

PPP Services (North Ayrshire) Limited

Report and Financial Statements
for the year ended
31 December 2007

Registered number: SC294870



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Directors and advisors

Directors

R Potts (resigned 2 August 2007)
K Boede (resigned 23 May 2008)
C Trestler
S Cook (appointed 3 July 2007)
M J McBrearty (appointed 2 August 2007)
A C Ritchie (appointed 3 July 2007)
J C Elliot (resigned 3 July 2007)
J K Love (resigned 14 November 2007)
A G Bremner (appointed 14 November 2007)
G Carmichael (appointed 23 May 2008, resigned 18 September 2008)
M Rawlinson (appointed 18 September 2008)

Secretary

Maclay Murray & Spens
151 St Vincent Street
Glasgow
G2 5NJ

Registered office

151 St Vincent Street
Glasgow
G2 5NJ

Auditors

Baker Tilly UK Audit LLP
1st Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Bankers

Nord LB
London Branch
71 Queen Victoria Street
London
EC4V 4NL

Solicitors

Maclay Murray & Spens
3 Glenfinlas Street
Edinburgh
EH3 6AQ

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2007

Principal activities and future developments

The principal activity of the company is the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The duration of the contract will be 32 years. There is an anticipated 2 year construction phase and a 30 year service delivery period.

Review of the business

The risks and uncertainties at this stage centre on the completion of the construction phase and commencement of the operational phase. For the construction phase this is carefully monitored by external technical advisors tasked with the reviewing and signing off on construction phase. The final school was handed over in January 2008. For the operational phase there is an operational manager in place who is responsible for the day to day management of the facilities and constant monitoring of the lifecycle works as appropriate. This forms the primary key performance indicators along with the monitoring of actual costs against budget. As the company enters its full operational phase it faces operational risks and will actively monitor financial performance against loan covenants.

Results for the year

The result for the year is set out at page 4. The directors are satisfied with the overall performance and progress to date of the company.

Dividends

The directors do not propose to pay a dividend in respect of the year.

Directors

The directors of the company at 31 December 2007 and subsequent to the year end are listed on page 1.

Directors' responsibilities

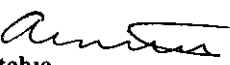
The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- 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 proper accounting records which 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 1985. They are also responsible for the company's system of internal financial control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

On behalf of the board


A C Ritchie
Director

26 Sept 2008

Independent auditors' report to the members of PPP Services (North Ayrshire) Limited

We have audited the financial statements of PPP Services (North Ayrshire) Limited for the year ended 31 December 2007 on pages 4 to 12

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 Annual 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.

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 and whether the information given in the Directors' Report is consistent with the financial statements. We also 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.

Basis of 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 judgements 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.

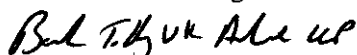
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 company's affairs at 31 December 2007 and of its loss for the year then ended and 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.


Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
1st Floor Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

2008



Profit and loss account
for the year ended 31 December 2007

		Year ended 31 December 2007	Period ended 31 December 2006
	<i>Note</i>	£	£
Turnover		37,030,770	52,585,451
Cost of sales		(36,731,711)	(52,585,451)
Gross profit		299,059	
Other operating income		37,801	
Administrative expenses		(176,878)	(52,325)
Operating profit / (loss)		159,982	(52,325)
Interest receivable on finance debtor	7	653,692	
Other interest receivable and similar income	7	199,109	41,178
Interest payable and similar charges		(1,062,484)	
Loss on ordinary activities before taxation		(49,701)	(11,147)
Tax on loss on ordinary activities	8		
Loss on ordinary activities after taxation		(49,701)	(11,147)

The loss for the financial year has been derived from continuing activities

There have been no recognised gains or losses during the year other than as recorded in the profit and loss account

Balance sheet
at 31 December 2007

	<i>Note</i>	2007 £	2006 £
Current assets			
Debtors amounts falling due within one year	9	16,922,013	53,836,538
Debtors amounts falling due after one year	9	72,415,942	
Cash at bank and in hand		7,528,803	713,353
		<u>96,866,758</u>	<u>54,549,891</u>
Creditors amounts falling due within one year	10	<u>(5,219,650)</u>	<u>(3,959,986)</u>
Net current assets		<u>91,647,108</u>	<u>50,589,905</u>
Creditors: amounts falling due after more than one year	11	<u>(91,337,956)</u>	<u>(50,231,052)</u>
Net assets		<u>309,152</u>	<u>358,853</u>
Capital and reserves			
Called up share capital	12	370,000	370,000
Profit and loss account	13	(60,848)	(11,147)
Equity shareholders' funds	14	<u>309,152</u>	<u>358,853</u>

The financial statements were approved by the board of directors and authorised for issue on **26 Sept** 2008
and are signed on its behalf by



A C Ritchie
Director

Cash Flow

for the year ended 31 December 2007

	<i>Note</i>	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Net Cash Outflow from Operating Activities	<i>4a</i>	(35,340,281)	(49,928,877)
Returns on Investments and Servicing of Finance	<i>4b</i>	(262,576)	(1,056,197)
Net Cash Outflow before Financing		(35,602,857)	(50,985,074)
Financing	<i>4c</i>	42,418,307	51,698,427
Increase in Cash in the Year		6,815,450	713,353

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. A summary of the more important accounting policies of the company which have been applied consistently is set out below.

The financial statements have been prepared on the going concern basis as the financial projections indicate that sufficient funds will be generated to allow ongoing obligations to be met as they fall due.

Long term contracts and finance debtor

Work in progress has been accounted for in accordance with SSAP 9. Work in progress is stated at cost and includes interest charged in respect of loans for the purpose of financing work in progress. In accordance with Financial Reporting Standard (FRS 5) Application Note G, periodically turnover is recognised together with a contract receivable debtor.

In accordance with Financial Reporting Standard (FRS 5) Application Note F, the costs on completion of the construction phase and the resultant contract receivable debtor will be reclassified as a finance debtor.

Taxation

Taxation is based on the result for the year and where relevant takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax, if recognised, is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the value of work done on long term contracts and services rendered. It arises entirely in the UK and excludes value added tax.

Financial instruments

The company is party to derivative interest rate swap agreements, which are used to manage exposures to fluctuations in interest rates.

Finance and arrangement costs in accordance with FRS4 are charged to the profit and loss account on completion of the construction phase over the life of the relevant loans. Interest during the construction phase has been capitalised.

Cash and liquid resources

Cash for the purpose of the cash flow statement comprises cash in hand and deposits repayable on demand. Liquid resources include funds held in deposit accounts and are not accessible on demand.

Grants and other funding

The source of grant is the form of a Local Authority Grant, which is non specific in that it is applied to both maintaining services and to fund capital expenditure. Grants applied for revenue purposes are accounted for in the year in which they arise, in common with other income, and are credited to the profit and loss account.

Grants and other contributions for capital expenditure are accounted for on an accruals basis and recognized in the accounts when the conditions for their receipt have been complied with and there is a reasonable assurance that the grant or contribution will be received.

Where expenditure on fixed assets is financed either wholly or partly by grants or other contributions, the amount of grant is credited initially to the deferred capital grants account. Amounts are then released to the profit and loss account over the useful life of the asset to match the depreciation on the asset to which it relates.

Notes (continued)

2 Segmental Reporting

The company's activities consist solely of the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council in the United Kingdom

3. Employee information

The company had no employees during the year

4. a) Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Operating profit / (loss)	159,982	(52,325)
Increase in debtors	(35,501,449)	(53,836,538)
Increase in creditors	1,186	3,959,986
Net cash outflow from operating activities	<u>(35,340,281)</u>	<u>(49,928,877)</u>

4. b) Returns on investments and servicing of finance

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Interest received	790,448	41,178
Interest paid	(1,062,484)	
Amortisation loan life	9,460	
Debt issue costs		(1,097,375)
Net cash outflow from returns on investments and servicing of finance	<u>(262,576)</u>	<u>(1,056,197)</u>

4. c) Financing

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Issue of share capital		370,000
Term loan received	41,207,474	44,519,776
Grant received	340,142	
Subordinated debt received	870,691	6,808,651
Net cash inflow from financing	<u>42,418,307</u>	<u>51,698,427</u>

5. Directors' emoluments

During the year fees of £15,334 (2006 £12,666) were accrued to third parties for the provision of directors' services

Notes (continued)

6 Audit fees

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
The result for the accounting year is stated after charging		
Auditors remuneration		
Audit Services	6,000	6,000
Taxation	5,610	4,000

7. Other interest receivable and similar income

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
Interest receivable re finance debtor	653,692	
Bank interest receivable	199,109	41,178

8. Taxation

	Year ended 31 December 2007 £	Period ended 31 December 2006 £
<i>UK corporation tax</i>		
Current tax provision on loss for the year		

Factors affecting the tax charge for the current year

The current tax charge for the year is the same as the standard rate of corporation tax in the UK (30%)

	2007 £	2006 £
Current tax reconciliation		
Profit on ordinary activities before tax	(49,701)	
Corporation tax at 30% (2006 30%)	(14,910)	
Effect of		
Tax losses carried forward	14,910	
Other timing differences		

Notes (continued)

9 Debtors

	2007	2006
	£	£
<i>Amounts falling due within one year</i>		
Amounts recoverable on long term contracts	15,305,008	52,585,451
Finance debtor	1,014,432	
VAT recoverable	422,426	942,257
Prepayments	180,147	308,830
	<u>16,922,013</u>	<u>53,836,538</u>
<i>Amounts falling due after more than one year</i>		
Finance debtor	72,415,942	
	<u>72,415,942</u>	<u>72,415,942</u>
	<u>89,337,955</u>	<u>53,836,538</u>

Amounts recoverable on long term contracts include capitalised interest of £3,764,891 (2006 £1,556,421)
Amounts recoverable on long term contracts represent payments due from North Ayrshire Council as covered under the Project Agreement. These payments are recoverable over the remaining life of the agreement from the starting date of full operations.

10. Creditors amounts falling due within one year

	2007	2006
	£	£
Trade creditors	262,095	22,490
Retention creditor	2,420,720	1,367,132
Accruals	680,357	2,570,364
Bank loan	980,720	
Other creditors	875,758	
	<u>5,219,650</u>	<u>3,959,986</u>

11 Creditors amounts falling due after more than one year

	2007	2006
	£	£
Bank loans	84,746,529	44,519,776
Subordinated debt	7,679,342	6,808,651
Debt issue costs	(1,087,915)	(1,097,375)
	<u>91,337,956</u>	<u>50,231,052</u>

Borrowing facilities

Bank loans are stated before finance costs of £925,540 (2006 £935,000). These costs, together with the interest expense, will be allocated to the profit and loss account over the term of the facility at a constant rate on the carrying amount commencing in the next financial year, on completion of the construction.

The bank loan is repayable in quarterly instalments commencing on 15 January 2008. The final repayment date of the bank loans is 15 October 2036.

Bank loans bear interest based on LIBOR. As part of the interest rate management strategy the company entered into an interest rate swap in respect of part of the debt maturing in September 2036. Under these swaps and the senior debt financing in place, the company receives interest on a variable basis and pays interest at a fixed rate of 5.545%.

Notes (continued)

The bank loan is secured by a floating charge over the assets of the company and currently represents a term loan balance of £84,519,776 from Nord LB which is repayable in quarterly instalments from 15 January 2008 and in full by 15 October 2036

The subordinated debt carries an interest rate of 14% and the principle is repayable in quarterly instalments commencing 15 July 2036 and in full by 15 April 2037. The subordinated debt is stated before finance costs of £162,375. The subordinated debt is unsecured.

Bank loans and loan notes are repayable as follows

<i>Analysis of debt</i>	2007 £	2006 £
Term Loan within one year	980,720	
Term Loan 1-2 years	1,068,162	980,332
Term Loan 2-5 years	3,374,225	3,263,342
Term Loan more than 5 years	80,304,142	40,276,102
Subordinated debt more than 5 years	7,867,854	6,808,651
Subordinated debt finance costs	(162,375)	(162,375)
Term Loan Finance costs	(925,540)	(935,000)
	<u>92,507,188</u>	<u>50,231,052</u>

12. Called up share capital

	2007 £	2006 £
<i>Authorised</i>		
370,000 Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>
<i>Issued, called up and fully paid</i>		
370,000 Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>

13. Profit and loss account

	2007 £	2006 £
At beginning of year / period	(11,147)	
Loss for the year / period	<u>(49,701)</u>	<u>(11,147)</u>
At end of year / period	<u>(60,848)</u>	<u>(11,147)</u>

14 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Result for the financial year / period	(49,701)	(11,147)
Issue of share capital		370,000
Opening shareholders' funds	<u>358,853</u>	<u></u>
Closing shareholders' funds	<u>309,152</u>	<u>358,853</u>

Notes (continued)

15. Reconciliation of net cash flow to movement in net debt

	2007 £	2006 £
Net debt brought forward	(49,517,699)	
Increase in cash in the year	6,815,450	713,353
Cash inflow from long term loan	(41,207,473)	(44,519,776)
Issue costs of long term loan		935,000
Cash inflow from subordinated debt	(1,059,203)	(6,808,651)
Cash inflow from grant	(340,142)	
Issue costs of subordinated debt		162,375
Amortisation loan life	(9,460)	
Movement in net debt	<u>(85,318,527)</u>	<u>(49,517,699)</u>

16 Analysis of net debt

	2007 £	2006 £
Cash	7,528,803	713,353
Long term loan	(84,801,709)	(43,584,776)
Subordinated debt	(7,705,479)	(6,646,276)
Grant	(340,142)	
Net debt	<u>(85,318,527)</u>	<u>(49,517,699)</u>

17 Parent Company

The company is a wholly owned subsidiary of PPP Services (North Ayrshire) Holdings Limited, a company incorporated in Scotland, registered number SC294861. The financial statements of PPP Services (North Ayrshire) Holdings Limited can be obtained from Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB.

18. Related party transactions

The share capital of the company is held wholly by PPP Services (North Ayrshire) Holdings Limited.

Hochtief PPP Schools Capital Limited holds a 50% shareholding in PPP Services (North Ayrshire) Holdings Limited. Hochtief PPP Solutions (UK) Limited are contracted to build the schools and received payments of £41.1 million from PPP Services (North Ayrshire) Limited for work done during the year. In addition £80,000 was paid for the provision of an operational manager plus £81,188 for an arrangement fee for the provision of the sub debt facility.

Nord LB holds a 20% shareholding in PPP Services (North Ayrshire) Holdings Limited. During the year £114,427 was paid being the commitment fee for the provision of the loan facility.

PPP Services (North Ayrshire) Limited has issued loan notes of £6,125,000 to PPP Services (North Ayrshire) Holdings Limited. Interest accrued at the year end on this loan amounted to £188,512.