

# **Aspire Defence Finance plc**

Strategic report, Directors' report and  
financial statements

Registered number 5700404

31 December 2016

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# Strategic Report

## Business review

Solid progress has again been made by the Project Company, Aspire Defence Limited, during 2016 on all aspects of the Project. 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. The construction aspects of the original Project scope were completed in 2015; 542 new and refurbished assets were delivered since Financial Close in 2006.

On 31 October 2016 Aspire Defence Limited entered into a Deed of Amendment and Restatement of the Project Agreement with the Ministry of Defence (“the Authority”) to include further scope associated with the Army Basing Programme (“ABP”) that is required on the geographic footprint of the Project. Aspire Defence Limited will provide further accommodation and facilities to enable troops to return from Germany in 2019. Once the assets are completed it will also provide additional hard and soft facilities management services to those assets and their occupants until the end of the Project in 2041. The Authority will be funding the cost of the capital expenditure and the additional facilities management costs as they arise over time; the Company is therefore not required to raise further funds for this additional scope.

The Group’s main operating subsidiary 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 subcontractors, 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 risks and termination of the Project Agreement.

## 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 2016, 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 2016, the Company recorded that all measures in this respect had been successfully achieved.

## Strategic Report *(continued)*

### *Financial Performance*

The Directors have modelled the anticipated financial outcome of the Project across its full term. The Directors monitor actual financial performance against anticipated performance. As at 31 December 2016, the Company's performance against this measure was satisfactory.


### *Safety Performance*

The Company is committed to providing a safe environment for those impacted by its activities. The Company monitors actual performance against anticipated performance. In respect of the year ended 31 December 2016, the Company's performance against this measure was satisfactory.

### **Board Membership**

The company had 13 male directors and 1 female director during the year.

By order of the Board



**AR McColl**  
*Company Secretary*

Aspire Business Centre  
Ordnance Road  
Tidworth  
SP9 7QD

30 March 2017

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016.

### 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 and was amended and restated on 31 October 2016 to include further scope associated with ABP. The Project has a thirty-five-year duration.

### Results and dividend

The results for the year are set out on page 10.

The Directors have paid an interim ordinary dividend in respect of the current year of £118,881 (2015: £65,535) and do not propose a final ordinary dividend in respect of the current year (2015: £Nil).

### Financial instrument

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 Note 11 financial statements.

### Employees

There were no direct employees of the Company during the year ended 31 December 2016 (2015: Nil).

### Governance and Regulation

The Modern Slavery Act 2015, which has now come into force, applies to qualifying businesses with financial year ends from 31 March 2016 and requires them 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/>

### Risk management

The risk management policy of the Company is designed to identify and manage risk at the earliest possible point. The Company maintains a detailed risk register which is formally reviewed by the Board on a six monthly basis. The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the Private Finance Initiative ("PFI") contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Company's contractual obligations.

### Financial statements and Strategic Report

The directors confirm that:

- (a) the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, financial position and profit or loss of the Company; and
- (b) the Strategic report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

## 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	(appointed 28 April 2016)	Non Executive Director
A Caines		Non Executive Director
T Faulkner		Alternate Director
LJ Henry		Non Executive Director
AR McColl		Finance Director
P Meffan		Non Executive Director
AH Moore		Chairman
G Quaife		Non Executive Director
B Semple	(resigned 28 April 2016)	Non Executive Director
A Thomson		Chief Executive
M Wayment		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.

### 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.

## Directors' report (*continued*)

### 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.

By order of the Board



**AR McColl**  
Company Secretary

Aspire Business Centre  
Ordnance Road  
Tidworth  
SP9 7QD

*30 March* 2017

## Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 Financial Reporting Standards (IFRSs) as adopted by the EU 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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.



## **Independent auditor's 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 2016 set out on pages 10 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **Independent auditor's 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.



**Bill Holland**  
(Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

10 April 2017

15 Canada Square  
London  
E14 5GL

**Statement of Profit and Loss and Other Comprehensive Income**  
*for the year ended 31 December 2016*

	<i>Note</i>	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Financial income	5	<b>83,649</b>	85,023
Financial expenses	6	<b>(83,491)</b>	(84,874)
<b>Profit before tax</b>		<b>158</b>	149
Taxation	7	<b>(30)</b>	(30)
<b>Profit for the financial year</b>		<b>128</b>	119
<b>Total comprehensive income for the year</b>		<b>128</b>	119

All amounts arise from continuing operations.

The notes on pages 14 to 25 form part of these financial statements.

**Balance Sheet**  
*at 31 December 2016*

		31 December 2016 £000	31 December 2015 £000
<b>Assets</b>			
<b>Non current assets</b>			
Loans due from group undertakings		1,474,342	1,505,915
		<hr/>	<hr/>
<b>Current assets</b>			
Trade and other receivables	8	52,540	48,229
Cash at bank and in hand		214	208
		<hr/>	<hr/>
		52,754	48,437
		<hr/>	<hr/>
<b>Total assets</b>		1,527,096	1,554,352
		<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest bearing loans and borrowings	9	(31,950)	(27,269)
Current tax liabilities		(31)	(31)
Interest accruals on loans and borrowings		(20,549)	(20,918)
		<hr/>	<hr/>
		(52,530)	(48,218)
		<hr/>	<hr/>
<b>Non current liabilities</b>			
Interest bearing loans and borrowings	9	(1,474,386)	(1,505,963)
		<hr/>	<hr/>
<b>Total liabilities</b>		(1,526,916)	(1,554,181)
		<hr/>	<hr/>
<b>Net assets</b>		180	171
		<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>			
Issued share capital	10	50	50
Retained earnings		130	121
		<hr/>	<hr/>
		180	171
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 14 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:

  
**AR McColl**  
Finance Director

**Statement of Changes in Equity**  
*for the year ended 31 December 2016*

	Share capital £000	Retained earnings £000	Total equity £000
<b>Balance at 1 January 2015</b>	50	67	117
Comprehensive income for the year	-	119	119
Dividend	-	(65)	(65)
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2015</b>	50	121	171
Comprehensive income for the year	-	128	126
Dividend	-	(119)	(119)
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2016</b>	50	130	180
	<hr/>	<hr/>	<hr/>

**Statement of Cash Flows**  
*for the year ended 31 December 2016*

	2016 £000	2015 £000
<b>Cash flow from operating activities</b>		
Profit before tax	158	149
<i>Adjustments for:</i>		
Financial income	(83,649)	(85,023)
Financial expense	83,491	84,874
	<hr/>	<hr/>
<b>Operating profit before changes in working capital</b>	-	-
Decrease in trade and other receivables	18	7
Decrease in trade and other payables	(17)	(7)
	<hr/>	<hr/>
<b>Cash used by from operations</b>	1	-
Tax paid	(30)	(14)
	<hr/>	<hr/>
<b>Net cash outflows from operating activities</b>	(29)	(14)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Interest received	83,383	84,709
Repayment of loans from fellow subsidiaries	27,507	24,824
	<hr/>	<hr/>
<b>Net cash inflows from investing activities</b>	110,890	109,533
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Interest paid	(83,229)	(84,554)
Repayment of borrowings	(27,507)	(24,824)
Dividends paid	(119)	(65)
	<hr/>	<hr/>
<b>Net cash outflows from financing activities</b>	(110,855)	(109,443)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	6	76
Cash and cash equivalents at the beginning of the year	208	132
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	214	208
	<hr/> <hr/>	<hr/> <hr/>

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

### 1 Accounting policies

#### (a) Corporate information

Aspire Defence Finance plc (the "Company") is a company incorporated and domiciled in the UK.

#### (b) Basis of preparation

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

As noted in the Directors' Report, the Company is a special purpose vehicle formed to act as financing conduit for the activities of a fellow subsidiary, Aspire Defence Limited, under the principles of non-recourse financing. 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 the Company, which is dependent on the performance of Aspire Defence Limited, is well placed to manage its business risks successfully.

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

#### *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 future financial statements of the Company.

Effective Date	New standards or amendments
1 January 2018	IFRS 15: Revenue from Contracts with Customers
1 January 2018	IFRS 9: Financial Instruments

#### (c) Measurement convention

The statutory accounts have been prepared on the historical cost basis.

## Notes

### 1 Accounting policies (*continued*)

#### *(d) Interest and ongoing finance 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 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.

#### *(e) 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 profit and loss 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 statement of financial position and profit or loss respectively.

#### *(f) Taxation*

Income tax on the profit or loss for the year comprises current and deferred 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.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future tax profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets/liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on where there is an intention to settle the balance on a net basis.

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

Financial instruments issued by the Company are treated as equity 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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.



## Notes (continued)

### 1 Accounting policies (continued)

#### (g) Classification of financial instruments issued by the Company (continued)

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.

#### (h) Non-derivative financial instruments

Non-derivative financial instruments comprise, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### Interest-bearing loan receivables

Interest-bearing receivables are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing receivables are stated at amortised cost using the effective interest method, less any impairment losses.

##### Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

### 2 Audit fees

	2016 £000	2015 £000
Auditor's remuneration – audit of the statutory financial statements	14	14

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other 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.

## Notes (continued)

### 3 Remuneration of Directors

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

The other Directors of the Company are employed by either KBR Inc. or Innisfree Limited or InfraRed Capital Partners Limited 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 (2015: Nil).

### 5 Financial income

	2016 £000	2015 £000
Interest on amounts owing from Aspire Defence Limited	83,649	85,023

### 6 Financial expenses

	2016 £000	2015 £000
Interest payable on guaranteed secured bonds	69,486	70,652
Interest payable on loan notes	14,005	14,222
	<u>83,491</u>	<u>84,874</u>

### 7 Taxation

	2016 £000	2015 £000
Analysis of charge in year: -		
<i>UK corporation tax</i>		
Current tax on income for the year	31	30
Adjustments in respect of prior years	(1)	-
	<u>30</u>	<u>30</u>
Tax on profit on ordinary activities	<u>30</u>	<u>30</u>

There is no unprovided deferred tax.

## Notes (continued)

### 7 Taxation (continued)

#### *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 20.0% (2015: 20.25%) are explained below.

	2016 £000	2015 £000
<i>Current tax reconciliation</i>		
Profit before tax	158	149
	<hr/>	<hr/>
Current tax at 20.0% (2015: 20.25%)	31	30
Adjustments in respect of prior years	(1)	-
	<hr/>	<hr/>
Total tax charge	30	30
	<hr/> <hr/>	<hr/> <hr/>

#### *Factors affecting future tax charges*

In Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. In Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This will reduce the Company's future current tax charge accordingly.

### 8 Trade and other receivables: amounts falling due within one year

	2016 £000	2015 £000
Loans due from fellow subsidiary undertakings	31,948	27,269
Interest on loans due from fellow subsidiary undertakings	20,592	20,960
	<hr/>	<hr/>
	52,540	48,229
	<hr/> <hr/>	<hr/> <hr/>

Loans due from fellow subsidiary undertakings are advances of the net bond proceeds (Senior On-Loan), the share subscription and shareholder loan notes (Junior On-loan) proceeds to Aspire Defence Finance Limited, a fellow subsidiary, for the purpose of financing the project 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 the company. Interest accruing on the Junior On-Loan is payable at LIBOR plus 100 bps on the share subscription proceeds (effective rate 1.64% (2015: 1.72%) 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 the Company's obligations at each payment date in March and September.

## Notes (continued)

### 9 Interest bearing loans and borrowings

	2016 £000	2015 £000
<b>Non-current liabilities</b>		
Guaranteed secured bonds	1,361,410	1,390,838
Loan notes	112,976	115,125
	<u>1,474,386</u>	<u>1,505,963</u>
<b>Current liabilities</b>		
Guaranteed secured bonds	29,821	25,376
Loan notes	2,129	1,893
	<u>31,950</u>	<u>27,269</u>

On 6 April 2006, the Company issued £884m 4.674% Series A Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series A Variation Bonds), and £884m 4.674% Series B Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series B Variation Bonds). The bond principal is repayable on a scheduled basis from 2015 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 could have later sold, subject to certain restrictions, to finance change and certain contingencies. The £230m Authority Variation Bonds and the £75m Rescue Variation Bonds were cancelled in 2014 and 2015 respectively. Accordingly, no Series A or Series B Variation Bonds remain in issue.

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 and subsequently Deeds of Accession and Adherence thereto pursuant to which the loan note holders agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. The loan note subscription obligation has now been fully satisfied. Interest is payable half yearly in March and September and capital is repayable on a scheduled basis between 2015 and 2034, subject to the achievement of certain financial tests.

### 10 Share capital

	2016 £000	2015 £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)

### 11 Financial instruments

The Company's principal financial instruments comprise 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.

#### *Nature and extent of risks arising from financial instruments*

The Aspire Defence group 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 in 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 dependent on the financial standing of institutions and applied sector and country limits in line with their financial strength. The Company also has an intercompany balance outstanding from fellow subsidiary, Aspire Defence Limited. Aspire Defence Limited's income, which is earned from its long term PFI contract with the Secretary of State for Defence has been structured to meet its repayments to the Company, so there is little credit risk.

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:

	2016 £000	2015 £000
Cash at bank and in hand	214	208
Amounts due from fellow subsidiary undertakings	1,506,290	1,533,184
	<hr/>	<hr/>
	1,506,504	1,533,392
	<hr/>	<hr/>

## Notes (continued)

### 11 Financial instruments (continued)

The ageing of financial assets at the reporting date was:

	2016 £000	2015 £000
Due within one year	31,948	27,269
Due after one year	1,474,342	1,505,915
	<u>1,506,290</u>	<u>1,533,184</u>

#### 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 the Senior and Junior borrowings.

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.

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

31 December 2016	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
Accruals and deferred income	20,549	20,549	20,549	-	-	-
Current tax liabilities	31	31	31	-	-	-
Series A Bond	695,616	1,216,231	48,962	49,212	147,241	970,816
Series B Bond	695,616	1,216,231	48,962	49,212	147,241	970,816
Loan notes	115,105	278,454	15,900	15,901	47,706	198,947
	<u>1,526,921</u>	<u>2,731,500</u>	<u>134,408</u>	<u>114,325</u>	<u>342,188</u>	<u>2,140,579</u>
 31 December 2015	 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
Accruals and deferred income	20,918	20,918	20,918	-	-	-
Current tax liabilities	31	31	31	-	-	-
Series A Bond	708,107	1,263,611	47,380	48,962	147,584	1,019,685
Series B Bond	708,107	1,263,611	47,380	48,962	147,584	1,019,685
Loan notes	117,018	294,354	15,900	15,900	47,704	214,850
	<u>1,554,181</u>	<u>2,842,525</u>	<u>131,609</u>	<u>113,824</u>	<u>342,872</u>	<u>2,254,220</u>

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

## Notes (continued)

### 11 Financial instruments (continued)

#### 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 to Aspire Defence Limited is fixed for the duration of the PFI project.

The interest rate for the Bond and loan notes is fixed for the duration of the PFI project.

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

	2016 £000	2015 £000
<b>Fixed rate instruments</b>		
Financial assets	1,506,240	1,533,184
Financial liabilities	(1,506,336)	(1,533,232)
	<u>(96)</u>	<u>(48)</u>
<b>Variable rate instruments</b>		
Financial assets	<u>264</u>	<u>258</u>

#### 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 2015.

	<b>Profit or loss</b>		<b>Equity</b>	
<b>31 December 2016</b>	<b>100 bp increase £000</b>	<b>100 bp decrease £000</b>	<b>100 bp increase £000</b>	<b>100 bp decrease £000</b>
Variable rate instruments	3	(3)	3	(3)
Cash flow sensitivity	<u>3</u>	<u>(3)</u>	<u>3</u>	<u>(3)</u>

## Notes (continued)

### 11 Financial instruments (continued)

31 December 2015	Profit or loss		Equity	
	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
Variable rate instruments	3	(3)	3	(3)
Cash flow sensitivity	3	(3)	3	(3)

#### Price and foreign exchange risk

The Company does not invest in instrument such as equity shares and does not have financial assets or liabilities denominated in foreign currencies. Therefore, the Company 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:

	2016 Carrying Amount £000	2016 Fair Value £000	2015 Carrying Amount £000	2015 Fair Value £000
Cash at bank and in hand	214	214	208	208
Prepayments and accrued income	20,592	20,592	20,960	20,960
Senior on-loan	1,391,222	1,674,319	1,416,204	1,610,321
Junior on-loan	115,018	132,213	116,930	130,389
Junior on-loan	50	50	50	50
Accruals and deferred income	(20,553)	(20,553)	(20,918)	(20,918)
Current tax liabilities	(31)	(31)	(31)	(31)
Series A bonds	(695,616)	(837,783)	(708,107)	(804,123)
Series B bonds	(695,616)	(834,906)	(708,107)	(804,552)
Loan notes	(115,105)	(132,282)	(117,018)	(130,478)
	175	1,833	171	1,826

#### 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 carrying amount is deemed to reflect the fair value. The Series A and Series B fair values were measured at the reporting date using published market prices. The fair values of the on-loans and the loan notes are estimated using the bond fair values as a guide to the market price.



## Notes (continued)

### 11 Financial instruments (continued)

#### *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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Loans and receivables</b>				
Amounts due from fellow subsidiaries	-	1,806,582	-	1,806,582
	<hr/>	<hr/>	<hr/>	<hr/>
Total loans and receivables	-	1,806,582	-	1,806,582
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	(1,804,971)	-	-	(1,804,971)
Other payables	-	(20,584)	-	(20,584)
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	(1,804,971)	(20,584)	-	(1,825,555)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total financial instruments</b>	(1,804,971)	1,785,998	-	(18,973)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2015</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Loans and receivables</b>				
Amounts due from fellow subsidiaries	-	1,740,760	-	1,740,760
	<hr/>	<hr/>	<hr/>	<hr/>
Total loans and receivables	-	1,740,760	-	1,740,760
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	(1,739,153)	-	-	(1,739,153)
Other payables	-	(20,949)	-	(20,949)
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	(1,739,153)	(20,949)	-	(1,760,102)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total financial instruments</b>	(1,739,153)	1,719,811	-	(19,342)
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 12 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) KBR (UK) Investments Limited, InfraRed Infrastructure Yield Holdings Limited, Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, and Infrastructure Investments General Partner Limited (in its capacity as general partner of Infrastructure Investments Limited Partnership) agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. Proceeds from the Loan Note subscriptions were lent to Aspire Defence Ltd at a margin of 1 basis point. All subscription obligations have now been fulfilled.

The interest paid to the loan note holders during the year and outstanding balances at the year-end were as follows:

	2016 Balance outstanding £000	2016 Accrued interest £000	2016 Interest paid	2015 Balance outstanding £000	2015 Accrued interest £000	2015 Interest paid
KBR (UK) Investments Limited	51,989	1,573	6,334	52,845	1,598	6,411
Innisfree Nominees Limited*	43,325	1,310	5,278	44,038	1,332	4,274
Infrastructure Investments General Partner Limited**	14,441	437	1,759	14,679	444	1,781
InfraRed Infrastructure Yield Holdings Limited	5,777	175	704	5,872	178	712
	<u>115,532</u>	<u>3,495</u>	<u>14,075</u>	<u>117,434</u>	<u>3,552</u>	<u>13,178</u>

\*as nominee for and on behalf of Innisfree PFI Secondary Fund

\*\* in its capacity as general partner of Infrastructure Investments Limited Partnership

### 13 Immediate parent undertaking

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

The only 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, Maindy, Cardiff.