

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Directors' report and financial statements

For the period from incorporation on 23 November 2007 to 31 December 2008

Registered number 6436058

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INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Directors' report

The directors present their report and the consolidated financial statements for the period from incorporation on 23 November 2007 to 31 December 2008.

The company was incorporated with share capital of 100 £1 ordinary shares. On 20 December 2007 the share capital was increased by a further 9,900 £1 ordinary shares. 7,200 £1 ordinary shares were classified as class A shares, 1,350 £1 ordinary shares were classified as class B shares, 450 £1 ordinary shares were classified as class C shares and 1,000 £1 ordinary shares were classified as class D shares.

On 11 December 2007 the company changed its accounting reference date to 31 December.

Principal activities and business review

The principal activity is that of a holding company with a single subsidiary, Inspiredspaces STAG (Projectco1) Limited.

Inspiredspaces STAG (Projectco1) Limited was established to undertake the design, redevelopment, financing and operation of schools and associated services under the Government's Building Schools for the Future scheme for a period of twenty-seven years pursuant to and in accordance with the terms of an agreement with the South Tyneside and Gateshead Council. This agreement together with a loan facilities agreement, a construction contract, a facilities management contract and other related contracts was signed on 21 December 2007. Construction of the schools commenced in December 2007 and is due for completion in October 2009.

The consolidated profit and loss account is set out on page 6 and relates to the operating activities during the period. The directors do not recommend the payment of a dividend.

The directors consider the performance of the company during the period, the financial position at the end of the period and its prospects for the future to be satisfactory.

Principal risks and uncertainties

The principal activity of the company's subsidiary as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed contracts. The financial risks and the measures taken to mitigate them are as detailed in the following section.

Credit risk

The subsidiary will receive its revenue from a government body and therefore is not exposed to significant credit risk. The company invests cash and enters into interest rate swap agreements with financial institutions. The credit quality of these institutions is reviewed by the directors on a regular basis. As a result of the current financial conditions these institutions are substantially owned by the UK Government. As such the company's exposure to credit risk is reduced.

Inflation risk

The subsidiary's project revenue, operating and lifecycle costs are linked to inflation at the inception of the project.

INSPIRESPACES STAG (HOLDINGS1) LIMITED

Directors' report (*continued*)

Principal risks and uncertainties (*continued*)

Insurance risk

The subsidiary is exposed to the conditions prevailing in the insurance market at each renewal date. The directors manage this through close monitoring of the claims record of the project and through employing experienced broking organisations to obtain competitive insurance terms.

Interest rate risk

The subsidiary hedges its interest rate risk at the inception of the project by swapping its variable rate debt into a fixed rate by the use of an interest rate swap.

Lifecycle risk

The subsidiary is responsible for lifecycle costs. The directors will manage this through asset inspection and consequential forecasting of asset replacement costs. A cash lifecycle fund will be held by the company to cover future anticipated replacement costs.

Liquidity risk

The subsidiary has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Solvency and performance of sub-contractors

The solvency and performance of key-subcontractors is regularly monitored by the directors.

Key performance indicators

The subsidiary's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following section.

Progress of the works

The subsidiary monitors the performance of the works to date by comparing it with the planned schedule agreed at financial close under the design and build scope of the project. In respect of the period ended 31 December 2008 the company's performance against this measure was considered to be satisfactory.

Financial performance

The subsidiary has modelled the anticipated financial outcome of the project across its full term. The company monitors actual financial performance against anticipated performance. Income and expenditure for the period ended 31 December 2008 which are based on fixed long-term contracts have been in line with the directors' expectations.

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Directors' report (*continued*)

Principal risks and uncertainties (*continued*)

Safety performance

The subsidiary is committed to providing a safe environment for its sub-contractors and those impacted by its activities. Safety reports are provided at each board meeting. These are reviewed by the directors who monitor actual performance against anticipated performance using industry benchmarks. Appropriate action is taken where necessary in order to ensure that all matters raised are fully resolved and are compliant with safety regulations.

Directors

The directors who served during the period and subsequently were as follows:

BM Cashin	(appointed 11 July 2008)
G Farley	(appointed 20 December 2007)
SJ Johnson	(appointed 4 August 2008)
KJA Pemberton	(appointed 20 November 2008)
RC Turner	(appointed 20 December 2007)
WI Watson	(appointed 6 January 2009)
P Cutts	(appointed 18 June 2008, resigned 20 November 2008)
MH Dillon	(appointed 20 December 2007, resigned 18 June 2008)
MJ Fowkes	(appointed 20 December 2007, resigned 6 January 2009)
TF George	(appointed 23 November 2007, resigned 20 December 2007)
MA Harding	(appointed 20 December 2007, resigned 4 August 2008)
KD Lancaster	(appointed 6 January 2009, resigned 26 June 2009)
DB Lindsay	(appointed 20 December 2007, resigned 11 July 2008)
LJ Mills	(appointed 23 November 2007, resigned 20 December 2007)

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

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

This report was approved by the board on 26 August 2009 and signed on its behalf by:



G Farley

Director

24 Birch Street
Wolverhampton
West Midlands
WV1 4HY

INSPIREDSACES STAG (HOLDINGS1) LIMITED

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

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

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

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Inspiredspaces STAG (Holdings1) Limited

We have audited the group and parent company's financial statements of Inspiredspaces STAG (Holdings1) Limited for the period ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's result for the period ended 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP

*Chartered Accountants
Registered Auditor*

26 August 2009
2 Cornwall Street
Birmingham
B3 2DL

INSPIREDSACES STAG (HOLDINGS1) LIMITED

Consolidated profit and loss account

for the period from 23 November 2007 to 31 December 2008

	Notes	Period ended 31 December 2008 £000
Turnover	2	14,278
Other operating charges		(13,832)
Operating profit	3	<u>446</u>
Net interest payable	4	(446)
Result on ordinary activities before taxation		<u>-</u>
Taxation on result on ordinary activities	6	-
Result for the financial period	13	<u><u>-</u></u>

The results reported above derive from continuing operations in a single class of business within the United Kingdom.

There is no material difference between the result as disclosed in the profit and loss account above and its historical cost equivalent.

There were no recognised gains and losses other than the result for the period reported above.

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Consolidated balance sheet at 31 December 2008

	<i>Notes</i>	2008 £000
Current assets		
Debtors: Amounts falling due within one year	8	154
Debtors: Amounts falling after more than one year	9	<u>14,279</u>
Total debtors		14,433
Cash at bank		<u>186</u>
		<u>14,619</u>
Current liabilities		
Creditors: Amounts falling due within one year	10	(1,158)
		<u>13,461</u>
Net current assets and total assets less current liabilities		
		<u>13,461</u>
Creditors: Amounts falling due after more than one year	11	(13,451)
		<u>10</u>
Net assets		
		<u>10</u>
Capital and reserves		
Called up share capital	12	10
Profit and loss account	13	-
		<u>10</u>
Equity shareholders' funds	15	<u>10</u>

These financial statements were approved by the board of directors on 26 August 2009 and were signed on its behalf by:



G Farley

Director

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Company balance sheet at 31 December 2008

	<i>Notes</i>	2008 £000
Fixed assets		
Investments	7	10
Net assets		<u>10</u>
Capital and reserves		
Called up share capital	12	10
Equity shareholder's funds	15	<u>10</u>

These financial statements were approved by the board of directors on 26 August 2009 and were signed on its behalf by:



G Farley

Director

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Consolidated cash flow statement *for the period ended 31 December 2008*

	2008 £000
Net cash outflow from operating activities	<u>(12,503)</u>
Returns on investments and servicing of finance	
Interest received	8
Interest paid	(439)
Net cash outflow from returns on investments and servicing of finance	<u>(431)</u>
Net cash outflow before financing	(12,934)
Financing	
Issue of ordinary share capital	10
Increase in bank borrowings	12,977
Increase in shareholder loans	311
Loan arrangement fees	(178)
Increase in cash	<u><u>186</u></u>
Reconciliation of operating profit to net cash outflow from operating activities	
Operating profit	446
Increase in operating debtors	(14,433)
Increase in operating creditors	1,484
Net cash outflow from operating activities	<u><u>(12,503)</u></u>

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards using the historical cost convention.

Basis of consolidation

The group accounts consolidate the accounts of Inspiredspaces STAG (Holdings1) Limited and its subsidiary undertaking for the period ended 31 December 2008 using the acquisition method. All inter-company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

Contract receivable

In accordance with Financial Reporting Standard (FRS) 5 Application Note F the costs incurred in construction have been treated as a contract receivable. This treatment arises from applying the guidance within the Application Note which indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to the customer.

Increases in the contract receivable represent the costs arising on construction including initial tender costs and borrowing costs.

Interest charges

Interest payable on bank borrowings is capitalised as part of the contract receivable.

Deferred taxation

The charge for taxation is based on the result for each period and takes into account deferred taxation calculated in accordance with the requirements of FRS 19 Deferred taxation. Deferred tax assets or liabilities are calculated on a non-discounted full provision basis in respect of timing differences that are expected to reverse in future periods.

Finance costs

Financing costs are accounted for in accordance with FRS 4 Capital Instruments and are written off on a straight line basis over the life of the financing to which they relate.

The balance at the end of the period is set against the outstanding liability.

Financial instruments

The company has entered into certain hedging agreements in respect of interest rates. These financial instruments are accounted for at cost.

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes (continued)

2 Turnover

Turnover represents the value of work done and excludes value added tax.

The company and group's sole business is that described in the Directors' Report and all turnover is derived in the United Kingdom.

3 Operating profit

The following costs were incurred during the period and have been capitalised as part of the contract receivable.

	Period ended 31 December 2008 £000
Auditor's remuneration - audit of these financial statements	<u>10</u>

4 Net interest payable

	Period ended 31 December 2008 £000
Interest payable and similar charges	
Bank borrowings	377
Other borrowings	18
Bank commitment fees	44
Amortisation of issue costs	<u>15</u>
	454
Interest receivable and similar income	
Bank interest receivable	(8)
Net interest payable	<u>446</u>

5 Staff costs

There were no employees during the period. The directors have no contract of service with the company. Amounts payable to third parties in respect of directors' services totalled £22,000. These costs have been capitalised as part of the contract receivable.

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes (continued)

6 Taxation on result on ordinary activities

Period ended
31 December
2008
£000

a) Analysis of tax charge for the period

Current tax

UK corporation tax

-

b) Factors affecting the tax charge for the period

The tax charge assessed on the result on ordinary activities is in line with the standard rate of corporation tax in the UK as explained below.

Period ended
31 December
2008
£000

Result on ordinary activities before tax

-

Result on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5%

-

c) Factors affecting the tax charges in future years

There are no known factors affecting the future tax charge.

7 Fixed asset investments

Company
2008
£000

Shares in subsidiary undertaking

Cost and net book value

10

Investment in subsidiary undertaking during and at the end of the period

10

Shares in subsidiary undertaking represent a holding of 100% of the ordinary share capital of Inspiredspaces STAG (Projectco1) Limited. This company is incorporated in the United Kingdom.

8 Debtors: Amounts falling due within one year

Group
2008
£000

Other debtors

154

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes (continued)

9 Debtors: Amounts falling due after more than one year

	Group 2008 £000
Contract receivable	14,278
Prepayments	<u>1</u>
	<u>14,279</u>

10 Creditors: Amounts falling due within one year

	Group 2008 £000
Trade creditors	1,116
Other creditors	20
Accruals	<u>22</u>
	<u>1,158</u>

11 Creditors: Amounts falling due after more than one year

	Group 2008 £000
Bank borrowings	12,977
Less: unamortised issue costs	<u>(163)</u>
	12,814
Other borrowings	311
Other creditors	<u>326</u>
	<u>13,451</u>
The bank borrowings are repayable as follows:	
Between one and two years	2,040
Between two and five years	747
Greater than five years	<u>10,190</u>
	<u>12,977</u>

Bank borrowings relate to term loan facilities granted by the bank on 21 December 2007. The loan facility is for a total value of £26,866,000 comprising £23,530,000 term loan facility, £1,831,000 equity bridge facility, £1,125,000 debt service reserve facility and £380,000 change in law facility. As at 31 December 2008 £12,977,000 has been drawn comprising £11,146,000 term loan and £1,831,000 equity bridge loan, £nil debt service reserve facility and £nil change in law facility. Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the bank borrowings and are being amortised over the periods of the facilities as part of the finance costs in accordance with the provisions of FRS 4.

INSPIREDSACES STAG (HOLDINGS1) LIMITED

Notes (continued)

11 Creditors: Amounts falling due after more than one year (continued)

The term loan is repayable in six-monthly instalments commencing on 30 September 2010 and ending on 30 September 2034. The equity bridge loan is repayable on 26 October 2010. Interest is charged on amounts drawn under the facilities based on floating LIBOR. The company has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. The hedging agreements in respect of the equity bridge loan fixes the interest rate at 5.2725% until 26 October 2010. The hedging agreements in respect of the term loan fixes the interest rate at 5.025% until 30 April 2034. The fair value of these financial instruments at 31 December 2008 was a liability of £4,000,000.

The facilities are secured, by way of first fixed charge, over all of the assigned rights which the company now has, its present and future interest in the securities and all other stocks, shares, debentures, bonds and other securities, all account monies, all benefits in respect of insurances, all book and other debts and other monies due, its present and future goodwill and its present and future uncalled capital. They are also secured by way of a floating charge over the whole of the charged assets being the whole of the property (including uncalled capital) which is or may be from time to time comprised in the property and undertaking of the chargor.

Other borrowings comprise a loan from Building Schools for the Future Investments LLP which is repayable on 26 October 2010. This loan which is unsecured bears interest at 5.69% per annum.

The company has committed itself to invest £2,142,000 subordinated debt in the undertaking in which it has taken an interest. In turn the company's shareholders have committed to investing £2,142,000 subordinated debt. Both commitments fall due in 2010.

12 Share capital

	2008 £
Authorised	
7,200 A ordinary shares of £1 each	7,200
1,350 B ordinary shares of £1 each	1,350
450 C ordinary shares of £1 each	450
1,000 D ordinary shares of £1 each	1,000
	<u>10,000</u>
Allotted, called up and fully paid	
7,200 A ordinary shares of £1 each	7,200
1,350 B ordinary shares of £1 each	1,350
450 C ordinary shares of £1 each	450
1,000 D ordinary shares of £1 each	1,000
	<u>10,000</u>

INSPIREDSACES STAG (HOLDINGS1) LIMITED

Notes (continued)

12 Share capital (continued)

The A ordinary shares, B ordinary shares, C ordinary shares and D ordinary shares rank pari passu in all respects apart from voting rights which during the period from incorporation to 9 August 2011 attach as follows:

	%
A ordinary shares	39
B ordinary shares	7
C ordinary shares	3
D ordinary shares	51
	<u>100</u>

With effect from 9 August 2011 each A ordinary share, B ordinary share, C ordinary share and D ordinary share will entitle the holder thereof to cast one vote.

13 Consolidated profit and loss account

	Period ended 31 December 2008 £000
At beginning of period	-
Result for the financial period	-
At end of period	<u>-</u>

14 Consolidated cash flow statement

Analysis of changes in net debt

	On incorporation £000	Cashflow £000	Other non-cash movements £000	At 31 December 2008 £000
Cash at bank	-	186	-	186
Bank borrowings	-	(12,799)	(15)	(12,814)
Unsecured loan from shareholders	-	(311)	-	(311)
	<u>-</u>	<u>(12,924)</u>	<u>(15)</u>	<u>(12,939)</u>

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes (continued)

14 Consolidated cash flow statement (continued)

Reconciliation in net debt resulting from cash flows	2008 £000
Increase in cash in period	186
Inflow from bank borrowings	(12,799)
Inflow from shareholder loans	(311)
	<u>(12,924)</u>
Other non-cash movements	
Amortisation of bank borrowings issue costs	(15)
Movement in net debt in the year	<u><u>(12,939)</u></u>
Net debt on incorporation	-
Net debt at end of period	<u><u>(12,939)</u></u>

15 Reconciliation of movement in equity shareholders' funds

	2008 £000
On incorporation	-
Share capital issued during the period	10
Result for the financial period	-
At end of period	<u><u>10</u></u>

On incorporation the entire authorised share capital of the company comprised of 100 ordinary shares of £1 each. By special resolution this was increased by a further 9,900 £1 ordinary shares on 20 December 2007. On 21 December 2007 these shares were subscribed and fully paid for by the current shareholders. On the same date the initial shareholder transferred his share to Inspiredspaces STAG (PSP2) Limited. The classes and voting rights of these shares are described in note 12.

16 Capital commitments

(a) Under the terms of a contract with Carillion Construction Limited dated 21 December 2007, the company was committed at 31 December 2008 to payments totalling £9,106,000 in respect of design and construction services to be provided in the period to October 2009.

(b) Under the terms of a contract with Inspiredspaces STAG Limited, the company was committed at 31 December 2008 to payments totalling £4,420,000 (index-linked) in respect of management and administration services to be provided in the period to October 2034.

INSPIREDSPACES STAG (HOLDINGS1) LIMITED

Notes (continued)

17 Related party disclosures

Administrative, construction, financial and technical services were provided to the company during the period by companies related to Carillion Private Finance (Education) Limited at a cost of £13,403,000 and by companies related to Building Schools for the Future Investments LLP at a cost of £18,000.

As at 31 December 2008 £1,435,000 was owed to companies related to Carillion Private Finance (Education) Limited and £311,000 to companies related to Building Schools for the Future Investments LLP in relation to the services described above.

18 Parent undertakings

At 31 December 2008 72% of the share capital of Inspiredspaces STAG (Holdings1) Limited was held by Inspiredspaces STAG (PSP2) Limited, 13.5% was held by Building Schools for the Future Investments LLP, 10% was held by Inspiredspaces STAG Limited and 4.5% was held by The Council of the Borough of South Tyneside.