

PPP Services (North Ayrshire) Ltd

Annual Report and Financial Statements

For the Year Ended 31 December 2012

Registered Number SC294870

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PPP Services (North Ayrshire) Ltd

Financial Statements

Year Ended 31 December 2012

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PPP Services (North Ayrshire) Ltd

Company Information

The board of directors	BIIF Corporate Services Ltd S Cook M J Rawlinson A G Bremner (Resigned 29 February 2012) G R Carmichael A Robinson D F Gilmour
Company secretary	Infrastructure Managers Limited
Registered office	2nd Floor 11 Thistle Street Edinburgh EH2 1DF
Auditors	Baker Tilly UK Audit LLP Chartered Accountants and Statutory Auditors First Floor Quay 2 139 Fountainbridge Edinburgh EH3 9QG
Bankers	Nord/LB One Wood Street London EC2V 7WT
Solicitors	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP

PPP Services (North Ayrshire) Ltd

The Directors' Report

Year Ended 31 December 2012

The directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2012.

Principal Activities and Business Review

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 is 32 years.

Business review and future developments

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 entered full operational phase it faced operational risks and actively monitors financial performance against loan covenants. The company has been performing well and has been compliant with the covenants laid out in the loan agreement. The company is also forecasting compliance with the covenants laid out in the loan agreement for the next 12 months.

The directors' expect the future performance of the company to be profitable and in line with the forecasting model.

Results and Dividends

The profit for the year, after taxation, amounted to £117,045 (2011: profit £484,977). Particulars of dividends paid are detailed in note 9 to the financial statements.

The result for the year after dividends has been transferred to reserves. A further dividend of £114,000 was paid on 2 January 2013.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key performance indicators

The performance of the Company from a cash perspective is assessed six monthly on a group basis by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the group loan agreement.

Financial Instruments

Details of the Company's financial risk management objectives and policies are included in note 14 to the accounts.

Directors

The directors who served the Company during the year and up to the date of this report are listed on page 1.

PPP Services (North Ayrshire) Ltd

The Directors' Report *(continued)*

Year Ended 31 December 2012

Auditor

A resolution to re-appoint Baker Tilly UK Audit LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.

Signed by order of the directors



Infrastructure Managers Limited
Company Secretary

Approved by the directors on 27/2/13

PPP Services (North Ayrshire) Ltd

Statement of Directors' Responsibilities

Year Ended 31 December 2012

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 those 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors' responsibilities were approved by the board on ...27/2/13... and signed on its behalf by:



D F Gilmour

PPP Services (North Ayrshire) Ltd

Independent Auditor's Report to the Members of PPP Services (North Ayrshire) Ltd

We have audited the financial statements on pages 7 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 more fully explained in the Directors' Responsibilities Statement set out on page 4, 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 (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

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

PPP Services (North Ayrshire) Ltd

Independent Auditor's Report to the Members of PPP Services (North Ayrshire) Ltd *(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.

Baker Tilly UK Audit LLP

GAVIN BLACK (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

First Floor

Quay 2

139 Fountainbridge

Edinburgh

EH3 9QG

14 March 2013

PPP Services (North Ayrshire) Ltd

Profit and Loss Account

Year Ended 31 December 2012

	Note	2012 £	2011 £
Turnover	2	4,340,310	4,568,724
Cost of sales		(2,779,901)	(2,666,511)
Gross profit		1,560,409	1,902,213
Administrative expenses		(642,657)	(593,704)
Other operating income	3	11,424	11,135
Operating profit	4	929,176	1,319,644
Interest receivable	6	4,647,629	4,772,355
Interest payable and similar charges	7	(5,425,081)	(5,432,256)
Profit on ordinary activities before taxation		151,724	659,743
Tax on profit on ordinary activities	8	(34,679)	(174,766)
Profit for the financial year		117,045	484,977

All of the activities of the Company are classed as continuing.

The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

The notes on pages 9 to 16 form part of these financial statements.

PPP Services (North Ayrshire) Ltd

Balance Sheet

As at 31 December 2012

	Note	2012 £	2011 £
Current assets			
Debtors due within one year	10	2,496,548	3,492,944
Debtors due after one year	10	82,668,438	84,290,346
Cash at bank		5,488,402	3,668,877
		<u>90,653,388</u>	<u>91,452,167</u>
Creditors: Amounts falling due within one year	11	<u>(3,715,207)</u>	<u>(3,626,524)</u>
Net current assets		<u>86,938,181</u>	<u>87,825,643</u>
Total assets less current liabilities		<u>86,938,181</u>	<u>87,825,643</u>
Creditors: Amounts falling due after more than one year	12	<u>(86,494,068)</u>	<u>(87,327,575)</u>
Net assets		<u>444,113</u>	<u>498,068</u>
Capital and reserves			
Share capital	15	370,000	370,000
Profit and loss account	16	74,113	128,068
Equity shareholders' funds	17	<u>444,113</u>	<u>498,068</u>

These financial statements on pages 7 to 16 were approved by the directors and authorised for issue on 27/12/13 and are signed on their behalf by:


D F Gilmour

Company Registration Number: SC294870

The notes on pages 9 to 16 form part of these financial statements.

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. The financial statements have been prepared on a going concern basis as the Company's financial projections indicate that sufficient funds will be generated to allow on-going obligations to be met as they fall due.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the Company is small.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Deferred taxation

Deferred tax is fully provided on timing differences recognised by the balance sheet date when the Company has an obligation to pay more or less tax in the future as a result of these timing differences. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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 Company has not adopted a policy of discounting deferred tax assets and liabilities, as permitted by FRS 19 (Deferred Tax).

Financial Instruments

The Company uses derivative financial instruments to manage exposures to fluctuations in interest rates. Amounts payable and receivable in respect of these derivatives are recognised as adjustments to interest expense over the term of the contracts.

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

1. Accounting policies (*continued*)

Turnover and Finance Debtor

During the construction phase

Turnover represents the value of work done on long-term contracts and services rendered, net of VAT. Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as a proportion of the total contract value.

Costs incurred in the construction of the centre have been accounted for under Financial Reporting Standard (FRS) 5 Application Note F. Applying the guidance within the Application Note indicates that the project's principal agreement transfers substantially all the risks and rewards of ownership to the customer. As such the costs incurred on the project, including interest charges during the construction phase, have been treated as a finance debtor within these accounts.

During the operational phase

Management service income is allocated between turnover, interest receivable on the finance debtor and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract. Turnover represents the income allocated to the services provided as part of the overall project.

2. Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company. An analysis of turnover is given below:

	2012 £	2011 £
United Kingdom	<u>4,340,310</u>	<u>4,568,724</u>

3. Other operating income

	2012 £	2011 £
Other operating income	<u>11,424</u>	<u>11,135</u>

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

4. Operating profit

Operating profit is stated after charging:

	2012 £	2011 £
Auditors' remuneration		
- as auditor	6,060	5,771
- for other services	3,386	3,225

Fees incurred for other services in the year were paid to entities related to Baker Tilly UK Audit LLP.

5. Particulars of employees and directors

The company had no employees in either period other than the Directors. During the year fees of £48,000 (2011: £12,521) were paid to third parties for the provision of directors' services.

6. Interest receivable

	2012 £	2011 £
Bank interest receivable	13,813	14,264
Interest receivable on finance debtor	4,633,816	4,758,091
	<u>4,647,629</u>	<u>4,772,355</u>

7. Interest payable and similar charges

	2012 £	2011 £
Interest payable on bank borrowing	4,312,599	4,320,060
Subordinated debt interest	1,075,108	1,075,108
Amortisation of finance costs	37,374	37,088
	<u>5,425,081</u>	<u>5,432,256</u>

8. Taxation on ordinary activities

(a) Analysis of charge in the year

	2012 £	2011 £
Current tax:		
UK Corporation tax based on the results for the year at 24.49% (2011 - 26.49%)	34,679	174,766
Total current tax	<u>34,679</u>	<u>174,766</u>

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

8. Taxation on ordinary activities (*continued*)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24.49% (2011 - 26.49%).

	2012 £	2011 £
Profit on ordinary activities before taxation	<u>151,724</u>	<u>659,743</u>
Profit on ordinary activities by rate of tax	37,168	174,766
Tax chargeable at lower rates	(2,510)	-
Adjustments to tax charge in respect of previous periods	21	-
Total current tax (note 8(a))	<u>34,679</u>	<u>174,766</u>

9. Dividends

Equity dividends

	2012 £	2011 £
Paid during the year: Dividends on equity shares	<u>171,000</u>	<u>514,627</u>

10. Debtors

	2012 £	2011 £
Trade debtors	96,001	1,114,412
Corporation tax repayable	106,378	-
Finance Debtor	84,309,183	85,861,013
Other debtors	343,723	612,246
Prepayments and accrued income	309,701	195,619
	<u>85,164,986</u>	<u>87,783,290</u>

The debtors above include the following amounts falling due after more than one year:

	2012 £	2011 £
Finance debtor	<u>82,668,438</u>	<u>84,290,346</u>

The finance debtor includes capitalised interest of £3,701,557 (2011: £3,701,557).

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

11. Creditors: Amounts falling due within one year

	2012	2011
	£	£
Bank loan	1,093,885	1,137,663
Grants	11,433	294,708
Trade creditors	331,567	345,884
Corporation tax	-	104,766
Other taxation	434,716	395,117
Other creditors	15,841	25,325
Accruals and deferred income	1,827,765	1,323,061
	<u>3,715,207</u>	<u>3,626,524</u>

12. Creditors: Amounts falling due after more than one year

	2012	2011
	£	£
Bank loans	78,312,987	79,408,013
Subordinated loan stock	7,679,342	7,679,342
	<u>85,992,329</u>	<u>87,087,355</u>
Grants	271,851	-
Accruals and deferred income	229,888	240,220
	<u>86,494,068</u>	<u>87,327,575</u>

The bank loan bears 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 pays interest at a fixed rate of 5.545%. The bank loan is secured by a floating charge over the assets of the company and is repayable in quarterly instalments from January 2008 and in full by 15 October 2036.

The subordinated debt carries an interest rate of 14% and the principal is repayable in quarterly instalments commencing 15 July 2036 and in full by 15 April 2037. The subordinated debt is unsecured.

13. Creditors - capital instruments

Creditors include loans which are due for repayment as follows:

	2012	2011
	£	£
Amounts repayable:		
In one year or less or on demand	1,093,885	1,137,663
In more than one year but not more than two years	1,136,748	1,093,257
In more than two years but not more than five years	4,131,211	3,762,415
In more than five years	80,724,370	82,231,683
	<u>87,086,214</u>	<u>88,225,018</u>

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

14. Financial risk management objectives and policies

Due to the nature of the Company's business, the only financial risks the directors consider relevant to this Company are credit, cash flow, interest rate and liquidity risk. The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. The Company uses interest rate swaps to reduce its exposure to interest rate movements. No interest rate swaps were open at the year end. Financial instruments are not used for speculative purposes.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements at other than fair values:

	2012		2011	
	Carrying amount £	Fair value £	Carrying amount £	Fair value £
<i>Financial liabilities</i>				
Long term borrowing	(79,601,983)	(57,194,628)	(80,957,316)	(59,191,524)
Interest rate swap	–	(22,407,355)	–	(21,765,792)
Retail price index swap	–	(4,907,468)	–	(6,725,041)

The fair values of the fixed rate borrowing, the interest rate swap and retail price index swap have been calculated by discounting the fixed cash flows at the prevailing interest rates at the year end.

15. Share capital

Authorised share capital:

	2012 £	2011 £
370,000 Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

15. Share capital (*continued*)

Allotted, called up and fully paid:

	2012		2011	
	No	£	No	£
370,000 Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>

16. Profit and loss account

	2012	2011
	£	£
Balance brought forward	128,068	157,718
Profit for the financial year	117,045	484,977
Equity dividends	(171,000)	(514,627)
Balance carried forward	<u>74,113</u>	<u>128,068</u>

17. Reconciliation of movements in shareholders' funds

	2012	2011
	£	£
Profit for the financial year	117,045	484,977
Equity dividends	(171,000)	(514,627)
Net reduction to shareholders' funds	(53,955)	(29,650)
Opening shareholders' funds	498,068	527,718
Closing shareholders' funds	<u>444,113</u>	<u>498,068</u>

18. Related party disclosures

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, a company under the same control as Hochtief PPP Schools Capital Limited, was contracted to build the schools and received payments of £12,750 (2011: £9,000) from PPP Services (North Ayrshire) Limited for work done during the year. In addition, Hochtief PPP Solutions (UK) Limited was paid £104,281 (2011: £107,615) for the provision of an operational manager.

Nord/LB Project Holding Limited holds a 20% shareholding in PPP Services (North Ayrshire) Holdings Limited. During the year £30,801 (2011: £34,058) was paid in respect of commitment fees and £4,312,599 (2011: £4,320,060) of term loan interest on the facility provided by Norddeutsche Landesbank Gironzentrale, a company under common control.

PPP Services (North Ayrshire) Limited has issued loan notes to PPP Services (North Ayrshire) Holdings Limited. The total amount of interest paid in the year end on this loan amounted to £1,075,108 (2011: £1,075,108). In addition, dividends of £171,000 (2011: £514,627) were paid in the year.

PPP Services (North Ayrshire) Ltd

Notes to the Financial Statements

Year Ended 31 December 2012

19. Ultimate 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.

Ownership of PPP Services (North Ayrshire) Holdings Limited is split between Hochtief PPP Schools Capital Limited (50%), PFI Infrastructure Finance Limited (30%) and Nord/LB Project Holdings Company Limited (20%). Accordingly there is no overall parent company and no ultimate controlling party.