

# **Aspire Defence Finance plc**

## **Directors' report and financial statements**

**Registered number 5700404**

**31 December 2010**

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## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010

### Principal activities

The Company's principal activity is that of a finance company, acting as a special purpose vehicle to raise the debt finance associated with the Allenby/Connaught Private Finance Initiative Project ("the Project") from the capital markets and its parent's shareholders, and on-lend it to Aspire Defence Limited, a fellow subsidiary of Aspire Defence Holdings Limited

The Project involves the design and build of new living accommodation, other similar structures, supporting infrastructure and amenities at sites on 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. The Project Agreement was signed on 6 April 2006. It has a thirty five year duration, with the construction activities planned to be substantially complete by 2014.

### Review of the year

Solid progress has again been made during 2010 on all aspects of the Project.

On the construction aspects of the Project scope, the Company's fellow subsidiary, Aspire Defence Limited, successfully delivered another 95 assets into service across garrisons on Salisbury Plain and in Aldershot during 2010. This brings the total new and refurbished assets delivered since Financial Close to 339, or approximately 60% of the total construction scope, 92% of which have either been delivered earlier than or within one week of the planned date. In aggregate, circa 6,000 single en suite bedrooms out of a total of circa 11,500 have been delivered.

On the hard and soft facilities management aspects of the Project scope, Aspire Defence Limited continued to provide services at or above contractual performance and availability targets. In April 2010, a further twenty five per cent of the existing estate inherited from the Authority at financial close in 2006 was successfully accepted into service as planned. The acceptance into service of the inherited estate has now been completed and it is now fully subject to the "Availability" based payment regime.

Three of Aspire Defence Limited's financial counterparties were adversely affected by the effects of the global credit crisis. In 2009 arrangements were completed to receive financial assets as collateral against these credit exposures. During 2010 those collateral arrangements have remained in place but exposures, and hence collateral held, have reduced as scheduled repayments have been received.

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 Finance plc is a special purpose vehicle formed to finance the performance of the Project. The Company is dependent on an income stream from one borrower, Aspire Defence Limited, to meet its commitments as they fall due.

Aspire Defence Limited, with its single customer, is allocated numerous responsibilities under the Project Agreement. However, the contractual arrangements for the Project are structured so as to minimise risks inherent to the Project which are retained by Aspire Defence Limited. Risks assumed by Aspire Defence Limited are largely passed on to insurers or sub contractors, 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 Aspire Defence Limited exceed their limits of liability, is Aspire Defence Limited at risk. The principal risks retained directly by the Aspire Defence Limited relate to lifecycle works to the estate, insurance premia, overhead cost overruns, indexation, interest and credit risk and termination of the project agreement.

## Directors' report (*continued*)

### Key Performance Indicators

#### *Receipt of interest*

The Company monitors the performance and ability of the Project Company, Aspire Defence Limited, to meet its on-loan debt service obligations. The Company records whether interest payments due from Aspire Defence Limited are received in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2010, the Company recorded that all requirements were met satisfactorily.

#### *Debt service*

The Company also measures compliance with its own debt service obligations. Any scheduled payments of interest, principal or fees due to Bondholders, Loan Note Holders, or the financial guarantors must be made in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2010, the Company recorded that all measures in this respect had been successfully achieved.

#### *Financial Performance*

The Company has modelled the anticipated financial outcome of the Project across its full term. The Company monitors actual financial performance against anticipated performance. As at 31 December 2010, the Company's performance against this measure was satisfactory.

#### *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. In respect of the year ended 31 December 2010, the Company's performance against this measure was satisfactory.

### Results and dividend

The results for the year are set out in the profit and loss account on page 9.

The Directors do not recommend payment of a dividend (2009 £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.

Other disclosures in respect of financial instruments are given in Notes 11 and 14 to the financial statements.

## 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	(Appointed 27/01/2011)	Non Executive Director
P Cooper		Non Executive Director
N Crowther	(Resigned 21/10/2010)	Non Executive Director
L J Henry		Non Executive Director
F R Herzberg		Non Executive Director
R Lumby		Non Executive Director
S Nadesan		Non Executive Director
A R McColl		Finance Director
A H Moore		Chairman
G Quairfe		Alternate Director
B Semple	(Appointed 21/10/2010)	Non Executive Director
P Smart		Chief Executive
S Usher		Alternate Director
M Webber		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 ended 31 December 2010

### Employees

There were no direct employees of the Company during the year ended 31 December 2010 (*2009 Nil*)

### Political and charitable contributions

The Company made no political contributions or charitable donations during the year ended 31 December 2010 (*2009 £Nil*)

### Supplier payment policy

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction or series of transactions, and to abide by these terms of payment where it is satisfied the supplier has provided the goods or services in accordance with the agreed terms

The average number of days creditors outstanding at the year end was 0 days (*2009 0 days*)

## Directors' report (*continued*)

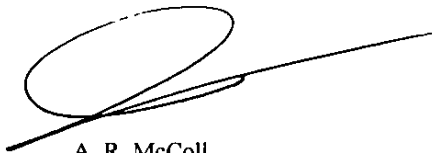
### Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information

### Auditors

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

By order of the board



A R McColl  
COMPANY SECRETARY

24 Birch Street  
Wolverhampton  
West Midlands  
WV1 4HY  
28 April 2011

## Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have 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.

## **KPMG Audit Plc**

### **Independent auditors' report to the members of Aspire Defence Finance plc**

We have audited the financial statements of Aspire Defence Finance plc for the year ended 31 December 2010 set out on pages 9 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private/cfm](http://www.frc.org.uk/apb/scope/private/cfm).

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



**Independent auditors' report to the members of Aspire Defence Finance plc**  
*(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*W Southwood*

W Southwood  
(Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants

15 Canada Square  
London  
E14 5GL

*9 May* 2011  


**Profit and loss account**  
*for the year ended 31 December 2010*

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		<b>£'000</b>	<b>£'000</b>
Interest receivable and similar income	5	<b>79,069</b>	76,076
Interest payable and similar charges	6	<b>(78,913)</b>	(75,921)
<b>Profit on ordinary activities before taxation</b>	<b>2</b>	<b>156</b>	155
Tax on profit on ordinary activities	7	<b>(40)</b>	(27)
<b>Profit on ordinary activities after taxation</b>		<b>116</b>	128
<b>Retained profit for the year</b>		<b>116</b>	128

All activities are continuing

There are no recognised gains or losses other than the profit or loss for the current or preceding financial year

The notes on pages 12 to 19 form part of these accounts

**Balance sheet**  
*at 31 December 2010*

	<i>Note</i>	2010 £'000	2009 £'000
<b>Current assets</b>			
Debtors amounts falling due within one year	8	19,972	21,292
Debtors amounts falling due after more than one year	9	1,529,145	1,505,165
Cash at bank and in hand		6,856	6,478
		<hr/>	<hr/>
<b>Creditors</b> amounts falling due within one year	10	1,555,973 (21,060)	1,532,935 (22,118)
		<hr/>	<hr/>
<b>Net current assets</b>		1,534,913	1,510,817
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		1,534,913	1,510,817
<b>Creditors</b> amounts falling due after more than one year	11	(1,534,265)	(1,510,285)
		<hr/>	<hr/>
<b>Net assets</b>		648	532
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	12	50	50
Profit and loss account	13	598	482
		<hr/>	<hr/>
<b>Equity shareholder's funds</b>		648	532
		<hr/>	<hr/>

The notes on pages 12 to 19 form part of these accounts

These financial statements were approved by the Board of Directors on 28 April 2011 and were signed on its behalf by

  
A R McColl  
Finance Director

**Reconciliation of movements in equity shareholder's funds**  
*for the year ended 31 December 2010*

	2010 £'000	2009 £'000
Profit for the financial year	116	128
Net addition to equity shareholder's funds	116	128
Opening equity shareholder's funds	532	404
Closing equity shareholder's funds	648	532

## **Notes to the accounts** *(forming part of the financial statements)*

### **1 Accounting policies**

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

#### ***(a) Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

#### ***(b) Going concern***

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 and 3. The financial position of the company is set out in the financial statements on pages 9 to 19.

As noted in the Directors' Report, the company's principal activity is to act as financing conduit for the activities of a fellow subsidiary, Aspire Defence Limited, which was formed as a special purpose vehicle to perform the Project under the principles of non recourse financing. The company has limited financial resources and is dependent on the performance of Aspire Defence Limited to meet its commitments as they fall due. However, Aspire Defence Limited, has considerable financial resources, a 35 year contract with the Secretary of State for Defence and construction and service contracts with Aspire Defence Capital Works and Aspire Defence Services. As a consequence, the Directors believe that, having made appropriate enquiries of Aspire Defence Limited, the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### ***(c) Cash flow statement***

A cash flow statement is not included with these financial statements as a consolidated cash flow statement, produced under FRS 1, is included in the financial statements of Aspire Defence Holdings Limited, the Company's immediate parent.

#### ***(d) Debt issue costs***

Costs arising in connection with the arrangement of loan finance are offset against the carrying value of the loan and are amortised through the profit and loss account over the period of the loan on the effective interest rate method. The costs are fully recovered from Aspire Defence Limited so an equal and opposite receivable and interest income is shown in the balance sheet and profit and loss respectively.

#### ***(e) Taxation***

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

#### ***(f) Related party transactions***

The Company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' to dispense with the requirement to disclose transactions with group companies which are wholly owned within the group.

**Notes (continued)**  
*(forming part of the financial statements)*

**1 Accounting policies (Continued)**

**(g) Classification of financial instruments issued by the Company**

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds

**2 Profit on ordinary activities before taxation**

	2010 £'000	2009 £'000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration – audit of these financial statements	16	15

One consolidated audit fee is paid by a fellow subsidiary company in respect of the audit of the group. The above amount represents the Directors' best estimate of the audit fee attributable to the Company. No other fees were paid to the company's auditor in 2010 (2009: £nil).

**3 Remuneration of Directors**

The Chief Executive is employed by Aspire Defence Limited and is remunerated by that company for his services to the Aspire Defence Holdings group as a whole.

The other Directors of the Company are employed by either Carillion plc or KBR Inc or Innisfree Limited or HSBC Holdings plc or a subsidiary 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.

**4 Employees**

The Company has no employees (2009: Nil)

**Notes (continued)**  
*(forming part of the financial statements)*

**5 Interest receivable and similar income**

	2010 £'000	2009 £'000
Interest on amounts owing from Aspire Defence Limited	78,534	75,540
Recovery of initial debt issue costs from Aspire Defence Limited	532	532
Interest on cash deposits	3	4
	<u>79,069</u>	<u>76,076</u>

**6 Interest payable and similar charges**

	2010 £'000	2009 £'000
Interest payable on Guaranteed Secured Bonds	68,388	68,293
Interest payable on Loan Notes	6,962	4,061
Monoline credit enhancement fees	2,743	2,747
Amortisation of debt issue costs	532	532
Commitment fees	288	288
	<u>78,913</u>	<u>75,921</u>

**7 Tax on profit on ordinary activities**

	2010 £'000	2009 £'000
Analysis of charge in year -		
<i>UK corporation tax</i>		
Current tax on income for the year	44	43
Adjustments in respect of previous year	(4)	(16)
	<u>40</u>	<u>27</u>

There is no unprovided deferred tax

*Factors affecting the tax charge for the current year*

The tax charge for the current year is profit on ordinary activities multiplied by the standard rate of corporation tax in the UK 28% (2009 28%). There are no other factors affecting the tax charge for the current year

**Notes (continued)**  
*(forming part of the financial statements)*

**8 Debtors amounts falling due within one year**

	2010 £'000	2009 £'000
Prepayments and accrued income	19,972	21,292

**9 Debtors: amounts falling due after more than one year**

	2010 £'000	2009 £'000
Amounts due from fellow subsidiary undertakings	1,529,145	1,505,165

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

	2010 £'000	2009 £'000
Other creditors	259	-
Corporation tax	44	42
Accruals and deferred income	20,757	22,076
	<u>21,060</u>	<u>22,118</u>

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

	2010 £'000	2009 £'000
Guaranteed Secured Bonds		
At the beginning and end of the year	1,463,150	1,463,150
Loan Notes		
At the beginning of the year	47,960	20,982
Loan Notes issued	23,980	26,978
At the end of the year	<u>71,940</u>	<u>47,960</u>
Finance costs capitalised		
Debt issue costs	(11,300)	(13,287)
Less amortisation of net finance costs capitalised	531	1,987
	<u>1,524,321</u>	<u>1,499,810</u>
Accruals and deferred income	9,944	10,475
	<u>1,534,265</u>	<u>1,510,285</u>



**Notes (continued)**  
*(forming part of the financial statements)*

**11 Creditors amounts falling due after more than one year (Continued)**

*Analysis of debt*

	2010 £'000	2009 £'000
Amounts payable in the second to fifth years	35,586	310
Amounts payable after five years	1,499,504	1,510,800
	<u>1,535,090</u>	<u>1,511,110</u>

On 6 April 2006, the Company issued £884m 4.674% Series A Fixed Rate Guaranteed Secured Bonds due 2040 (including up to £152.5m Series A Variation Bonds), and £884m 4.674% Series B Fixed Rate Guaranteed Secured Bonds due 2040 (including up to £152.5m Series B Variation Bonds). The bond principal is repayable on a scheduled basis from 2014 to 2040 and interest is payable half yearly in March and September. The Company retained £230m Authority Variation Bonds and £75m Rescue Variation Bonds which it may later sell, subject to certain restrictions in the Collateral Deed, to finance change and certain contingencies. The Variation Bonds are being held by Citibank N A on behalf of the Company until such time as any additional finance is required.

The Bonds are secured by first priority charges over the whole of the Company's undertaking, property and assets, and those of its parent, Aspire Defence Holdings Limited, and its fellow subsidiary, Aspire Defence Limited. In addition, the Series A and Series B bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by Ambac Assurance UK Limited and MBIA UK Insurance Limited respectively.

On 6 April 2006 the Company, entered into a Loan Note Subscription Agreement pursuant to which (as amended by subsequent Deeds of Accession and Adherence) Carillion Private Finance (Defence) Limited, Kellogg Brown & Root Limited, InfraRed (Infrastructure) Capital Partners Ltd (formerly HSBC Infrastructure Fund Management Limited) as general partner of each of the several limited partnerships constituting HSBC Infrastructure Fund II, and Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund LP agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments from April 2008 to January 2013. Interest is payable half yearly in March and September and capital is repayable on a scheduled basis between 2014 and 2034, subject to the achievement of certain financial tests.

**12 Called up share capital**

	2010 £'000	2009 £'000
<i>Allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

**Notes (continued)**  
*(forming part of the financial statements)*

**13 Profit and loss account**

	2010 £'000	2009 £'000
At beginning of year	482	354
Retained profit for the year	116	128
	<hr/>	<hr/>
At end of year	<u>598</u>	<u>482</u>

**14 Financial instruments**

*Financial risk management policies and objectives*

The Company's financial instruments comprise of short term bank deposits, guaranteed secured bonds, and the on-loan of the bond proceeds, junior debt and equity to the project company, Aspire Defence Limited. The objective of the Company's financial instruments is to provide sufficient financial resources to fund the operating requirements of the project company, Aspire Defence Limited, whilst ensuring that the Company's own cash flows are efficiently tailored to meet its debt service obligations.

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 liquidity, credit and interest rate risks arise in the normal course of the Company's business.

*Price risk*

Price risk, which is principally borne by the Ministry of Defence ("MoD"), is limited to the market value of the variation bonds not yet sold into the secondary market.

*Credit and Liquidity risk*

The Directors are satisfied that the Secretary of State for Defence on behalf of the Crown will be able to fulfil its obligations under the PFI contract to the project company, Aspire Defence Limited. They are therefore also content that Aspire Defence Limited will make the scheduled payments required under the senior and junior on-loan agreements so that the Company can meet its own debt service obligations.

*Interest rate risk*

The following table provides the effective interest rate and re-pricing analysis in respect of income earning financial assets and interest bearing financial liabilities. The analysis indicates the effective interest rates at the balance sheet date and the periods in which the assets and liabilities mature.

**Notes (continued)**  
(forming part of the financial statements)

**14 Financial instruments (Continued)**

	Effective Interest Rate	Total £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	> 5 years £'000
Bank balances	0.41%	6,856	6,856	-	-	-
Senior on-loan*	4.68%	1,463,150	-	-	34,106	1,429,044
Junior on-loan*	12.01%	65,945	-	-	1,356	64,589
Junior on-loan	1.98%	50	-	-	-	50
Series A bond*	4.67%	(731,575)	-	-	(17,053)	(714,522)
Series B bond*	4.67%	(731,575)	-	-	(17,053)	(714,522)
Loan Notes*	12.00%	(71,940)	-	-	(1,480)	(70,460)
<b>Total</b>		<b>911</b>	<b>6,856</b>	<b>-</b>	<b>(124)</b>	<b>(5,821)</b>
* Fixed rates						

The fair values together with the carrying amounts show in the balance sheet of all financial assets and liabilities are as follows

	Carrying Value £'000	Fair Value £'000
Bank balances	6,856	6,856
Senior on-loan	1,463,150	1,463,150
Junior on-loan	65,995	65,995
Series A bonds	(731,575)	(633,992)
Series B bonds	(731,575)	(633,992)
Loan Notes	(71,940)	(71,940)
	<b>911</b>	<b>196,077</b>

*Fair values*

The Series A and Series B fair values were measured at 31 December 2010 using published market prices. The fair value of the other assets and liabilities is deemed to be equal to the carrying value.

**15 Related party disclosures**

The Company entered into the following material transaction with related parties

On 6 April 2006 the Company entered into a Loan Note Subscription Agreement pursuant to which (as amended by subsequent Deeds of Accession and Adherence) Carillion Private Finance (Defence) Limited, Kellogg Brown & Root Limited, InfraRed (Infrastructure) Capital Partners Ltd (formerly HSBC Infrastructure Fund Management Limited) as general partner of each of the several limited partnerships constituting HSBC Infrastructure Fund II, and Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund LP, all of which are the shareholders of the Company's parent, agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments from April 2008 to January 2013. Proceeds from the Loan Note subscriptions are on loaned to Aspire Defence Ltd at a margin of 1bps. At 31 December 2010 £71,940,000 (2009: £47,960,000) was drawn down from these parties in proportion to their share ownership.

**Notes (continued)**  
*(forming part of the financial statements)*

**16 Immediate parent undertaking**

The Company's immediate parent undertaking is Aspire Defence Holdings Limited, which is registered in England and Wales

The smallest group in which the 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, Mandy, Cardiff