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# Annual Report and Consolidated Financial Statements

## Alpha Schools (Highland) Holdings Limited

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**For the Year Ended 31 January 2010**

THURSDAY



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15/07/2010  
COMPANIES HOUSE

**Company No. 05508168**

## Officers and professional advisers

<b>Company registration number</b>	05508168
<b>Registered office</b>	1 <sup>st</sup> Floor, Phoenix House 18 King William Street London EC4N 7BP
<b>Directors</b>	J Boags R Christie (resigned 13/7/2009) P J Cooper (appointed 31/7/2009) R S Fullerton (resigned 13/7/2009) G A Quaife (appointed 31/7/2009) A S Richards (resigned 13/7/2009) A L Roshier (appointed 6/8/2009, resigned 13/5/2010)
<b>Secretary</b>	Mourant & Co Capital (SPV) Limited
<b>Bankers</b>	Royal Bank of Scotland Plc 142 - 144 Princes Street EH2 4EQ
<b>Independent Auditor</b>	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1-4 Atholl Crescent Edinburgh EH3 8LQ

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## Report of the directors

The directors submit their report and the audited consolidated financial statements for the year ended 31 January 2010

### **Business review and principal activities**

The Company is a Special Purpose Company whose sole business is to act as a holding company for Alpha Schools (Highland) Limited and Alpha Schools (Highland) Project Plc (together "the Group")

Alpha Schools (Highland) Limited entered into a Private Finance Initiative ("PFI") contract with The Highland Council on 6 April 2006 to design, build and finance eleven primary and secondary schools and provide certain facilities management services within these schools

As part of this contract, Alpha Schools (Highland) Limited has also entered into a fixed-price, date certain sub-contract with Morrison Construction Limited to design and build the schools. The construction term is approximately 41 months after which time the schools will be made available to The Highland Council following a pre-determined phased programme. Construction, excluding some grass playing fields, completed in July 2009

The PFI project has been financed primarily by the issue of fixed rate bonds of £81,405,210 and a loan facility provided by the European Investment Bank ("EIB") of £60,000,000. These funds were received during the year ended 31 January 2007. The proceeds of both the bond issue and loan facility have been lent to Alpha Schools (Highland) Limited by Alpha Schools (Highland) Project Plc, a Special Purpose Company established to issue the debt and enter into the main finance documents of the contract.

The first school was made available to The Highland Council on 26 March 2007 and the term of the PFI contract is 30 years from this date. The Group receives service payments from The Highland Council for each school as it becomes available. During the year ended 31 January 2010, the main construction work in respect of all schools was completed, and full service payments are now being received for all eleven schools. The Group has therefore generated turnover of £16,828,433 (2009 £10,477,986) during the current financial year. The construction and other related costs of building have been treated as a financial asset which will be repaid over the life of the contract.

The principal risk facing the Group is the inability to meet its obligations in respect of interest and principal repayments on the bonds and EIB loan. A Financial Guarantee provided by Ambac Assurance UK Limited ("Ambac") is in place to manage this risk. Under the terms of the Guarantee, Ambac unconditionally and irrevocably agrees to pay all sums due and payable by Alpha Schools (Highland) Project Plc in the event that Alpha Schools (Highland) Project Plc fails to pay.

In order to meet its contractual obligations, Alpha Schools (Highland) Project Plc is dependent on receipt of funds from Alpha Schools (Highland) Limited and therefore is dependent on the successful operation of Alpha Schools (Highland) Limited and the PFI contract in general. The contractual arrangements for the PFI contract have however been structured to minimise the risks retained by Alpha Schools (Highland) Limited and there are various security and contractual arrangements in place to protect Alpha Schools (Highland) Limited from default or non-performance by any sub-contractors. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany On-Loan Agreements.

## Report of the directors (continued)

### Future developments

The directors do not anticipate any changes in the Group's activities

### Summary of key performance indicators

The directors have monitored the progress of the overall Group strategy and the individual strategic elements by reference to certain financial and non-financial indicators

	2010	2009	Method of calculation
Net debt	£142,824,357	£143,883,183	Total net debt at balance sheet date
Target Service Availability Dates Achieved	100 %	77%	Percentage of Project Facilities completed on or before respective Service Availability Date at balance sheet date

### Results and dividends

The results for the year are set out on page 9. The profit for the year amounted to £2,078,602 (2009 £1,979,468) and has been transferred to reserves. The directors approved payment of a dividend of £1,250,000 (2009 £Nil) in respect of the year which has been deducted from reserves. This was paid on 1 February 2010.

### Directors and their interests

The directors of the Company who held office during the year and to date are as follows

J Boags  
R Christie (resigned 13/7/2009)  
P J Cooper (appointed 31/7/2009)  
R S Fullerton (resigned 13/7/2009)  
G A Quatfe (appointed 31/7/2009)  
A S Richards (resigned 13/7/2009)  
A L Roshier (appointed 6/8/2009, resigned 13/5/2010)

In accordance with the Company's Articles of Association, none of its directors are required to retire. None of the directors who held office at the beginning or end of the year had any interests in the shares of the Company.

## Report of the directors (continued)

### **Directors' responsibilities**

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 auditor is 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 auditor is aware of that information.

### **Financial risk management objectives and policies**

The Group's financial risk management objectives and exposures have been set out in note 11 of these financial statements.

## Report of the directors (continued)

### **Auditor**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 485(4) of the Companies Act 2006

ON BEHALF OF THE BOARD



**Phillip Cooper**  
**Director**

2 July 2010

Registered in England - No 05508168  
Registered Office  
1<sup>st</sup> Floor Phoenix House  
18 King William Street  
London  
EC4N 7BP

## Report of the independent auditor to the members of Alpha Schools (Highland) Holdings Limited

We have audited the financial statements of Alpha Schools (Highland) Holdings Limited for the year ended 31 January 2010 which comprise the group profit and loss account, the group and parent company balance sheet, the group cash flow statement and the related notes 1 to 19. 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 January 2010 and of the group's 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.



## Report of the independent auditor to the members of Alpha Schools (Highland) Holdings Limited (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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



Andrew Howie  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP,  
Statutory Auditor, Chartered Accountants  
Edinburgh

**Edinburgh**

12 July 2010

## Group profit and loss account

	Note	2010 £	2009 £
Turnover		16,828,433	10,477,987
Cost of sales		(4,248,887)	(2,185,377)
<b>Gross profit</b>		<b>12,579,546</b>	<b>8,292,610</b>
Administration expenses		(894,932)	(599,174)
<b>Operating Profit</b>	2	<b>11,684,614</b>	<b>7,693,436</b>
Net interest payable	3	(8,797,665)	(4,948,106)
<b>Profit on ordinary activities before taxation</b>		<b>2,886,949</b>	<b>2,745,330</b>
Taxation	4	(808,347)	(765,862)
<b>Retained profit for the year</b>	13	<b>2,078,602</b>	<b>1,979,468</b>

### Statement of retained earnings

	2010 £	2009 £
<b>Opening balance</b>	<b>2,623,001</b>	643,533
Retained profit for the year	2,078,602	1,979,468
Dividends	(1,250,000)	-
<b>Balance at 31 January</b>	<b>3,451,603</b>	<b>2,623,001</b>

All activities are continuing

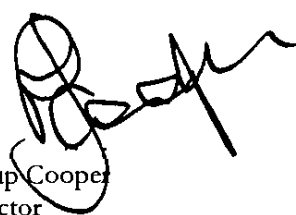
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historic cost equivalents

The Group has no recognised gains and losses other than the profit for the year above and therefore no separate statement of total recognised gains and losses has been presented

**The accompanying accounting policies and notes form part of these consolidated financial statements.**

## Group and company balance sheet

	Note	Group		Company	
		2010 £	2009 £ Restated	2010 £	2009 £ Restated
<b>Investments</b>	6	-	-	50,099	50,099
<b>Current assets</b>					
Financial asset due for amortisation after one year	7	146,099,476	145,277,948	-	-
Financial asset due for amortisation within one year	7	1,691,930	1,536,079	-	-
Debtors - amounts falling due within one year	8	2,469,818	1,898,161	2,427,377	330,109
Debtors - amounts falling due after one year	9	317,638	395,158	15,109,052	10,422,905
Cash at bank and in hand		10,021,826	5,323,731	-	1,009,050
		<u>160,600,688</u>	<u>154,431,077</u>	<u>17,536,429</u>	<u>11,762,064</u>
<b>Current liabilities</b>					
Creditors - amounts falling due within one year	10	(7,450,264)	(3,874,365)	(2,477,376)	(1,389,158)
Net current assets		<u>153,150,424</u>	<u>150,556,712</u>	<u>15,059,053</u>	<u>10,372,906</u>
<b>Total assets less current liabilities</b>		<u>153,150,424</u>	<u>150,556,712</u>	<u>15,109,152</u>	<u>10,423,005</u>
Creditors - amounts falling due after more than one year	11	(149,648,721)	(147,883,611)	(15,059,052)	(10,372,905)
<b>Net Assets</b>		<u><u>3,501,703</u></u>	<u><u>2,673,101</u></u>	<u><u>50,100</u></u>	<u><u>50,100</u></u>
<b>Capital and reserves</b>					
Called-up share capital	12	50,100	50,100	50,100	50,100
Profit and loss reserve		3,451,603	2,623,001	-	-
<b>Equity shareholders' funds</b>	13	<u><u>3,501,703</u></u>	<u><u>2,673,101</u></u>	<u><u>50,100</u></u>	<u><u>50,100</u></u>

  
 Phillip Cooper  
 Director

The directors authorised and approved the financial statements for issue on 2 July 2010

**The accompanying accounting policies and notes form part of these consolidated financial statements.**

## Group cash flow statement

	Note	2010 £	2009 £
<b>Operating activities</b>			
Net cash inflow/(outflow) from operating activities	14	10,748,684	(20,461,713)
<b>Returns on investments and servicing of finance</b>			
Interest paid		(8,148,989)	(7,908,719)
Interest received		33,535	367,873
<b>Taxation</b>			
UK corporation tax paid		(1,468,723)	-
<b>Net cash flow before use of liquid resources and financing</b>		<u>1,164,507</u>	<u>(28,002,559)</u>
<b>Management of liquid resources</b>			
Decrease in deposit in Guaranteed Investment Contract		-	12,888,262
<b>Financing</b>			
Issue of subordinated loan notes		4,856,891	10,388,150
Repayment of principal loan		(1,323,303)	-
<b>Increase / (decrease) in cash</b>		<u><u>4,698,095</u></u>	<u><u>(4,726,147)</u></u>

**The accompanying accounting policies and notes form part of these consolidated financial statements.**

## Notes to the financial statements

### **1 Principal accounting policies**

#### **Basis of preparation**

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below. There have been no changes made to previous accounting policies.

#### **Basis of consolidation**

The group accounts comprise a consolidation of the accounts of the Company and all of its subsidiaries for the year ended 31 January 2010. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The Company has no associates or joint ventures.

#### **Investments**

Investments in the subsidiary undertakings are stated at cost. The carrying value of investments is reviewed annually by the directors to determine whether there has been any impairment.

#### **Financial asset**

Construction and related costs of building the schools are treated as a financial asset (contract debtor) under the terms of FRS 5 Application Note F – Private Finance Initiative and Similar Contracts. The financial asset will be repaid over the life of the contract (30 years) as service income is received from The Highland Council.

Upon becoming operational, the income derived from the PFI contract is allocated between the provision of the asset and the provision of the subsequent services. Upon acceptance of the constructed asset by The Highland Council, the financial asset is amortised over the life of the contract against the relevant portion of the contracted income.

#### **Deferred taxation**

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### Financial liabilities

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

#### Turnover

Turnover consists of service income and finance debtor interest receivable by the Company under the terms of its contract with The Highland Council, less any performance and availability deductions incurred. Turnover is earned wholly within the UK and is exclusive of VAT.

#### Liquid resources

Liquid resources are defined as restricted cash held on behalf of the Company by Royal Bank of Canada and released to the Company under the terms of an agreement with that entity.

### 2 Operating profit

Neither the Group nor the Company has any directly employed personnel. The profit on ordinary activities is stated after charging auditors' remuneration of £27,000 (2009 £27,000). Non-audit services in respect of taxation services for the year amounted to £8,750 (2009 £8,750). Non-audit services in respect of financial modelling amounted to £Nil (2009 £25,000).

During the year, directors' fees were paid by the Group to Infrastructure Investments GP Limited and Northern Infrastructure Investments LLP for services carried out by the persons appointed to the board of the Company and the Group on behalf of the ultimate shareholders, HSBC Infrastructure Company Limited and 3i Infrastructure Plc respectively. The amounts paid were as follows:

	2010	2009
	£	£
Infrastructure Investments GP Limited	268,333	-
Northern Infrastructure Investments LLP	268,333	-
	<u>536,666</u>	<u>-</u>

Of the above amounts, £243,220 was expensed to the profit and loss account and £293,446 was added to the financial asset.

## Notes to the financial statements (continued)

### 3 Interest payable and similar charges

	2010	2009
	£	£
Interest receivable on Guaranteed Investment Contract	-	92,880
Bank interest receivable	33,535	274,993
Interest payable on loans from Alpha Schools (Highland) Project Plc	(8,929,183)	(7,885,077)
Other finance costs payable	(17,235)	(23,643)
	<u>(8,912,883)</u>	<u>(7,540,847)</u>
Transferred to financial asset	115,218	2,592,741
	<u>(8,797,665)</u>	<u>(4,948,106)</u>

### 4 Taxation

	2010	2009
	£	£
<b>Tax on profit on ordinary activities comprises:</b>		
UK Corporation tax at 28% (2009 28 33%)	808,347	777,694
Adjustments in respect of previous periods	-	280,871
Total current tax	<u>808,347</u>	<u>1,058,565</u>
Deferred tax		
Prior year adjustment	-	(292,703)
Total deferred tax	<u>-</u>	<u>(292,703)</u>
Tax on profit on ordinary activities	<u>808,347</u>	<u>765,862</u>

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2010	2009
	£	£
Profit on ordinary activities before tax	2,886,949	2,745,330
Profit on ordinary activities at the standard UK rate of tax of 28% (2009 28 33%)	808,347	777,694
Effects of		
Adjustments in respect of prior periods	-	280,871
Current tax charge for the year	<u>808,347</u>	<u>1,058,565</u>

## Notes to the financial statements (continued)

### 5 Result of parent company

Alpha Schools (Highland) Holdings Limited has not presented its own profit and loss account, as permitted by section 408 of the Companies Act 2006. The result for the financial year dealt with in the accounts of the parent company was £1,250,000 (2009 £Nil)

### 6 Investments

#### The company

£

#### Shares in subsidiary undertaking cost

At 1 February 2009 and at 31 January 2010

50,099

#### Principal subsidiary undertakings

The company has investments in the following subsidiary undertakings

Name	Activity	Country of Incorporation	Shareholding and voting rights	Capital & Reserves	Profit
Alpha Schools (Highland) Limited	PFI concession company	Great Britain	100%	£3,451,703	£2,078,602
Alpha Schools (Highland) Project Plc	PFI concession company	Great Britain	100%	£50,000	£Nil



## Notes to the financial statements (continued)

### 7 Financial asset

	2010	2009
	£	£
<b>Cost</b>		
Brought forward at 1 February	147,796,444	119,618,382
Additions during the year		
Interest payable and other financing costs (net)	115,218	2,592,741
Construction and related costs	2,398,241	25,585,321
<b>At 31 January</b>	<b>150,309,903</b>	<b>147,796,444</b>
<b>Amortisation</b>		
Brought forward at 1 February	(982,417)	(109,133)
Charge for year	(1,536,080)	(873,284)
<b>At 31 January</b>	<b>(2,518,497)</b>	<b>(982,417)</b>
<b>At 31 January</b>	<b>147,791,406</b>	<b>146,814,027</b>
Financial asset - due for amortisation within one year	1,691,930	1,536,079
Financial asset - due for amortisation after one year	146,099,476	145,277,948
	<b>147,791,406</b>	<b>146,814,027</b>

## Notes to the financial statements (continued)

### 8 Debtors - amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
				Restated
Trade debtors	1,912,684	1,622,354	-	-
Prepayments	233,961	152,064	-	-
Other debtors	323,173	123,743	-	-
Interest due from Alpha Schools (Highland) Project Plc on subordinated loan notes	-	-	1,006,633	314,864
Amounts due from Alpha Schools (Highland) Project Plc	-	-	170,744	15,245
Dividends due from Alpha Schools (Highland) Limited	-	-	1,250,000	-
	<u>2,469,818</u>	<u>1,898,161</u>	<u>2,427,377</u>	<u>330,109</u>

Trade debtors are all due within one year. Other debtors are due from The Highland Council.

In the current year, Amounts owed by Alpha Schools (Highland) Project Plc have been split between amounts falling due within one year and amounts falling due after more than one year. In 2009 these amounts were disclosed only as amounts due after more than one year. Therefore the prior year balance sheet has been restated with no impact on the profit and loss account.

### 9 Debtors - amounts falling due after more than one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
				Restated
Other debtors	317,638	395,158	-	-
Amounts due from Alpha Schools (Highland) Limited	-	-	50,000	50,000
Amounts due from Alpha Schools (Highland) Project Plc	-	-	15,059,052	10,372,905
	<u>317,638</u>	<u>395,158</u>	<u>15,109,052</u>	<u>10,422,905</u>

#### The Group

Other debtors are due from The Highland Council.

#### The Company

During the year, the Company received £4,856,891 (2009 £10,388,150) in the form of subordinated loan notes from its shareholders. The proceeds of the loan notes have been lent to Alpha Schools (Highland) Project Plc on identical terms.

## Notes to the financial statements (continued)

**10 Creditors - amounts falling due within one year**

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
		Restated		Restated
Trade creditors	772,064	343,094	-	-
Other creditors and accruals	455,356	716,477	-	-
Accrued subordinated loan note interest	1,006,633	314,864	1,006,633	314,864
Corporation tax	398,207	1,058,565	-	-
VAT payable	370,542	118,062	-	-
Term loan and fixed rate secured bonds	3,197,462	1,323,303	170,744	15,245
Amounts owed to Alpha Schools (Highland) Limited	-	-	-	1,009,050
Amounts owed to Alpha Schools (Highland) Project plc	-	-	49,999	49,999
Dividends declared	1,250,000	-	1,250,000	-
	<u>7,450,264</u>	<u>3,874,365</u>	<u>2,477,376</u>	<u>1,389,158</u>

In the current year borrowings have been split between amounts falling due within one year and amounts falling due after more than one year. In 2009 these amounts were disclosed as amounts falling due after more than one year on the face of the balance sheet however the note disclosed the split. This has resulted in a restatement of the balance sheet with no impact on the profit and loss account.

**11 Creditors - amounts falling due after more than one year**

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
		Restated		Restated
<b>Borrowings:</b>				
Fixed rate secured bonds	77,577,722	79,211,485	-	-
Secured bank term loans	57,011,947	58,299,222	-	-
Subordinated loan notes	15,059,052	10,372,905	15,059,052	10,372,905
	<u>149,648,721</u>	<u>147,883,612</u>	<u>15,059,052</u>	<u>10,372,905</u>
<b>Repayable as follows:</b>				
Between one and two years	3,522,094	3,197,462	326,244	170,744
Between two and five years	10,774,592	10,574,291	1,033,614	1,015,320
After five years	135,352,035	134,111,859	13,699,194	9,186,841
	<u>149,648,721</u>	<u>147,883,612</u>	<u>15,059,052</u>	<u>10,372,905</u>

## Notes to the financial statements (continued)

### 11 Creditors - amounts falling due after more than one year (continued)

#### The Group

Fixed rate senior guaranteed secured bonds due in 2036 of £100,400,000 were created on 6 April 2006. Of this £81,400,000 were issued and sold at a market value of £81,405,210. The Company has £19,000,000 variation bonds which may be used to finance certain contingencies or changes within the PFI contract. The bonds are repayable in semi-annual instalments commencing on 31 January 2010 and ending on 31 January 2036. Interest on the bonds is also payable semi-annually at a rate of 4.792% per annum and payments commenced on 31 July 2006.

The secured bank term loan is from the European Investment Bank ("EIB"). Principal repayments are made semi-annually commencing on 31 January 2010 and ending on 31 January 2035. Interest on the loan is also payable semi-annually at the rate of 4.58% per annum and payments commenced on 31 July 2006.

Payments in respect of both the bonds and EIB loan are guaranteed by Ambac Assurance UK Limited which unconditionally and irrevocably guarantees to pay all sums due and payable by the Group in the event that the Group fails to pay. The cost of this guarantee is treated as a direct cost of finance by the Group.

During the year, the Company received £4,856,891 (2009 £10,388,150) the form of fixed rate subordinated loan notes from its shareholders. Interest is payable on the loan notes at a rate of 12.9% and the loan notes are repayable on an annuity basis beginning on 31 January 2010 and ending on 31 July 2036.

The liabilities are each stated at amortised cost, using the effective interest rate method and are net of unamortised debt issue costs of £1,201,094 (2009 £1,248,038).

The borrowings are secured by a fixed charge over all the issued shares in Alpha Schools (Highland) Limited and Alpha Schools (Highland) Project Plc, an assignment of all rights of the Company under the Finance Agreements to which it is a party and a floating charge over the whole of the Company's undertaking and assets which have not been effectively secured by way of a fixed charge or assignment.

The Company, Alpha Schools (Highland) Project Plc and Alpha Schools (Highland) Limited have granted a joint and several guarantee in respect of each other's obligations under the senior finance documents. The Company has also guaranteed the obligations of Alpha Schools (Highland) Limited to Alpha Schools (Highland) Project Plc under the Intercompany Onloan Agreements.

The Group has not entered into derivative transactions. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risk arising from the Group's financial instruments is liquidity risk. The Board's policy for managing this risk is summarised below.

#### Credit risk

The Group is dependent on receipt of funds from The Highland Council in return for the delivery of services. Credit risk is low due to the fact that The Highland Council is a local authority and therefore public sector funded. Further, there are contractual arrangements in place to minimise the risks retained by the Group and to protect it from default or non-performance by any of its sub-contractors.

#### Interest rate risk

The Group has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest.

## Notes to the financial statements (continued)

### 11 Creditors - amounts falling due after more than one year (continued)

#### Liquidity risk

The Group's policy throughout the year has been, in order to ensure continuity of funding, that substantially all of its borrowings should mature in more than one year

#### Foreign currency risk

The Group has no foreign currency transactions. All of the Group's borrowings are denominated in sterling

#### Interest rate profile

The interest rate profile of the Group's financial liabilities was as follows

	2010 £	2009 £
Fixed rate borrowings	<u>152,846,183</u>	<u>149,206,914</u>

The fixed rate bonds have interest payable at 4.792% and the bank loan has fixed rate interest payable at 4.58%. The subordinated loan notes have interest payable at 12.9%.

#### The Company

During the year, the Company received £4,856,891 (2009 £10,388,150) in the form of fixed rate subordinated loan notes from its shareholders. Interest is payable on the loan notes at a fixed rate of 12.9% and the loan notes are repayable on an annuity basis beginning on 31 January 2010 and ending on 31 July 2036.

### 12 Called up share capital

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
<b>Authorised</b>				
50,100 ordinary shares of £1 each	<u>50,100</u>	50,100	<u>50,100</u>	50,100
	<u>50,100</u>	50,100	<u>50,100</u>	50,100
<b>Allotted, issued and fully paid</b>				
50,100 ordinary shares of £1 each	<u>50,100</u>	50,100	<u>50,100</u>	50,100
	<u>50,100</u>	50,100	<u>50,100</u>	50,100

## Notes to the financial statements (continued)

### 13 Reconciliation of movement in shareholders' funds

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Opening shareholders' funds	2,673,101	693,633	50,100	50,100
Profit for financial year	2,078,602	1,979,468	1,250,000	-
Dividends	(1,250,000)	-	(1,250,000)	-
Closing shareholders' funds	<u>3,501,703</u>	<u>2,673,101</u>	<u>50,100</u>	<u>50,100</u>

### 14 Reconciliation of group operating profit to net cash outflow from operating activities

	2010	2009
	£	£
Operating profit	11,684,614	7,693,436
Increase/(decrease) in creditors	420,369	(3,465,363)
Increase in debtors	(494,137)	(92,200)
Increase in financial asset	(862,162)	(24,712,037)
Other non-cash movements	-	114,451
Net cash inflow/(outflow) from operating activities	<u>10,748,684</u>	<u>(20,461,713)</u>

### 15 Reconciliation of group net cash flow to movement in net debt

	2010	2009
	£	£
Increase / (decrease) in cash in year	4,698,095	(4,726,147)
Increase in net debt from issue of subordinated loan notes	(4,856,891)	(10,388,150)
Decrease in net debt from repayment of debt principal	1,323,303	-
Cash outflow from decrease in liquid resources	-	(12,888,262)
Change in net debt resulting from cash flows	<u>1,164,507</u>	<u>(28,002,559)</u>
Other non-cash changes	(105,680)	(114,451)
Movement in net debt in the year	1,058,827	(28,117,010)
Opening net debt	<u>(143,883,183)</u>	<u>(115,766,173)</u>
Closing net debt	<u>(142,824,357)</u>	<u>(143,883,183)</u>

## Notes to the financial statements (continued)

### 16 Analysis of change in group net debt

	1 February 2009 £	Cash flow £	Non-cash changes £	31 January 2010 £
Cash in hand and at bank	5,323,731	4,698,095	-	10,021,826
Debt due within one year	(1,323,303)	(1,874,159)	-	(3,197,462)
Debt due after one year	(147,883,611)	(1,659,430)	(105,680)	(149,648,721)
Total	<u>(143,883,183)</u>	<u>1,164,506</u>	<u>(105,680)</u>	<u>(142,824,357)</u>

Non-cash changes comprise the amortisation costs in respect of the EIB loan and fixed rate senior guaranteed secured bonds

### 17 Related party transactions

The company's related parties, as defined by Financial Reporting Standard 8, and the extent of transactions with them during the year ended 31 January 2010 are set out below

	Purchases from related parties £	Amounts owed to related parties £
Galliford Try Investments Limited	124,548	9,063
3i Infrastructure plc	397,050	268,333
Morrison Construction Limited	3,424,284	67,718
Morrison Facilities Services Limited	4,386,192	447,118
HSBC Infrastructure Investment Company	309,604	309,604
	<u>8,641,678</u>	<u>1,101,836</u>

Comparative information for the year ended 31 January 2009 is set out below

	Purchases from related parties £	Amounts owed to related parties £
Galliford Try Investments Limited	197,869	-
3i Infrastructure plc	191,876	-
Morrison Construction Limited	26,240,854	686,435
Morrison Facilities Services Limited	2,484,255	330,533
	<u>29,114,854</u>	<u>1,016,968</u>

There were no sales to related parties or amounts owed by related parties at 31 January 2010 or 31 January 2009

## Notes to the financial statements (continued)

### **17 Related party transactions (continued)**

On 8 July 2009 Galliford Try Investments Limited sold its 50% shareholding of Alpha Schools (Highland) Holdings Limited (held through its 100% subsidiary, Morrison Education (Highland) Limited) to Infrastructure Investments Holdings Ltd, a company controlled by HSBC Infrastructure Investment Company

Galliford Try Investments Limited is a wholly owned subsidiary of Galliford Try Plc and provides concession management services to the Company

HSBC Infrastructure Investment Company charges directors fees to the company

3i Infrastructure Plc owns 50% of the Company through its investment vehicle, Northern Infrastructure Investments LLP and also provides management services to the Company

Morrison Construction Limited is a wholly owned subsidiary of Galliford Try Plc and has entered into a building sub-contract with the Company

Morrison Facilities Services Limited is ultimately controlled by Anglian Water Group Limited which in turn is owned by a private consortium, Osprey, comprising of Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management and funds advised or managed by 3i Group Plc

### **18 Post balance sheet events**

The dividend approved by the directors in respect of the year of £1,250,000 (2009 £Nil) was paid on 1 February 2010

### **19 Ultimate parent undertaking**

The Directors consider the ultimate controlling parties to be HSBC Infrastructure Company Limited and 3i Infrastructure Plc