.

Notes *(continued)*

4 Remuneration of Directors and key management personnel (continued)

	2020 **£'000**	2019 £'000
Directors' emoluments	**502**	487
Amounts payable under incentive scheme	**91**	117
Company contributions to defined contribution pension schemes	**53**	51
	646	655
Portion attributable to services provided to the Company	**614**	622

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £255,568 *(2019: £277,620)*, and Company pension contributions of £22,523 *(2019: £29,588)* were made to a money purchase pension scheme on his behalf. The other Directors of the Company are employed by either KBR, Inc., Innisfree Limited or InfraRed Capital Partners Limited or subsidiaries thereof and are remunerated by subsidiary companies of the respective groups for their services to each group as a whole. They receive no emoluments in respect of services provided to the Company. Included in the financial statements and detailed below, are charges made by the parent company's shareholder groups for the services of Directors as follows:

	2020 **Non-Executive** **£'000**	2019 Non-Executive £'000
Kellogg Brown & Root Ltd	**92**	89
Innisfree Limited	**92**	89
InfraRed Capital Partners Ltd	**61**	60
	245	238
Portion attributable to services provided to the Company	**233**	226

The Company's immediate and ultimate parent undertaking is Aspire Defence Holdings Limited, which in turn is owned is owned 45% by KBR (UK) Investments Limited, 37.5% by Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, 12.5% by Infrastructure Investment Holdings Limited and 5% by InfraRed Infrastructure Yield Holdings Limited. The ultimate parent company of KBR (UK) Investments Limited and Kellogg Brown & Root Ltd is KBR, Inc. (see note 18).

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the Company (including executive directors) during the year was 18 *(2019: 19)*. The aggregate payroll cost was (including directors):

	2020	2019
	£'000	£'000
Wages and salaries	**1,294**	1,283
Incentive scheme	**180**	226
Social security costs	**163**	152
Pension costs	**226**	199
	1,863	1,860

The Company contributes to defined contribution pension schemes on behalf of its employees.

6 Financial income

	2020	2019
	£'000	£'000
Finance asset interest receivable	**79,163**	82,031
Interest on bank deposits	**985**	1,507
	80,148	83,538

7 Financial expenses

	2020	2019
	£'000	£'000
Interest payable on loans from group undertakings	**76,596**	78,621
	76,596	78,621

Notes *(continued)*

8 Taxation

Analysis of charge in the year: -	**2020** **£'000**	2019 £'000
UK corporation tax		
Current tax on income for the year	**4,856**	5,113
Adjustments in respect of prior periods	**(237)**	-
Total current tax	**4,619**	5,113
Deferred tax		
Total deferred tax	**-**	-
Tax on profit on ordinary activities	**4,619**	5,113

Factors affecting the tax charge for the current year: -

The differences between the tax charge for the year and the effective statutory rate of corporation tax for the year of 19.0% *(2019: 19%)* are explained below.

	2020 **£'000**	2019 £'000
Tax reconciliation		
Profit before tax	**25,559**	26,909
Tax at 19.0% *(2019: 19.0%)*	**4,856**	5,113
Effects of:		
Expenses not deductible for tax purposes	**-**	-
Adjustment in respect of prior year	**(237)**	-
Total tax charge	**4,619**	5,113

The March 2021 Budget announced that a rate of 25% would apply with effect from 1 April 2023. This will increase the company's future tax charge accordingly.

Notes *(continued)*

9 Trade and other receivables: amounts falling due after more than one year

	2020 £'000	2019 £'000
Finance asset	**1,200,202**	1,251,261
Prepayments and accrued income	**907**	998
	1,201,109	1,252,259

10 Trade and other receivables: amounts falling due within one year

	2020 £'000	2019 £'000
Finance asset	**39,197**	34,330
Trade receivables	**36,925**	34,220
Prepayments and accrued income	**5,724**	9,665
	81,846	78,215

11 Investments and Term Deposits

	2020 £'000	2019 £'000
Term deposits	**170,006**	178,126
	170,006	178,126

There have been no impairment write-downs during the year *(2019: £nil)*.

The Company is obliged to maintain funded reserve accounts for certain eventualities and risks. The balance on these accounts as at 31 December 2020 totalled £128.5m *(2019: £123.6m)*.

Notes *(continued)*

12 Trade and other payables: amounts falling due within one year

	2020 £'000	2019 £'000
Trade payables	**21,516**	18,754
Other payables	**2,533**	2,682
Interest accrual on loan from group undertaking	**18,087**	18,623
Accruals and deferred income	**8,804**	11,885
Deferred capital grant income	**456**	432
	51,396	52,376

13 Deferred capital grant income

	2020 £'000	2019 £'000
Amount falling due within one year	**456**	432
Amount falling due over one year	**12,602**	13,058
	13,058	13,490

14 Amounts owed to group undertakings

	2020 £'000	2019 £'000
Senior on-loan	**1,258,668**	1,292,833
Junior on-loan	**104,891**	107,922
	1,363,559	1,400,755

Included within amounts owed by group undertaking is £1,324,202k *(2019: £1,363,043k)* due in more than one year

	2020 £'000	2019 £'000
Debt can be analysed as falling due:		
Amounts payable within one year	**39,357**	37,711
Amounts payable in the second to fifth years	**169,317**	165,087
Amounts payable after five years	**1,154,885**	1,197,957
	1,363,559	1,400,755

Notes *(continued)*

14 Amounts owed to group undertakings (continued)

Senior and Junior On-loans from Aspire Defence Finance plc

The two on-loans are advances of the net bond proceeds (the 'Senior On-Loan') and the share subscription and shareholder loan notes proceeds (the 'Junior On-Loan) from Aspire Defence Finance plc, a fellow subsidiary, for the purpose of financing the Company. The advances are made on an arm's length basis. Interest accruing on the Senior On-Loan is payable at the bond coupon rate plus 1 basis point (4.684%) plus the reimbursement of any ongoing finance fees incurred by Aspire Defence Finance plc. Interest accruing on the Junior On-Loan is payable at LIBOR plus 100 bps on the share subscription proceeds (effective rate 1.34% *(2019: 1.85%)* during the year) and at the coupon rate plus 1 basis point on the shareholder loan notes (12.01%).

Payments of interest and principal are timed to coincide with Aspire Defence Finance plc's obligations at each payment date in March and September.

Changes in liabilities resulting from financing activities

	2019	Cashflows	Non-cash movements	2020
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1yr	(37,711)	38,116	(39,762)	(39,357)
Interest bearing loans and borrowings greater than 1 yr	(1,363,043)	-	38,841	(1,324,202)
Interest Accrual	(18,623)	76,189	(75,653)	(18,087)
	(1,419,377)	114,305	(76,574)	(1,381,646)

	2018	Cashflows	Non-cash movements	2019
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1yr	(36,077)	36,481	(38,115)	(37,711)
Interest bearing loans and borrowings greater than 1 yr	(1,400,229)	-	37,186	(1,363,043)
Interest Accrual	(19,101)	78,161	(77,683)	(18,623)
	(1,455,407)	114,642	(78,612)	(1,419,377)

Non-cash movements represent the interest payable measured under the effective interest method and reallocation of the amounts due within one year from greater than one year for presentational purposes.

Notes *(continued)*

15 Provisions

	2020	2019
	£'000	£'000
Lifecycle provision due within one year	**-**	-
Lifecycle provision due after one year	**30,235**	35,600
	30,235	35,600

	£'000	£'000
Balance as at 1 January	**35,600**	35,600
New provision in year	**-**	-
Provision used in year	**(5,365)**	-
Balance as at 31 December	**30,235**	35,600

The provision represents management's estimate of lifecycle obligations incurred as at 31 December 2020 but expected to be payable over time in accordance with a contractual agreement that provides biennial calculations and payments. The provision is expected to be used over the remaining 20 years of the contract. Its value is dependent on, inter alia, indexation and estimates of periodic replacement frequencies.

16 Share capital

	2020	2019
	£'000	£'000
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	**50**	50

Notes *(continued)*

17 Financial instruments

The Company's principal financial instruments comprise, the finance asset, term deposits, the intercompany loans from Aspire Defence Finance plc, trade and other current assets and liabilities. The objective of the Company's financial instruments is to provide sufficient financial resources to fund its operating requirements.

Nature and extent of risks arising from financial instruments

The Company's authorised investments are defined in its collateral deed. The deed sets out for each category of permitted investment the parameters for the management of risks. Where the Company seeks to deviate from the stated parameters Board and controlling creditor approval must be obtained.

The Company's activities expose it to a variety of financial risks:

- Credit risk
- Liquidity risk
- Market risk

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 so to do is restricted by covenants in its existing funding agreements.

Exposure to credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into. The Company manages credit risk by ensuring that investments are held with authorised counterparties. The Company maintains an authorised counterparty list based on its criteria and monitors and updates the credit standing of the institutions on a regular basis. The Company also sets limits on principal amounts invested and the duration of those investments dependant on the financial standing of institutions and applied sector and country limits in line with their financial strength. The Company is reliant on one customer, the Authority. However, the Directors are satisfied that the Authority will be able to fulfil its obligations under the Project Agreement as it is a government body.

The Company has no historical experience of counterparty default.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020	2019
	£'000	£'000
Finance asset	**1,239,399**	1,285,591
Cash at bank and in hand	**10,437**	1,925
Trade receivables	**36,925**	34,220
Term deposits	**170,006**	178,126
	1,456,767	1,499,862

Notes *(continued)*

17 Financial instruments *(continued)*

The ageing of financial assets (excluding cash and term deposits) at the reporting date was:

	2020	2019
	£'000	£'000
Due within one year	**76,122**	68,550
Over one year	**1,200,202**	1,251,261
	1,276,324	1,319,811

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that it has adequate cash resources and borrowing arrangements at all times, to have the level of funds available which are necessary for the achievement of its business. A significant proportion of the Company's financial obligations consist of two on-loans from Aspire Defence Finance plc, a fellow subsidiary. The two on-loans are advances of the net bond proceeds (the 'Senior On-Loan') and the share subscription and shareholder loan notes proceeds (the 'Junior On-Loan') from Aspire Defence Finance plc, for the purpose of financing the Company. The advances are made on an arm's length basis. Interest accruing on the Senior On-Loan is payable at the bond coupon rate plus 1 basis point (4.68%) plus the reimbursement of any ongoing finance fees incurred by Aspire Defence Finance plc. Interest accruing on the Junior On-Loan is payable at LIBOR plus 100 basis points on the share subscription proceeds (effective rate 1.34% *(2019: 1.85%)* during the year) and at the coupon rate plus 1 basis point on the shareholder loan notes (12.01%).

The Company's income which, under normal operating conditions, will be earned from the Project Agreement with the Authority has been structured to meet the repayments to Aspire Defence Finance plc.

Notes *(continued)*

17 Financial instruments *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments.

31 December 2020	Carrying Amount £'000	Contractual Cash flows £'000	Less than One year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Trade payables	21,515	21,515	21,515	-	-	-
Other payables	2,533	2,533	2,533	-	-	-
Accruals	39,950	39,950	27,348	456	930	11,216
Amounts due to group undertakings	1,363,557	2,254,362	113,653	113,024	330,580	1,697,105
	1,427,555	2,318,360	165,049	113,480	331,510	1,708,321

31 December 2019	Carrying Amount £'000	Contractual Cash flows £'000	Less than One year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Trade payables	18,754	18,754	18,754	-	-	-
Other payables	2,682	2,682	2,682	-	-	-
Accruals	43,998	43,998	30,940	432	885	11,741
Amounts due to group undertakings	1,400,755	2,368,465	114,103	113,653	335,110	1,805,599
	1,466,189	2,433,899	166,479	114,085	335,995	1,817,340

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The interest rate for the on-loan from Aspire Defence Finance plc is fixed for the duration of the Private Finance Initiative project period.

The service concession receivable financial asset is initially measured at fair value. It is subsequently measured at amortised costs, i.e. the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest rate method minus repayments. If cash flows and fair values remain the same as those forecast, the effective interest rate is 6.46% per year.

Notes *(continued)*

17 Financial instruments *(continued)*

At the reporting date the interest rate profile of interest bearing financial instruments was:

	2020	2019
	£'000	£'000
Fixed rate instruments		
Financial assets	**170,006**	178,126
Financial liabilities	**(1,363,509)**	(1,400,705)
	(1,193,501)	(1,222,579)
Variable rate instruments		
Financial assets	**1,249,836**	1,287,516
Financial liabilities	**(50)**	(50)
	1,249,786	1,287,466

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through the profit or loss or available for sale with fixed interest rates. The analysis is performed on the same basis for 2019.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2020	£'000	£'000	£'000	£'000
Variable rate instruments	12,498	(12,498)	12,498	(12,498)
Cash flow sensitivity	12,498	(12,498)	12,498	(12,498)

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2019	£'000	£'000	£'000	£'000
Variable rate instruments	12,875	(12,875)	12,875	(12,875)
Cash flow sensitivity	12,875	(12,875)	12,875	(12,875)

Notes *(continued)*

17 Financial instruments *(continued)*

Investments tend to be short term (typically under a year) and are therefore naturally more exposed to changes in interest rates. The debt to Aspire Defence Finance plc is fixed and therefore not sensitive to changes in interest rates.

The Company actively assesses interest rate exposure and feeds this into the setting of the annual budget and which is used to update the budget where necessary.

Price and foreign exchange risk

The Company does not invest in instruments such as equity shares and does not have financial assets or liabilities denominated in foreign currencies and thus has no exposure to these risks.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2020 Carrying Amount £'000	**2020 Fair Value £'000**	2019 Carrying Amount £'000	2019 Fair Value £'000
Finance asset	**1,239,399**	**1,239,664**	1,285,591	1,282,442
Trade receivables	**36,925**	**36,925**	34,220	34,220
Cash at bank and in hand	**10,437**	**10,437**	1,925	1,925
Term deposits	**170,006**	**170,006**	178,126	178,126
Trade payables	**(21,515)**	**(21,515)**	(18,754)	(18,754)
Other payables	**(2,533)**	**(2,533)**	(2,682)	(2,682)
Accruals due within 1 yr	**(27,347)**	**(27,347)**	(30,940)	(30,940)
Accruals due over 1 yr	**(12,602)**	**(12,602)**	(13,058)	(13,058)
Senior on-loan	**(1,258,668)**	**(1,764,469)**	(1,292,832)	(1,704,091)
Junior on-loan	**(50)**	**(50)**	(50)	(50)
Junior on-loan	**(104,841)**	**(129,575)**	(107,872)	(129,421)
	29,211	**(501,059)**	33,674	(402,283)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

For payables and receivables with a remaining life of one year or less and floating rate payables, the varying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine the fair value.

Notes *(continued)*

17 Financial instruments *(continued)*

Fair value of finance asset is calculated by discounting future cash flows at an appropriate rate. The discount rate used is the rate calculated by the financial model for interest income on the finance asset. The discount rate used for the finance asset is 6.46% *(2019: 6.46%)*. The fair value of amounts owed to group undertakings is estimated using the fair value of the external debt issued by Aspire Defence Finance plc. The discount rates that have been applied to the senior on loan is 1.30% *(2019:2.04%)* and junior on loan is 8.64% *(2019: 9.38%)*.

Fair value hierarchy

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable)

31 December 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Loans and receivables				
Term deposits	-	170,006	-	170,006
Finance asset	-	-	1,239,664	1,239,664
Trade receivables	-	36,925	-	36,925
Total loans and receivables	-	206,931	1,239,664	1,446,595
Financial liabilities				
Trade and other payables	-	(63,998)	-	(68,036)
Interest bearing loans and borrowings	-	(1,894,094)	-	(1,894,094)
Total financial liabilities	-	(1,958,092)	-	(1,958,092)
Total financial instruments	**-**	**(1,751,161)**	**1,239,664**	**(511,497)**

Notes *(continued)*

17 Financial instruments *(continued)*

31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Loans and receivables				
Term deposits	-	178,126	-	178,126
Finance asset	-	-	1,282,442	1,282,442
Trade receivables	-	34,220	-	34,220
Total loans and receivables	-	212,346	1,282,442	1,494,788
Financial liabilities				
Trade and other payables	-	(68,036)	-	(68,036)
Interest bearing loans and borrowings	-	(1,833,562)	-	(1,833,562)
Total financial liabilities	-	(1,901,598)	-	(1,901,598)
Total financial instruments	**-**	**(1,689,252)**	**1,282,442**	**(406,810)**

18 Related party disclosures

The Company entered into the following material transactions with related parties:

Building Contract and ABP Building Contract

On 6 April 2006 the Company contracted with ADCW, a 50:50 unincorporated joint venture between Carillion (Aspire Construction) Limited and KBR (Aspire Construction) Limited to carry out the construction work associated with the Project for a total sum of approximately £1.5 billion over 8 years.

On 31 October 2016 the Company contracted with ADCW to carry out the construction work associated with ABP, as amended from time to time, for a total sum of approximately £0.9 billion over 5 years.

On 18 April 2018, these two contracts were novated to an unincorporated joint venture between KBR (Aspire Construction) Limited and KBR (Aspire Construction Ventures) Limited also known as Aspire Defence Capital Works.

Nature of relationship - both KBR (Aspire Construction) Limited and KBR (Aspire Construction Ventures) Limited are wholly owned subsidiaries of KBR, Inc., which indirectly owns 45% of the Company's parent.

During the year ended 31 December 2020 £64m *(2019: £215m)* was invoiced by ADCW to the Company and £4.4m *(2019: £8.1m)* is included within accruals.

Notes *(continued)*

18 Related party disclosures *(continued)*

Services Contract

On 6 April 2006 the Company contracted with ADS, a 50:50 unincorporated joint venture between Carillion (Aspire Services) Limited and KBR (Aspire Services) Limited to carry out certain facilities management services associated with the Project for a total sum of approximately £5.75 billion over 35 years.

On 31 October 2016 the contract with ADS, was amended and restated to include certain facilities management services associated with ABP.

On 18 April 2018, the contract was novated to an unincorporated joint venture between KBR (Aspire Services) Limited and KBR (Aspire Services Ventures) Limited also known as ADS.

Nature of relationship - both KBR (Aspire Services) Limited and KBR (Aspire Services Ventures) Limited are wholly owned subsidiaries of KBR, Inc., which as noted above indirectly owns 45% of the Company's parent.

During the year ended 31 December 2020, £191m *(2019: £169m)* was invoiced by ADS to the Company and £21.4m *(2019: £18.6m)* is included in trade creditors. £nil *(2019: £nil)* is included within accruals at 31 December.

Administration

Aspire Defence Services Limited, a company now ultimately owned by KBR, Inc., performs certain administrative functions for the Company. During the year ended 31 December 2020 £0.33m *(2019: £0.33m)* was invoiced by Aspire Defence Services Limited of which £0.03m *(2019: £0.03m)* is included in trade creditors and £nil *(2019: £nil)* is included within accruals at 31 December.

Nature of relationship – as noted above KBR, Inc. indirectly owns 45% of the Company's parent.

Directors

Note 4 details amounts paid to the shareholders of the Company's parent in respect of the services of Non-Executive Directors.

19 Post Balance Sheet Event

There are no adjusting post balance sheet events.

20 Immediate and ultimate parent undertaking

The Company's immediate and ultimate parent undertaking is Aspire Defence Holdings Limited, whose registered office is Aspire Business Centre, Ordnance Road, Tidworth, England, SP9 7QD.

The only group in which the annual financial statements of the Company are consolidated is that headed by Aspire Defence Holdings Limited. The consolidated financial statements of that group may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff.