

# **Aspire Defence Finance plc**

Strategic report, Directors' report and  
financial statements

Registered number 5700404

31 December 2014

TUESDAY



\*A44D1BEG\*

A24

31/03/2015

#120

COMPANIES HOUSE

## Contents

|   |    |
|---|----|
| Directors' report   | 2  |
| Strategic Report  | 5  |
| Statement of Directors' responsibilities                                  | 7  |
| Independent auditor's report to the members of Aspire Defence Finance plc | 8  |
| Statement of Profit and Loss and Other Comprehensive Income               | 10 |
| Balance Sheet   | 11 |
| Statement of Changes in Equity  | 12 |
| Cash Flow Statement   | 13 |
| Notes to the financial statements   | 14 |

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

### 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 thirty five year duration, with the construction activities planned to be complete by summer 2015.

### 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 £975,000 (2013: £Nil) and do not propose a final ordinary dividend in respect of the current year (2013: £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 Note 11 financial statements.

### Employees

There were no direct employees of the Company during the year ended 31 December 2014 (2013: Nil).

### 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 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.

## 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        | (appointed 29 January 2015)                         | Non Executive Director |
| R. Barrientos   | (resigned 21 March 2014)                            | Non Executive Director |
| G. Beazley-Long |   | Non Executive Director |
| T. Bowden       | (resigned 1 August 2014)                            | Alternate Director     |
| T. Faulkner     | (appointed 28 August 2014)                          | Alternate Director     |
| L. J. Henry     |   | Non Executive Director |
| V. Hoang        | (resigned 11 August 2014)                           | Alternate Director     |
| A. R. McColl    |   | Finance Director       |
| P. Meffan       |   | Non Executive Director |
| A. H. Moore     |   | Chairman               |
| K. Pickard      |   | Non Executive Director |
| G. Quaife       |   | Non Executive Director |
| C. Schneider    | (appointed 27 March 2014, resigned 19 January 2015) | Non Executive Director |
| B. Semple       |   | Non Executive Director |
| P. Smart        | (resigned 11 July 2014)                             | Chief Executive        |
| A. Thomson      | (appointed 30 June 2014)                            | 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.

## **Directors' report (*continued*)**

### **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.

### **Auditor**

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.



A. R. McColl  
COMPANY SECRETARY

Aspire Business Centre  
Ordnance Road  
Tidworth  
SP9 7QD  
**26 February 2015**

## Strategic Report

### Business Review

Solid progress has again been made during 2014 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 9 (2013: 28) primary assets into service across garrisons on Salisbury Plain and in Aldershot during the year. This brings the total new and refurbished assets delivered since Financial Close to 540 (31 December 2013: 531), or approximately 99% of the total construction scope, 92% of which have either been delivered earlier than or within one week of the planned date. One primary asset remains in progress.

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 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.

### International Financial Reporting Standards

During 2013 the Directors of Aspire Defence Finance plc considered the implications for the Company of the forthcoming regulatory requirement for UK companies to adopt new accounting standards commencing January 2015. The choice of accounting standards for Directors was between adopting FRS 101, FRS 102 or alternatively full EU-IFRS. After having received information regarding the impact and appropriateness of the adoption of the alternatives and after receiving professional advice, the Directors decided it was in the Company's best interest to adopt full EU-IFRS commencing 2014.

This is Aspire Defence Finance plc's first year under which accounts have been stated in accordance with EU-IFRS, the financial statements of the company for the year to December 2013 had originally been produced under UK Generally Accepted Accounting Policies, but are restated in these accounts to show corresponding EU-IFRS figures.

To comply with IFRS 1 *First time Adoption of International Financial Reporting Standards* the Company has had to restate its accounts, as if it had adopted EU-IFRS accounting standards from commencement of the business. For Aspire Defence Finance plc this is from April 2006.

The cumulative impact on retained profits to the year ended 31 December 2013 following the adoption of EU-IFRS on 1 Jan 14 was a reduction of £64k.

## Strategic Report (*continued*)

### 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 2014, 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 2014, the Company recorded that all measures in this respect had been successfully achieved.

#### *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 2014, 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 2014, the Company's performance against this measure was satisfactory.

By order of the board



A. R. McColl  
COMPANY SECRETARY

Aspire Business Centre  
Ordnance Road  
Tidworth  
SP9 7QD  
26 February 2015

## 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 judgments 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 2014 set out on pages 10 to 30. 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 2014 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **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*

**26 February 2015**

15 Canada Square  
London  
E14 5GL

**Statement of Profit and Loss and Other Comprehensive Income**  
*for the year ended 31 December 2014*

|  | <i>Note</i> | <b>2014</b><br><b>£'000</b> | <b>2013</b><br><b>£'000</b> |
|--|-------------|-----------------------------|-----------------------------|
| Financial income                               | 5           | <b>86,211</b>               | 86,761                      |
| Financial expenses                             | 6           | <b>(86,054)</b>             | (86,620)                    |
|  |             | <hr/>                       | <hr/>                       |
| <b>Profit before tax</b>                       |             | <b>157</b>                  | 141                         |
| Taxation                                       | 7           | <b>(30)</b>                 | (32)                        |
|  |             | <hr/>                       | <hr/>                       |
| <b>Profit for year</b>                         |             | <b>127</b>                  | 109                         |
|  |             | <hr/>                       | <hr/>                       |
| <b>Total comprehensive income for the year</b> |             | <b>127</b>                  | 109                         |
|  |             | <hr/>                       | <hr/>                       |

All amounts arise from continuing operations.

The notes on pages 14 to 30 form part of these financial statements.

## Balance Sheet

at 31 December 2014

|   |    | 31 December<br>2014<br>£'000 | 31 December<br>2013<br>£'000 | 1 January<br>2013<br>£'000 |
|---|----|------------------------------|------------------------------|----------------------------|
| <b>Assets</b>                             |    |                              |                              |                            |
| <b>Non current assets</b>                 |    |                              |                              |                            |
| Loans due from group undertakings         |    | 1,532,797                    | 1,556,784                    | 1,561,639                  |
| <b>Current assets</b>                     |    |                              |                              |                            |
| Trade and other receivables               | 8  | 45,864                       | 33,243                       | 21,423                     |
| Cash at bank and in hand                  |    | 132                          | 980                          | 7,384                      |
|   |    | <u>45,996</u>                | <u>34,223</u>                | <u>28,807</u>              |
| <b>Total assets</b>                       |    | <u><b>1,578,793</b></u>      | <u><b>1,591,007</b></u>      | <u><b>1,590,446</b></u>    |
| <b>Liabilities</b>                        |    |                              |                              |                            |
| <b>Current liabilities</b>                |    |                              |                              |                            |
| Interest bearing loans and borrowings     | 9  | (24,582)                     | (11,639)                     | -                          |
| Current tax liabilities                   |    | (15)                         | (22)                         | (27)                       |
| Interest accruals on loans and borrowings |    | (21,243)                     | (21,564)                     | (21,921)                   |
|   |    | <u>(45,840)</u>              | <u>(33,225)</u>              | <u>(21,948)</u>            |
| <b>Non current liabilities</b>            |    |                              |                              |                            |
| Interest bearing loans and borrowings     | 9  | (1,532,836)                  | (1,556,817)                  | (1,567,642)                |
| <b>Total liabilities</b>                  |    | <u><b>(1,578,676)</b></u>    | <u><b>(1,590,042)</b></u>    | <u><b>(1,589,590)</b></u>  |
| <b>Net assets</b>                         |    | <u><b>117</b></u>            | <u><b>965</b></u>            | <u><b>856</b></u>          |
| <b>Equity</b>                             |    |                              |                              |                            |
| Issued share capital                      | 10 | 50                           | 50                           | 50                         |
| Retained earnings                         |    | 67                           | 915                          | 806                        |
|   |    | <u><b>117</b></u>            | <u><b>965</b></u>            | <u><b>856</b></u>          |

The notes on pages 14 to 30 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 February 2015 and were signed on its behalf by:

  
**A. R. McColl**  
Finance Director

**Statement of Changes in Equity**  
*for the year ended 31 December 2014*

|                                    | Share capital<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|------------------------------------|------------------------|-------------------------------|--------------------------|
| <b>Balance at 1 January 2013</b>   | 50                     | 806                           | 856                      |
| Comprehensive income for the year  | -                      | 109                           | 109                      |
| <b>Balance at 31 December 2013</b> | 50                     | 915                           | 965                      |
| Comprehensive income for the year  | -                      | 127                           | 127                      |
| Dividend                           | -                      | (975)                         | (975)                    |
| <b>Balance at 31 December 2014</b> | 50                     | 67                            | 117                      |

## Cash Flow Statement

*for the year ended 31 December 2014*

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| <b>Cash flow from operating activities</b>                |               |               |
| Profit before tax   | 157           | 141           |
| <i>Adjustments for:</i>                                   |               |               |
| Financial income  | (86,211)      | (86,761)      |
| Financial expense   | 86,054        | 86,620        |
|   | <hr/>         | <hr/>         |
| <b>Operating profit before changes in working capital</b> | -             | -             |
| Decrease in trade and other receivables                   | 153           | -             |
| Decrease in trade and other payables                      | (152)         | (538)         |
|   | <hr/>         | <hr/>         |
| <b>Cash generated from/ (used by) operations</b>          | 1             | (538)         |
| Tax paid  | (36)          | (36)          |
|   | <hr/>         | <hr/>         |
| <b>Net cash outflows from operating activities</b>        | (35)          | (574)         |
|   | <hr/>         | <hr/>         |
| <b>Cash flows from investing activities</b>               |               |               |
| Interest received   | 85,676        | 85,790        |
| Investments made  | -             | (5,995)       |
| Repayment of loans from fellow subsidiaries               | 11,748        | -             |
|   | <hr/>         | <hr/>         |
| <b>Net cash inflows from investing activities</b>         | 97,424        | 79,795        |
|   | <hr/>         | <hr/>         |
| <b>Cash flows from financing activities</b>               |               |               |
| Interest paid   | (85,514)      | (85,625)      |
| Repayment of borrowings                                   | (11,748)      | -             |
| Dividends paid  | (975)         | -             |
|   | <hr/>         | <hr/>         |
| <b>Net cash outflows from financing activities</b>        | (98,237)      | (85,625)      |
|   | <hr/>         | <hr/>         |
| Net decrease in cash and cash equivalents                 | (848)         | (6,404)       |
| Cash and cash equivalents at the beginning of the year    | 980           | 7,384         |
|   | <hr/>         | <hr/>         |
| <b>Cash and cash equivalents at the end of the year</b>   | 132           | 980           |
|   | <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 ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2013 for the purposes of the transition to Adopted IFRSs.

The Company is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 14.

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                    |
|-----------------|--|
| To be announced | IFRS 9 Financial instruments (2010) and (2009) |

#### *(c) Measurement convention*

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

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

**1 Accounting policies (Continued)**

***(d) Interest and ongoing finance charges***

All interest receivable, payable and other ongoing finance charges are taken to profit and loss.

***(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 and loss respectively.

***(f) Taxation***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and 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)

(forming part of the financial statements)

### 1 Accounting policies (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

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Auditor's remuneration – audit of the statutory financial statements | 11            | 18            |
| Auditor's remuneration – audit of non-statutory accounts             | 19            | -             |
|  | <hr/> 30      | <hr/> 18      |

One consolidated audit fee is paid by a fellow subsidiary company in respect of the audit of the group. No other fees were paid to the company's auditor in 2014 (2013: £nil)

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

**3 Remuneration of Directors**

The Chief Executive, Finance Director and Chairman 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 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 (2013: nil).

**5 Financial income**

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| Interest on amounts owing from Aspire Defence Limited | 86,207        | 86,755        |
| Interest on cash deposits                             | 4             | 6             |
|   | <u>86,211</u> | <u>86,761</u> |

**6 Financial expenses**

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Interest payable on Guaranteed Secured Bonds | 71,665        | 72,130        |
| Interest payable on Loan Notes               | 14,389        | 14,490        |
|  | <u>86,054</u> | <u>86,620</u> |

**7 Taxation**

|                                       | 2014<br>£'000 | 2013<br>£'000 |
|---------------------------------------|---------------|---------------|
| Analysis of charge in year:-          |               |               |
| <i>UK corporation tax</i>             |               |               |
| Current tax on income for the year    | 34            | 34            |
| Adjustments in respect of prior years | (4)           | (2)           |
|                                       | <u>30</u>     | <u>32</u>     |

There is no unprovided deferred tax.

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

**7 Taxation (continued)**

*Factors affecting the tax charge for the current year:-*

The tax charge for the year is lower than the effective statutory rate of corporation tax for the year of 21.5% (2013: 23.25%).

|                                     | 2014<br>£'000 | 2013<br>£'000 |
|-------------------------------------|---------------|---------------|
| <i>Current tax reconciliation</i>   |               |               |
| Profit before tax                   | 157           | 141           |
|                                     | <hr/>         | <hr/>         |
| Current tax at 21.5% (2013: 23.25%) | 34            | 33            |
| <i>Effects of:</i>                  |               |               |
| Adjustment for prior periods        | (4)           | (2)           |
| Change in tax rate                  | -             | 1             |
|                                     | <hr/>         | <hr/>         |
| Total tax charge                    | 30            | 32            |
|                                     | <hr/>         | <hr/>         |

*Factors affecting the tax charge for the current year:*

The 2013 Budget announced on 20 March 2013 that the UK Corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012 and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

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

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| Loans due from fellow subsidiary undertakings             | 24,581        | 11,638        |
| Interest on loans due from fellow subsidiary undertakings | 21,283        | 21,605        |
|   | <hr/>         | <hr/>         |
|   | 45,864        | 33,243        |
|   | <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 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 1.67% (2013: 1.60%) 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)**  
(forming part of the financial statements)

**9 Interest bearing loans and borrowings**

|                                | 2014<br>£'000    | 2013<br>£'000    |
|--------------------------------|------------------|------------------|
| <b>Non-current liabilities</b> |                  |                  |
| Guaranteed secured bonds       | 1,415,818        | 1,438,156        |
| Loan notes                     | 117,018          | 118,661          |
|                                | <u>1,532,836</u> | <u>1,556,817</u> |
| <br><b>Current liabilities</b> |                  |                  |
| Guaranteed secured bonds       | 22,918           | 10,868           |
| Loan notes                     | 1,664            | 771              |
|                                | <u>24,582</u>    | <u>11,639</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 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 £230m Authority Variation Bonds were cancelled in 2014.

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 subsequent Deeds of Accession and Adherence thereto pursuant to which Infrastructure Investment Holdings Limited, KBR (UK) Investments Limited, InfraRed Infrastructure Yield Holdings Limited, and Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. During the year Infrastructure Investments Holdings Limited transferred its investment to Infrastructure Investments General Partner Limited (in its capacity as general partner of Infrastructure Investments Limited Partnership). 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 2014 and 2034, subject to the achievement of certain financial tests.

**10 Share capital**

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| <b>Allotted, called up and fully paid</b> |               |               |
| 50,000 Ordinary shares of £1 each         | 50            | 50            |
|   | <u>50</u>     | <u>50</u>     |

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

**11 Financial instruments**

The Company's principal 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 are 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 in at least two separate funds in the same financial institution. The Company maintains a 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 Private Finance Initiative 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:

|   | 2014<br>£'000    | 2013<br>£'000    |
|---|------------------|------------------|
| Cash at bank and in hand                        | 132              | 980              |
| Amounts due from fellow subsidiary undertakings | 1,557,378        | 1,568,422        |
|   | <u>1,557,510</u> | <u>1,569,402</u> |

The ageing of financial assets at the reporting date was:

|                     | 2014<br>£'000    | 2013<br>£'000    |
|---------------------|------------------|------------------|
| Due within one year | 24,581           | 11,638           |
| Due after one year  | 1,532,797        | 1,556,784        |
|                     | <u>1,557,378</u> | <u>1,568,422</u> |

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

**11 Financial instruments (Continued)**

*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:

| <b>31 December 2014</b>      | <b>Carrying<br/>Amount<br/>£'000</b> | <b>Contractual<br/>Cash flows<br/>£'000</b> | <b>Less than<br/>One year<br/>£'000</b> | <b>1-2 years<br/>£'000</b> | <b>2-5 years<br/>£'000</b> | <b>More than<br/>5 years<br/>£'000</b> |
|------------------------------|--------------------------------------|---|---|----------------------------|----------------------------|--|
| Accruals and deferred income | (21,243)                             | (21,243)                                    | (21,243)                                | -                          | -                          | -                                      |
| Current tax liabilities      | (15)                                 | (15)  | (15)                                    |                            |                            |  |
| Series A Bond                | (719,368)                            | (1,310,324)                                 | (46,717)                                | (47,380)                   | (147,451)                  | (1,068,776)                            |
| Series B Bond                | (719,368)                            | (1,310,324)                                 | (46,717)                                | (47,380)                   | (147,451)                  | (1,068,776)                            |
| Loan notes                   | (118,682)                            | (310,253)                                   | (15,899)                                | (15,900)                   | (47,702)                   | (230,752)                              |
|                              | <u>(1,578,676)</u>                   | <u>(2,952,159)</u>                          | <u>(130,591)</u>                        | <u>(110,660)</u>           | <u>(342,604)</u>           | <u>(2,368,304)</u>                     |
| <b>31 December 2013</b>      | <b>Carrying<br/>Amount<br/>£'000</b> | <b>Contractual<br/>Cash flows<br/>£'000</b> | <b>Less than<br/>One year<br/>£'000</b> | <b>1-2 years<br/>£'000</b> | <b>2-5 years<br/>£'000</b> | <b>More than<br/>5 years<br/>£'000</b> |
| Accruals and deferred income | (21,564)                             | (21,564)                                    | (21,564)                                | -                          | -                          | -                                      |
| Current tax liabilities      | (22)                                 | (22)  | (22)                                    |                            |                            |  |
| Series A Bond                | (724,512)                            | (1,351,366)                                 | (41,043)                                | (46,717)                   | (145,554)                  | (1,118,052)                            |
| Series B Bond                | (724,512)                            | (1,351,366)                                 | (41,043)                                | (46,717)                   | (145,554)                  | (1,118,052)                            |
| Loan notes                   | (119,432)                            | (325,416)                                   | (15,163)                                | (15,899)                   | (47,701)                   | (246,653)                              |
|                              | <u>(1,590,042)</u>                   | <u>(3,049,734)</u>                          | <u>(118,835)</u>                        | <u>(109,333)</u>           | <u>(338,809)</u>           | <u>(2,482,757)</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)**  
(forming part of the financial statements)

**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 Private Finance Initiative project period.

The interest rate for the Senior and Junior debt is fixed for the duration of the Private Finance Initiative project period.

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

|                                  | 2014<br>£'000 | 2013<br>£'000 |
|----------------------------------|---------------|---------------|
| <b>Fixed rate instruments</b>    |               |               |
| Financial assets                 | 1,557,378     | 1,568,372     |
| Financial liabilities            | (1,557,418)   | (1,568,456)   |
|                                  | <u>(40)</u>   | <u>(84)</u>   |
| <b>Variable rate instruments</b> |               |               |
| Financial assets                 | <u>182</u>    | <u>1,030</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 2013.

|                           | Profit or loss           |                          | Equity                   |                          |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                           | 100 bp increase<br>£'000 | 100 bp decrease<br>£'000 | 100 bp increase<br>£'000 | 100 bp decrease<br>£'000 |
| <b>31 December 2014</b>   |                          |                          |                          |                          |
| Variable rate instruments | 2                        | (2)                      | -                        | -                        |
| Cash flow sensitivity     | <u>2</u>                 | <u>(2)</u>               | <u>-</u>                 | <u>-</u>                 |

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

**11 Financial instruments (Continued)**

| 31 December 2013          | Profit or loss           |                          | Equity                   |                          |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                           | 100 bp increase<br>£'000 | 100 bp decrease<br>£'000 | 100 bp increase<br>£'000 | 100 bp decrease<br>£'000 |
| Variable rate instruments | 10                       | (10)                     | -                        | -                        |
| Cash flow sensitivity     | 10                       | (10)                     | -                        | -                        |

*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:

|                                | 2014<br>Carrying<br>Amount<br>£'000 | 2014<br>Fair<br>Value<br>£'000 | 2013<br>Carrying<br>Amount<br>£'000 | 2013<br>Fair<br>Value |
|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|-----------------------|
| Cash at bank and in hand       | 132                                 | 132                            | 980                                 | 980                   |
| Prepayments and accrued income | 21,283                              | 21,283                         | 21,605                              | 21,605                |
| Senior on-loan                 | 1,438,726                           | 1,612,854                      | 1,449,014                           | 1,470,508             |
| Junior on-loan                 | 118,602                             | 131,298                        | 119,358                             | 125,178               |
| Junior on-loan                 | 50                                  | 50                             | 50                                  | 50                    |
| Accruals and deferred income   | (21,243)                            | (21,243)                       | (21,564)                            | (21,564)              |
| Current tax liabilities        | (15)                                | (15)                           | (22)                                | (22)                  |
| Series A bonds                 | (719,368)                           | (806,561)                      | (724,512)                           | (736,403)             |
| Series B bonds                 | (719,368)                           | (806,902)                      | (724,512)                           | (734,721)             |
| Loan notes                     | (118,682)                           | (131,366)                      | (119,432)                           | (125,232)             |
|                                | 117                                 | (470)                          | 965                                 | 379                   |

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

**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 2014                      | Level 1<br>£'000     | Level 2<br>£'000     | Level 3<br>£'000     | Total<br>£'000     |
|---------------------------------------|----------------------|----------------------|----------------------|--------------------|
| <b>Loans and receivables</b>          |                      |                      |                      |                    |
| Amounts due from fellow subsidiaries  | -                    | 1,557,378            | -                    | 1,557,378          |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| Total loans and receivables           | -                    | 1,557,378            | -                    | 1,557,378          |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| <b>Financial liabilities</b>          |                      |                      |                      |                    |
| Interest bearing loans and borrowings | (1,557,418)          | -                    | -                    | (1,557,418)        |
| Other payables                        | -                    | (21,258)             | -                    | (21,258)           |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| Total financial liabilities           | (1,557,418)          | (21,258)             | -                    | (1,578,676)        |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| <b>Total financial instruments</b>    | (1,557,418)          | 1,536,120            | -                    | (21,298)           |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| <br>31 December 2013                  | <br>Level 1<br>£'000 | <br>Level 2<br>£'000 | <br>Level 3<br>£'000 | <br>Total<br>£'000 |
| <b>Loans and receivables</b>          |                      |                      |                      |                    |
| Amounts due from fellow subsidiaries  | -                    | 1,568,422            | -                    | 1,568,422          |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| Total loans and receivables           | -                    | 1,568,422            | -                    | 1,568,422          |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| <b>Financial liabilities</b>          |                      |                      |                      |                    |
| Interest bearing loans and borrowings | (1,568,456)          | -                    | -                    | (1,568,456)        |
| Other payables                        | -                    | (21,586)             | -                    | (21,586)           |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| Total financial liabilities           | (1,568,456)          | (21,586)             | -                    | (1,590,042)        |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |
| <b>Total financial instruments</b>    | (1,568,456)          | 1,546,836            | -                    | (21,620)           |
|                                       | <hr/>                | <hr/>                | <hr/>                | <hr/>              |

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

**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) Infrastructure Investment Holdings Limited, KBR (UK) Investments Limited, InfraRed Infrastructure Yield Holdings Limited, and Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, 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. During the year Infrastructure Investments Holdings Limited transferred its investment to Infrastructure Investments General Partner Limited (in its capacity as general partner of Infrastructure Investments Limited Partnership). Proceeds from the Loan Note subscriptions are 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:

|  | 2014           | 2014         | 2014          | 2013           | 2013         | 2013          |
|--|----------------|--------------|---------------|----------------|--------------|---------------|
|  | Balance        | Accrued      | Interest      | Balance        | Accrued      | Interest paid |
|  | outstanding    | interest     | paid          | outstanding    | interest     |               |
|  | £'000          | £'000        | £'000         | £'000          | £'000        | £'000         |
| KBR (UK) Investments Limited                         | 53,606         | 1,621        | 6,475         | 53,955         | 1,632        | 6,393         |
| InfraRed Infrastructure Yield Holdings Limited       | 5,956          | 180          | 719           | 5,995          | 181          | 710           |
| Innisfree Nominees Limited*                          | 44,672         | 1,351        | 4,854         | 44,963         | 1,360        | 5,327         |
| Infrastrucutre Investments General Partner Limited** | 14,891         | 450          | -             | -              | -            | -             |
| Infrastructure Investment Holdings Limited           | -              | -            | 1,799         | 14,987         | 453          | 1,776         |
|  | <u>119,125</u> | <u>3,602</u> | <u>13,847</u> | <u>119,900</u> | <u>3,626</u> | <u>14,206</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, 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.

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

**14 Explanation of transition to International Financial Reporting Standards**

As stated in note 1(b) these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2014, the comparative information presented in these financial statements for the year ended 31 December 2013 and in preparation of an opening IFRS statement of financial position at 1 January 2013 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

*Reconciliation of profits for the period 1 January to 31 December 2013*

|                            | <i>Note</i> | UK GAAP<br>£'000 | IFRS<br>Adjustment<br>£'000 | IFRS<br>£'000 |
|----------------------------|-------------|------------------|-----------------------------|---------------|
| Financial income           | <i>a</i>    | 86,503           | 258                         | 86,761        |
| Financial expenses         | <i>b</i>    | (86,338)         | (282)                       | (86,620)      |
|                            |             | <hr/>            | <hr/>                       | <hr/>         |
| <b>Profit before tax</b>   |             | 165              | (24)                        | 141           |
| Taxation                   |             | (36)             | 4                           | (32)          |
|                            |             | <hr/>            | <hr/>                       | <hr/>         |
| <b>Profit for the year</b> |             | 129              | (20)                        | 109           |
|                            |             | <hr/>            | <hr/>                       | <hr/>         |

*Notes to the reconciliation of profits for the period 1 January to 31 December 2013*

Under UK GAAP, interest and ongoing finance income were recognised on an accruals basis in the profit and loss account within initial finance costs recoverable being amortised on a straight-line basis over the period of the loan. Under IFRS, interest income, ongoing financial fees income and initial finance costs recoverable are allocated against the carrying value of the loan and are taken to the profit and loss account over the period of the loan using the effective interest rate method.

Under UK GAAP, interest and ongoing finance fees were recognised on an accruals basis with initial finance charges being amortised on a straight-line basis over the period of the loan. Under IFRS, interest expense, ongoing financial fees and initial finance charges are allocated against the carrying value of the loan and are taken to the profit and loss account over the period of the loan using the effective interest rate method.

The impact arising from the changes is summarised as follows:

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

**14 Explanation of transition to International Financial Reporting Standards (continued)**

a)

|  | Year ended<br>31 December 2013<br>£'000 |
|--|---|
| <b>Financial income:</b>                               |   |
| <b>Senior loan:</b>                                    |   |
| Reverse ongoing financial fee income                   | (3,031)                                 |
| Reverse amortisation of initial finance fees           | (531)                                   |
| Reverse interest income                                | (68,534)                                |
| Interest income under effective interest method        | 72,277                                  |
|  | <hr/> 181 <hr/>                         |
| <b>Loan stock:</b>                                     |   |
| Reverse interest income                                | (14,400)                                |
| Interest income under effective interest method        | 14,477                                  |
|  | <hr/> 77 <hr/>                          |
| <b>Financial income - adjustment before income tax</b> | <hr/> 258 <hr/> <hr/>                   |

b)

|  | Year ended<br>31 December 2013<br>£'000 |
|--|---|
| <b>Financial expenses:</b>                               |   |
| <b>Senior loan:</b>                                      |   |
| Reverse ongoing financial fee                            | 3,031                                   |
| Reverse amortisation of initial finance cost             | 531                                     |
| Reverse interest charge                                  | 68,388                                  |
| Interest charge under effective interest method          | (72,130)                                |
|  | <hr/> (180) <hr/>                       |
| <b>Loan stock:</b>                                       |   |
| Reverse interest charge                                  | 14,388                                  |
| Interest charge under effective interest method          | (14,490)                                |
|  | <hr/> (102) <hr/>                       |
| <b>Financial expenses - adjustment before income tax</b> | <hr/> (282) <hr/> <hr/>                 |

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

**14 Explanation of transition to International Financial Reporting Standards (IFRS) (continued)**

*Reconciliation of statement of financial position at 31 December 2012 and 1 January 2013 and at 31 December 2013*

|  | Notes | UKGAAP<br>31 Dec 12<br>£'000 | IFRS<br>Adjustment<br>£'000 | IFRS<br>1 Jan 13<br>£'000 | UKGAAP<br>31 Dec 13<br>£'000 | IFRS<br>Adjustment<br>£'000 | IFRS<br>31 Dec 13<br>£'000 |
|--|-------|------------------------------|-----------------------------|---------------------------|------------------------------|-----------------------------|----------------------------|
| <b>Assets</b>  |       |                              |                             |                           |                              |                             |                            |
| <b>Non current assets</b>                                    |       |                              |                             |                           |                              |                             |                            |
| Amounts due from group undertakings                          | a     | 1,577,105                    | (15,466)                    | 1,561,639                 | 1,571,352                    | (14,568)                    | 1,556,784                  |
| <b>Current assets</b>  |       |                              |                             |                           |                              |                             |                            |
| Amounts due from group undertakings                          | a     | 21,423                       | -                           | 21,423                    | 33,353                       | (110)                       | 33,243                     |
| Cash at bank and in hand                                     |       | 7,384                        | -                           | 7,384                     | 980                          | -                           | 980                        |
| <b>Total assets</b>  |       | <u>1,605,912</u>             | <u>(15,466)</u>             | <u>1,590,446</u>          | <u>1,605,685</u>             | <u>(14,678)</u>             | <u>1,591,007</u>           |
| <b>Liabilities</b>   |       |                              |                             |                           |                              |                             |                            |
| <b>Current liabilities</b>                                   |       |                              |                             |                           |                              |                             |                            |
| Accruals and deferred income                                 | b     | (22,747)                     | 826                         | (21,921)                  | (22,098)                     | 534                         | (21,564)                   |
| Loans and borrowings   | b     | -                            | -                           | -                         | (11,748)                     | 109                         | (11,639)                   |
| Current tax liabilities                                      | c     | (40)                         | 13                          | (27)                      | (38)                         | 16                          | (22)                       |
| <b>Non current liabilities</b>                               |       |                              |                             |                           |                              |                             |                            |
| Loans and borrowings   | b     | (1,582,224)                  | 14,582                      | (1,567,642)               | (1,570,771)                  | 13,954                      | (1,556,817)                |
| <b>Total liabilities</b>                                     |       | <u>(1,605,011)</u>           | <u>15,421</u>               | <u>(1,589,590)</u>        | <u>(1,604,655)</u>           | <u>14,613</u>               | <u>(1,590,042)</u>         |
| <b>Net assets</b>  |       | <u>901</u>                   | <u>(45)</u>                 | <u>856</u>                | <u>1,030</u>                 | <u>(65)</u>                 | <u>965</u>                 |
| <b>Capital and reserves</b>                                  |       |                              |                             |                           |                              |                             |                            |
| Issued share capital   |       | 50                           | -                           | 50                        | 50                           | -                           | 50                         |
| Retained earnings  | d     | 851                          | (45)                        | 806                       | 980                          | (65)                        | 915                        |
| <b>Total equity attributable to the owners of the parent</b> |       | <u>901</u>                   | <u>(45)</u>                 | <u>856</u>                | <u>1,030</u>                 | <u>(65)</u>                 | <u>965</u>                 |

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

**14 Explanation of transition to International Financial Reporting Standards (IFRS) (continued)**

*Notes on the reconciliation of statement of financial position at 31 December 2012 and 1 January 2013*

- a) Under UK GAAP, interest and ongoing finance income were recognised on an accruals basis in the profit and loss account within initial finance costs recoverable being amortised on a straight-line basis over the period of the loan. Under IFRS, interest income, ongoing financial fees income and initial finance costs recoverable are allocated against the carrying value of the loan and are taken to the profit and loss account over the period of the loan using the effective interest rate method. In addition initial loan issue costs of £13.3m recoverable over the period of the loans from ADL were classified in the previous year's accounts as a creditor rather than being offset against the intercompany receivable. This reclassification has no impact on net profit or assets.

The impact of arising from the changes above is summarised as follows:

|  | 1 January 2013<br>£'000 | 31 December 2013<br>£'000 |
|--|-------------------------|---------------------------|
| Amounts due from group undertakings    | (15,466)                | (14,678)                  |
| Related tax effect                     | 3,595                   | 3,155                     |
|  | <hr/>                   | <hr/>                     |
| <b>Adjustment to retained earnings</b> | <b>(11,871)</b>         | <b>(11,523)</b>           |
|  | <hr/> <hr/>             | <hr/> <hr/>               |

- b) Under UK GAAP, interest and ongoing finance fees were recognised on an accruals basis with initial finance charges being amortised on a straight-line basis over the period of the loan. Under IFRS, interest expense, ongoing financial fees and initial finance charges are allocated against the carrying value of the loan and are taken to the profit and loss account over the period of the loan using the effective interest rate method. In addition initial loan issue costs of £13.3m recoverable over the period of the loans from ADL were classified in the previous year's accounts as a creditor rather than being offset against the intercompany receivable. This reclassification has no impact on net profit or net assets.

The impact arising from the changes above is summarised as follows:

|  | 1 January 2013<br>£'000 | 31 December 2013<br>£'000 |
|--|-------------------------|---------------------------|
| Accruals and deferred income           | 826                     | 534                       |
| Loans and borrowings                   | 14,582                  | 14,063                    |
| Related tax effect                     | (3,582)                 | (3,139)                   |
|  | <hr/>                   | <hr/>                     |
| <b>Adjustment to retained earnings</b> | <b>11,826</b>           | <b>11,458</b>             |
|  | <hr/> <hr/>             | <hr/> <hr/>               |

- c) The above changes reduced the current tax liability as follows, based on a tax rate of 21.5% (1 January 2013: 23.25%):

|  | 1 January 2013<br>£'000 | 31 December 2013<br>£'000 |
|--|-------------------------|---------------------------|
| Amounts due from group undertakings      | 3,595                   | 3,155                     |
| Loans and borrowings                     | (3,582)                 | (3,139)                   |
|  | <hr/>                   | <hr/>                     |
| <b>Decrease in current tax liability</b> | <b>13</b>               | <b>16</b>                 |
|  | <hr/> <hr/>             | <hr/> <hr/>               |

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

**14 Explanation of transition to International Financial Reporting Standards (IFRS) (continued)**

d) The above changes reduced retained earnings as follows:

|                                       | 1 January 2013<br>£'000 | 31 December 2013<br>£'000 |
|---------------------------------------|-------------------------|---------------------------|
| Amounts due from group undertakings   | (15,466)                | (14,678)                  |
| Loans and borrowings                  | 15,408                  | 14,597                    |
| Current tax                           | 13                      | 16                        |
|                                       | <hr/>                   | <hr/>                     |
| <b>Reduction in retained earnings</b> | <b>(45)</b>             | <b>(65)</b>               |
|                                       | <hr/> <hr/>             | <hr/> <hr/>               |

*Material adjustments to the statement of cash flows*

There are no material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under UK GAAP.