

# Annual Report and Financial Statements Alpha Schools (Highland) Project Plc

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**For the Year Ended 31 January 2016**



**Company No. 05516176**

## Company information

<b>Company registration number</b>	05516176
<b>Registered office</b>	21 St Thomas Street Bristol BS1 6JS
<b>Directors</b>	G A Quaife E G Wegener
<b>Secretary</b>	Jordans Company Secretaries Limited
<b>Bankers</b>	Barclays Bank PLC 1 Churchill Place London E14 5HP
<b>Independent Auditor</b>	KPMG LLP Arlington Business Park Reading Theale RG7 4SD

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## Strategic report

The directors submit their annual report and the audited financial statements for the year ended 31 January 2016.

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

The Company's principal activity is to finance the activities of Alpha Schools (Highland) Limited, a Special Purpose Company that has been established to enter into a Private Finance Initiative ("PFI") contract with The Highland Council. The PFI contract involves the design, build and financing of eleven primary and secondary schools together with the provision of certain facilities management services within these schools. The availability date of the first school was 26 March 2007 and the term of the PFI contract is 30 years from this date. The Company receives service payments from The Highland Council for each school from the date it becomes available. The main construction and external work of all schools is now complete and full service payments are now being received in respect of all eleven schools.

On 6 April 2006, the Company issued fixed rate bonds of £81,405,210 and borrowed a fixed rate loan from the European Investment Bank ("EIB") of £60,000,000. The proceeds raised in respect of the bonds and loan (less debt issue costs) have been lent to Alpha Schools (Highland) Limited under the terms of an On-Loan Agreement to enable it to carry out its obligations under the PFI contract. The same terms that apply to the Company in respect of the bonds and loan also apply to Alpha Schools (Highland) Limited.

The Company has not since its date of incorporation carried on any business or activities other than incidental to the financing of Alpha Schools (Highland) Limited.

Both the Company and Alpha Schools (Highland) Limited are wholly owned subsidiaries of Alpha Schools (Highland) Holdings Limited.

### **Principal risks and uncertainties**

The principal risk facing the Company 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 the Company in the event that the Company fails to pay.

In order to meet its contractual obligations, the Company 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. Intra-group loan agreements are in place to define the funding arrangements between the Company and Alpha Schools (Highland) Limited. It is due to the contractual arrangements that are in place, and the certainty of the service payments being received by The Highland Council by Alpha Schools (Highland) Limited that the directors have adopted the going concern basis of accounting.

### **Future developments**

The directors do not anticipate any change in the Company's activities.

## Strategic report (continued)

### Results and dividends

The result for the year amounted to £Nil (2015: £Nil).

The directors do not recommend payment of a dividend in respect of the year (2015: £Nil).

### Financial risk management objectives

The directors' approach to financial risk management objectives and exposures has been set out in note 9 of these financial statements.

### Summary of key performance indicators

The directors have monitored the progress of the overall Company strategy and the individual strategic elements by reference to the following financial indicator, and is satisfied with the Company's performance.

	2016	2015	Method of calculation
	£	£	
Net debt	134,974,730	138,446,327	Total net debt at balance sheet date

As the Company is primarily a financing vehicle, there are no relevant non-financial key performance indicators.



**E G Wegener**

Director

25 July 2016

Registered in England - No. 05516176  
21 St Thomas Street  
Bristol  
BS1 6JS

## Directors' Report

### **Directors and their interests**

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

G A Quaife  
E G Wegener

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.

### **Political donations**

The Company made no political donations in the year (2015: £Nil).

### **Responsibility Statement:**

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 January 2016. The directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

### **Audit Committee Statement:**

Under section 7.1 of the Combined Code the Company is required to either have a separate audit committee or set out the reasons why the directors view not having a separate Audit Committee is appropriate. The board does not believe an audit committee is required for the following reasons:

- all board directors are non-executive and are employees of the advisors to the shareholder.
- the board fulfils the responsibilities and requirements of an audit committee, through reviewing the financial controls and considering the appropriateness of the internal control and risk management systems. See Financial Risk Management Objectives and Policies section. It also controls the appointment of the auditor, considers their independence and sets the auditor remuneration.

The Company has outsourced the financial reporting function to Galliford Try Investments Consultancy Services Limited (Galliford Try). Authorities remain vested in the board members of the Company. Galliford Try reports regularly to the board of the Company. The Board receives regular reports from Galliford Try which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the Company operates. The Board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, Galliford Try evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process

## Directors' Report

ensures that the project remains robust and viable throughout the life of the contract

### **Disclosure of information to the auditor**

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

### **Auditor**

A resolution to appoint KPMG LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 489 of the Companies Act 2006.



**E G Wegener**

**Director**

25 July 2016

Registered in England - No. 05516176  
21 St Thomas Street  
Bristol  
BS1 6JS

## Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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, including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 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.



# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc

We have audited the financial statements of Alpha Schools (Highland) Project Plc for the year ended 31 January 2016 set out on pages 10 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard in the UK and the Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2016 and of its result 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc (continued)

## **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Amanda Moses (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
**Chartered Accountants**  
**Arlington Business Park**  
**Reading**  
**Theale**  
**RG7 4SD**

29 July 2016

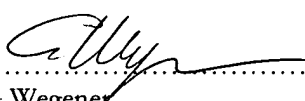
## Profit and loss account and Statement of Comprehensive Income

	Note	2016 £	2015 £
Interest receivable	3	8,163,417	8,218,977
Interest payable and similar charges	3	<u>(8,163,417)</u>	<u>(8,218,977)</u>
<b>Result on ordinary activities before taxation</b>		-	-
Taxation	4	-	-
<b>Results and Total Comprehensive Income</b>		<u>-</u>	<u>-</u>

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

## Balance sheet

	Note	2016 £	2015 £
<b>Current assets</b>			
Debtors - amounts falling due after more than one year	5	130,449,785	134,034,336
Debtors - amounts falling due within one year	6	4,574,949	4,461,990
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	7	(4,574,949)	(4,461,990)
Net current assets		-	-
<b>Total assets less current liabilities</b>		<b>130,449,785</b>	<b>134,034,336</b>
Creditors - amounts falling due after more than one year	8	(130,399,785)	(133,984,336)
<b>Net Assets</b>		<b>50,000</b>	<b>50,000</b>
<b>Capital and reserves</b>			
Called-up share capital	10	50,000	50,000
Equity shareholders' funds	11	50,000	50,000

  
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E G Wegener  
Director

The director authorised and approved the financial statements for issue on 25 July 2016.

Company Registration Number: 05516176

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

## Statement of Changes in Equity

	£	£	£
	Called Up Share Capital	Profit & Loss Account	Total Equity
Balance as at 1 February 2015	50,000	-	50,000
Total Comprehensive Income	-	-	-
Dividends	-	-	-
<b>Balance at 31 January 2016</b>	<b>50,000</b>	<b>0</b>	<b>50,000</b>
	Called Up Share Capital	Profit & Loss Account	Total Equity
Balance as at 1 February 2014	50,000	-	50,000
Total Comprehensive Income	-	-	-
Dividends	-	-	-
<b>Balance at 31 January 2015</b>	<b>50,000</b>	<b>0</b>	<b>50,000</b>

## Notes to the financial statements (continued)

### 1. Principal accounting policies

Alpha Schools (Highland) Project Plc (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Company has made no measurement and recognition adjustments.

When preparing these financial statements the Directors have made the judgement that the company meets the definition of Financial Institution as its sole purpose is to provide financing and treasury functions for the group.

The Company’s parent undertaking, Alpha Schools (Highland) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Alpha Schools (Highland) Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Fountainbridge, Edinburgh, EH3 9FF. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

#### 1.1. Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2. Going concern

The Directors have reviewed the Company’s projected profits and cash flows by reference to a financial model covering accounting periods up to April 2037. Having examined the current status of the Company’s principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company’s financial statements:

#### 1.3. Basic financial instruments

##### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

## Notes to the financial statements (continued)

### **1. Accounting policies (continued)**

#### **1.3. Basic financial instruments (continued)**

##### *Interest-bearing borrowings classified as basic financial instruments*

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

#### **1.4. Expenses**

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds lent to a fellow subsidiary.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

#### **1.5. Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

## Notes to the financial statements (continued)

### 2. Operating profit

None of the directors received any remuneration as directors from the Company during the year. The Company has no directly employed personnel.

Audit fees of £4,000 (2015: £4,000) and other administration expenses are borne by Alpha Schools (Highland) Limited, a fellow subsidiary undertaking.

### 3. Interest payable and similar charges (net)

	2016	2015
	£	£
Interest payable on bonds and secured loans	(6,198,773)	(6,257,039)
Interest payable due to Alpha Schools (Highland) Holdings Ltd	(1,964,644)	(1,961,938)
Interest receivable on loans made to Alpha Schools (Highland) Ltd	8,163,417	8,218,977
Finance costs net	<u>-</u>	<u>-</u>

### 4. Taxation

The results for the year do not give rise to a tax charge (2015: £Nil).

### 5. Debtors – Amount falling due after more than one year

	2016	2015
	£	£
Amounts owed by Alpha Schools (Highland) Limited	130,399,781	133,984,336
Amounts owed by Alpha Schools (Highland) Holdings Limited	49,999	49,999
Amounts owed by Infrastructure Investments Holdings Ltd	1	1
	<u>130,449,781</u>	<u>134,034,336</u>

The principal loan amounts owed by Alpha Schools (Highland) Limited comprise:

- senior debt facilities of £118,754,542 of which £3,584,553 is due within one year (Note 6) (2015: £122,226,135 of which £3,471,594 was due within one year), and;
- subordinated debt facilities of £15,229,796, none of which is due within one year (Note 6) (2015: £15,229,796, of which none was due within one year).

Senior debt facilities comprise a loan which is made up of the proceeds of the issue of £81,405,210 of fixed rate bonds and a £60,000,000 fixed rate loan from the European Investment Bank (“EIB”). The loans are stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £919,425 (2015: £966,370). The Company has lent the proceeds of both the bond and EIB loan to Alpha Schools (Highland) Limited on the same terms as those applicable to the Company.



## Notes to the financial statements (continued)

### 6. Debtors - amounts falling due within one year

	2016 £	2015 £
Amounts owed by Alpha Schools (Highland) Limited (refer to Note 5)	3,584,553	3,471,594
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	990,396	990,396
	<u>4,574,949</u>	<u>4,461,990</u>

### 7. Creditors - amounts falling due within one year

	2016 £	2015 £
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	990,396	990,396
Borrowings – amounts falling due within one year:		
Fixed rate secured bonds	1,885,045	1,843,615
Secured bank term loans	1,699,508	1,627,979
	<u>4,574,949</u>	<u>4,461,990</u>

### 8. Creditors - amounts falling due after more than one year

	2016 £	2015 £
Borrowings:		
Fixed rate secured bonds	67,223,216	69,108,260
Secured bank term loans	47,946,773	49,646,280
Amounts owed to Alpha Schools (Highland) Holdings Limited	15,229,796	15,229,796
	<u>130,399,785</u>	<u>133,984,336</u>
Repayable as follows:		
Between one and two years	3,769,516	3,584,553
Between two and five years	12,559,642	12,292,943
After five years	114,070,627	118,106,840
Total borrowings	<u>130,399,785</u>	<u>133,984,336</u>

## Notes to the financial statements (continued)

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

The undiscounted contractual maturities are repayable as follows:

Less than one year	3,714,634	3,583,967
Between one and two years	3,883,169	3,714,634
Between two and five years	13,109,715	12,631,192
After five years	115,066,709	119,428,400
Total borrowings	<u>135,774,227</u>	<u>139,358,193</u>

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 variations within the PFI contract, which have not been drawn. 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. 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 Company in the event that the Company fails to pay. The cost of this guarantee is treated as a direct cost of finance by the Company.

The fixed rate senior guaranteed bonds and the secured bank term loan are each stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £919,425 (2015: £966,370). These costs together with the interest expense are allocated to the profit and loss account over the term of the loans. Interest is calculated using the effective interest rate method.

The Company has received £15,229,796 (2015: £15,229,796) in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited on the same terms.

Interest is payable on the loan notes at a rate of 12.9%. The loan notes are repayable in three instalments beginning on 31 July 2036 and ending on 31 July 2037.

The borrowings are secured by a fixed charge over the assets of the Company, an assignment of all rights under the legal agreements to which the Company is a party and a floating charge over all the Company's undertakings and assets which have not been effectively secured by way of a fixed charge or assignment.

The carrying value of the Company's secured assets (including those of its fellow subsidiary) at the balance sheet date was £146,424,351 (2015: £148,492,470).

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

## Notes to the financial statements (continued)

### 9. Financial instruments

The Company's financial instruments comprise borrowings and loans receivable. The sole purpose of these financial instruments is to raise finance for the operations of Alpha Schools (Highland) Limited. The Company has not entered into derivative transactions. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments be undertaken. The main risk arising from the Company's financial instruments is credit risk. The Board's policy for managing this risk is summarised below.

The Company's financial instruments are summarised as follows:

	2016	2015
	£	£
<b>Financial assets</b>		
Loans and receivables measured at amortised cost	<u>135,024,734</u>	<u>138,496,327</u>
<b>Financial liabilities</b>		
Other creditors (accrued subordinated loan note interest – see Note 7)	990,396	990,396
Measured at amortised cost	<u>133,984,338</u>	<u>137,455,931</u>
	<u>133,933,734</u>	<u>138,446,327</u>

The undiscounted contractual maturities are repayable as follows:

Less than one year	3,714,634	3,583,967
Between one and two years	3,883,169	3,714,634
Between two and five years	13,109,715	12,631,192
After five years	115,066,709	119,428,400
Total borrowings	<u>135,774,227</u>	<u>139,358,193</u>

#### Credit risk

The Company is dependent on receipt of funds from Alpha Schools (Highland) Limited in order to meet its contractual obligations. In turn, Alpha Schools (Highland) Limited is dependent on receipt of funds from The Highland Council in return for the delivery of services. The directors consider credit risk to be very low due to the fact that The Highland Council is a local authority with specific public sector funding committed to funding the PFI contract.

In order to further manage credit risk, the directors have ensured that there are contractual arrangements in place to minimise the risks retained by Alpha Schools (Highland) Limited (for example in respect of performance and availability deductions which are principally passed on to that company's sub-contractors) and to protect it from default or other non-performance by any of its sub-contractors. As credit risk is considered to be minimal, a sensitivity analysis of the exposure has not been performed.

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

## Notes to the financial statements (continued)

### 9. Financial instruments (continued)

#### Interest rate risk

The Company has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest. Although current market interest rates are currently below the fixed rate of interest, this is not considered to be a risk given that the income being received by Alpha Schools (Highland) Limited to service repayment of the borrowings is also fixed.

#### Liquidity risk

This risk is managed via the funding contracts into which the Company has entered. The repayment profiles of the debt and loan commitments are set out in note 8 above. In addition, the back to back lending arrangement with Alpha Schools (Highland) Limited ensures that liquidity risk within the Company is minimised.

#### Interest rate profile

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

	2016 £	2015 £
Fixed rate borrowings	<u>133,984,338</u>	<u>137,455,931</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%.

#### Borrowing facilities

	Drawn £	Undrawn £	Total £
Variation bonds	<u>-</u>	<u>19,000,000</u>	<u>19,000,000</u>

The Company has the above undrawn borrowing facilities at 31 January 2016, expiring 2036, which are subject to various conditions.

The bonds have subsequently been cancelled on 19 April 2016.

## Notes to the financial statements (continued)

### 9. Financial instruments (continued)

#### Fair values

Set out below is a comparison of book values and fair values of the Company's financial instruments.

	Fair Value 2016 £	Fair Value 2015 £	Book Value 2016 £	Book Value 2015 £
Financial assets:				
Loans to fellow subsidiary undertakings	154,510,889	159,567,033	134,034,338	137,505,930
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	990,396	990,396	990,396	990,396
At 31 January	<u>155,501,285</u>	<u>160,557,429</u>	<u>135,024,734</u>	<u>138,496,326</u>
Financial liabilities:				
Fixed rate secured bonds	78,890,250	85,096,099	69,108,261	70,951,875
Secured bank term loan	55,628,425	59,291,138	49,646,281	51,274,259
Subordinated loan notes	19,992,224	15,229,796	15,229,796	15,229,796
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	990,396	990,396	990,396	990,396
At 31 January	<u>155,501,295</u>	<u>160,607,429</u>	<u>134,974,734</u>	<u>138,446,326</u>

The fair value of the loans to fellow subsidiary undertakings is based on the market value of similar debt instruments at 31 January 2016. The terms of the loans to fellow subsidiaries are fixed therefore no adjustment has been made to change the book value to fair value. The cost of the fixed asset investments approximates fair value.

The fair value of the fixed rate secured bond is based on its market value at 31 January 2016. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 3.85% (2015: 3.51%). The terms of both the loan and the bond are fixed therefore no adjustment has been made to change the book value to fair value.

#### Capital risk management

The Company's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company is highly geared, consistent with similarly structured PFI investment companies. The risk of interruption of cash inflows by the Company (which are required to repay the debt) is low due to these ultimately being receivable from the public sector. The gearing ratios at 31 January 2016 and 31 January 2015 were as follows:

	2016 £	2015 £
Fixed rate secured bonds and secured bank term loan	118,754,542	122,226,135
Equity plus subordinated loan notes	15,279,796	15,279,796
Total capital	<u>134,034,338</u>	<u>137,505,931</u>
Gearing ratio	<u>89%</u>	<u>89%</u>

The Company has complied with all externally imposed capital requirements during the year.

## Notes to the financial statements (continued)

### 10. Called up share capital

	2016 £	2015 £
<b>Allotted, issued and fully paid</b>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

### 11. Related party transactions

Alpha Schools (Highland) Project Plc has issued £81,405,210 bonds and borrowed £60,000,000 from the European Investment Bank. These funds have been on-loaned, less debt issue costs, to Alpha Schools (Highland) Limited. The amount outstanding at the year end from Alpha Schools (Highland) Limited in respect of the bonds was £69,108,261 (2015: £70,951,876) and in respect of the European Investment Bank loan was £49,646,281 (2015: £51,274,259).

During the year, the Company received interest from Alpha Schools (Highland) Limited of £3,602,132 (2015: £3,693,035) in respect of the bonds and £2,445,616 (2015: £2,564,004) in respect of the EIB loan.

The Company has received £15,229,796 (2014: £15,229,796) in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited. During the year the Company received interest of £1,964,644 (2015: £1,961,938) from Alpha Schools (Highland) Limited in respect of the subordinated loan notes.

The relationship between Alpha Schools (Highland) Project Plc and Alpha Schools (Highland) Limited is described in the Directors' Report.

### 12. Ultimate parent undertaking

The Company is a subsidiary of Alpha Schools (Highland) Holdings Limited which is incorporated in Great Britain and registered in England and Wales. The smallest group in which the Company's results are consolidated is Alpha Schools (Highland) Holdings Limited. Copies of Alpha Schools (Highland) Holdings Limited consolidated financial statements can be obtained from the Company Secretary at 21 St Thomas Street, Bristol, BS1 6JS.

The largest group in which the results of the Company are included is headed by HICL Infrastructure Company Limited, the ultimate controlling party, in the accounts HICL's investments are held at fair value.