# Annual Report and Consolidated Financial Statements

# Alpha Schools (Highland) Holdings Limited

**For the Year Ended** 31 January 2015



**Company No.** 05508168

# Officers and professional advisers

| | |
|---|---|
| **Company Registration Number** | 05508168 |
| **Registered Office** | 21 St Thomas Street<br>Bristol<br>BS1 6JS |
| **Directors** | G A Quaife<br>E G Wegener |
| **Secretary** | Jordans Company Secretaries Limited |
| **Bankers** | Barclays Bank PLC<br>1 Churchill Place<br>London<br>E14 5HP |
| **Independent Auditor** | KPMG LLP<br>Arlington Business Park<br>Theale<br>Reading<br>RG7 4SD |

# Contents

# Strategic Report

The directors submit their strategic report and the audited consolidated financial statements for the year ended 31 January 2015.

## 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 also entered into a fixed-price, date certain sub-contract with Morrison Construction Limited to design and build the schools. Construction of the schools was 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. 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. Full service payments are now being received for all eleven schools. The Group has therefore generated turnover of £7,271,984 (2014: £7,320,553) 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. It is due to the contractual arrangements that are in place, and the certainty of the service payments being paid by The Highland Council that the directors have adopted the going concern basis of accounting.

# Strategic Report (continued)

### Future developments

The directors do not anticipate any changes in the Group's or Company'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, and are satisfied with the Group's performance.

| | **2015** | 2014 | **Method of calculation** |
|---|---|---|---|
| Net debt | £126,365,033 | £130,674,397 | Total net debt at balance sheet date |
| Performance and availability deductions | 0.16% | 0.18% | Percentage of turnover |

Performance and availability deductions of £11,651 (2014: £12,921) were incurred during the year. Of this cost, £11,651 was passed on to Morrison Facilities Services Limited, the facilities management contractor.

### Results and dividends

The results for the year are set out on page 9. The profit for the year amounted to £1,285,304 (2014: £1,350,194) and has been transferred to reserves. Dividends of £1,500,000 were declared in the year (2014: £1,400,000).

On behalf of the Board

**E G Wegener**
**Director**

16 July 2015

Registered in England - No. 05508168
Registered Office
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 (2014: £Nil).

### Financial risk management objectives and policies

The Group's financial risk management objectives and exposures have been set out in note 10 of these financial statements.

### 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.

On behalf of the Board

**E G Wegener**
**Director**

16 July 2015

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21 St Thomas Street
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# 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 and 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 group and parent company 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 group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company 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 group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 member of Alpha Schools (Highland) Holdings Limited

We have audited the financial statements of Alpha Schools (Highland) Holdings Limited for the year ended 31 January 2015 set out on pages 9 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 6, 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.

## 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 2015 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 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) 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.

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

27 **July 2015**

# Group Profit and Loss Account

| | Note | 2015 £ | 2014 £ |
|---|---|---|---|
| Turnover | | **7,271,984** | **7,320,553** |
| Cost of sales | | **(6,541,340)** | **(6,377,975)** |
| **Gross profit** | | **730,644** | 942,578 |
| Administration expenses | | **(538,797)** | (639,234) |
| **Operating profit** | 2 | **191,847** | 303,344 |
| Net interest receivable | 3 | **1,442,014** | 1,450,566 |
| **Profit on ordinary activities before taxation** | | **1,633,861** | 1,753,910 |
| Taxation | 4 | **(348,557)** | (403,716) |
| **Retained profit for the year** | 12 | **1,285,304** | 1,350,194 |

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.

# Group and company balance sheet

| | Note | Group 2015 £ | Group 2014 £ | Company 2015 £ | Company 2014 £ |
|---|---|---|---|---|---|
| **Investments** | 6 | - | - | **50,099** | 50,099 |
| **Current assets** | | | | | |
| Debtors - amounts falling due within one year | 7 | **5,008,403** | 5,116,675 | **990,396** | 990,396 |
| Debtors - amounts falling due after one year | 8 | **134,800,571** | 137,457,013 | **15,279,796** | 15,279,796 |
| Cash at bank and in hand | | **11,090,896** | 10,046,510 | - | - |
| | | **150,899,870** | 152,620,198 | **16,270,192** | 16,270,192 |
| **Current liabilities** | | | | | |
| Creditors - amounts falling due within one year | 9 | **(9,417,150)** | (7,451,187) | **(1,040,395)** | (1,040,395) |
| Net current assets | | **141,482,720** | 145,169,011 | **15,229,797** | 15,229,797 |
| **Total assets less current liabilities** | | **141,482,720** | 145,169,011 | **15,279,896** | 15,279,896 |
| Creditors - amounts falling due after more than one year | 10 | **(133,984,336)** | (137,455,931) | **(15,229,796)** | (15,229,796) |
| **Net assets** | | **7,498,384** | 7,713,080 | **50,100** | 50,100 |
| **Capital and reserves** | | | | | |
| Called-up share capital | 11 | **50,100** | 50,100 | **50,100** | 50,100 |
| Profit and loss reserve | | **7,448,284** | 7,662,980 | - | - |
| **Equity shareholders' funds** | 12 | **7,498,384** | 7,713,080 | **50,100** | 50,100 |

E G Wegener
Director

The director authorised and approved the financial statements for issue on 16 July 2015.

Registered in England - No. 05508168

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

# Group cash flow statement

| | Note | 2015 £ | 2014 £ |
|---|---|---|---|
| **Operating activities** | | | |
| Net cash inflow from operating activities | 13 | **4,454,395** | 4,215,877 |
| **Returns on investments and servicing of finance** | | | |
| Interest paid | | **(8,218,976)** | (8,381,795) |
| Interest received | | **9,773,872** | 9,947,577 |
| Dividends paid | | **(1,500,000)** | (1,400,000) |
| **Net cash flow before use of liquid resources and financing** | | **4,509,291** | 4,381,660 |
| **Taxation** | | | |
| UK corporation tax paid | | **(87,048)** | (668,965) |
| **Net cash flow before financing** | | **4,422,243** | 3,712,695 |
| **Financing** | | | |
| Repayment of principal loan | | **(3,377,857)** | (3,271,158) |
| **Increase in cash** | | **1,044,386** | 441,537 |

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

# Notes to the financial statements (continued)

## 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 material accounting policies is set out below.

### Basis of consolidation

The group financial statements comprise a consolidation of the financial statements of the Company and all of its subsidiaries for the year ended 31 January 2015. The Company has no associates or joint ventures.

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

### 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.

### Finance debtor and service income

The Company is an operator of a Private Finance Initiative (PFI) contract. The underlying asset is not deemed to be an asset of the Company under Financial Reporting Standard 5 Application Note F because the risks and rewards of ownership as set in that standard are deemed to lie principally with the Authority.

During the construction phase of the project all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational the costs were transferred to the finance debtor. During the operational period income is allocated between interest receivable and repayments of the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of these services. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

### Turnover

Turnover consists of service income recognised in line with the finance debtor and service income policy above. Turnover is earned wholly in the UK and is exclusive of value added tax.

### 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)

### 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.

### Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Group, and Company, and the fact the obligations of the Group's sole customer are underwritten by the Secretary of State for Education they believe that the Group will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

### 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.

### Dividends

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## 2 Operating profit

Neither the Group nor the Company has any directly employed personnel. The profit on ordinary activities is stated after charging auditor's remuneration of £15,414(2014: £15,000). Non-audit services in respect of taxation services for the year amounted to £6,500 (2014: £6,500).

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

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Infrastructure Investments GP Limited | **123,329** | 120,000 |
| | **123,329** | 120,000 |

The above amounts were expensed in full to the profit and loss account.

# Notes to the financial statements (continued)

## 3 Net interest receivable

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Interest receivable on finance debtor | **9,742,588** | 9,913,960 |
| Bank interest receivable | **27,451** | 33,617 |
| Interest receivable on corporation tax | **3,832** | - |
| Interest payable on loans | **(8,331,857)** | (8,497,011) |
| | **1,442,014** | 1,450,566 |

## 4 Taxation

| **Tax on profit on ordinary activities comprises:** | 2015<br>£ | 2014<br>£ |
|---|---|---|
| UK corporation tax at 21.33% (2014: 23.16%) | **348,557** | 406,234 |
| Adjustments in respect of previous periods | - | (2,518) |
| Total current tax | **348,557** | 403,716 |
| Tax on profit on ordinary activities | **348,557** | 403,716 |

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:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Profit on ordinary activities before tax | **1,633,860** | 1,753,910 |
| Profit on ordinary activities at the standard UK rate of tax of 21.33% (2014: 23.16%) | **348,557** | 406,234 |
| Adjustments in respect of prior periods | - | (2,518) |
| Current tax charge for the year | **348,557** | 403,716 |

## 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 financial statements of the parent company was £1,500,000 (2014: £1,400,000).

# Notes to the financial statements (continued)

## 6 Investments

**Company**

| | £ |
|---|---|
| **Shares in subsidiary undertaking cost** | |
| At 1 February 2014 and at 31 January 2015 | 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% | £7,448,382 | £1,285,304 |
| Alpha Schools (Highland) Project Plc | PFI financing company | Great Britain | 100% | £50,000 | £Nil |

## 7 Debtors - amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| Finance Debtor | **2,601,003** | 2,479,688 | | |
| Trade debtors | **2,096,293** | 2,069,780 | - | - |
| Prepayments | **311,107** | 307,412 | - | - |
| Other debtors | - | 4,421 | - | - |
| Corporation tax recoverable | - | 255,374 | - | - |
| Interest due from Alpha Schools (Highland) Project Plc on subordinated loan notes | - | - | **990,396** | 990,396 |
| | **5,008,403** | **5,116,675** | **990,396** | 990,396 |

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

# Notes to the financial statements (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| Finance Debtor | **134,800,571** | 137,457,013 | **-** | - |
| Other debtors | **-** | | **-** | - |
| Amounts due from Alpha Schools (Highland) Limited | **-** | - | **50,000** | 50,000 |
| Amounts due from Alpha Schools (Highland) Project Plc | **-** | - | **15,229,796** | 15,229,796 |
| | **134,800,571** | 137,457,013 | **15,279,796** | 15,279,796 |

**Group**
Other debtors are due from The Highland Council.

**Company**
The Company has received £15,229,796 (2014: £15,229,796) 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.

## 9 Creditors - amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| Trade creditors | **990,711** | 648,947 | **-** | - |
| Other creditors and accruals | **3,459,665** | 2,066,404 | **-** | - |
| Accrued subordinated loan note interest | **990,396** | 990,396 | **990,396** | 990,396 |
| Corporation tax | **6,042** | - | **-** | - |
| VAT payable | **498,743** | 480,464 | **-** | - |
| Term loan and fixed rate secured bonds | **3,471,593** | 3,264,976 | **-** | - |
| Amounts owed to Alpha Schools (Highland) Project plc | **-** | - | **49,999** | 49,999 |
| | **9,417,150** | 7,451,187 | **1,040,395** | 1,040,395 |

# Notes to the financial statements (continued)

## 10 Creditors - amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| **Borrowings:** | | | | |
| Fixed rate secured bonds | **69,108,260** | 70,951,876 | - | - |
| Secured bank term loans | **49,646,280** | 51,274,259 | - | - |
| Subordinated loan notes | **15,229,796** | 15,229,796 | 15,229,796 | 15,229,796 |
| | **133,984,336** | 137,455,931 | **15,229,796** | **15,229,796** |
| **Repayable as follows:** | | | | |
| Between one and two years | **3,584,553** | 3,471,593 | - | - |
| Between two and five years | **12,292,943** | 11,501,765 | - | - |
| After five years | **118,106,840** | 122,482,573 | **15,229,796** | 15,229,796 |
| | **133,984,336** | 137,455,931 | **15,229,796** | **15,229,796** |

**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.

The Company has received £15,229,796 (2014: £15,229,796) in the form of fixed rate subordinated loan notes from its shareholders. 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 liabilities are each stated at amortised cost, using the effective interest rate method and are net of unamortised debt issue costs of £966,370 (2014: £1,013,315).

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.

# Notes to the financial statements (continued)

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

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 On-Loan 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 and its obligations are underwritten by the Secretary of State for Education. 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.

### 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:

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Fixed rate borrowings | **137,455,931** | 140,720,907 |

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%.

# Notes to the financial statements (continued)

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

**Fair values**
Set out below is a comparison of book values and fair values of the Group's financial instruments and financial assets.

| | **Fair Value 2015 £** | Fair Value 2014 £ | **Book Value 2015 £** | Book Value 2014 £ |
|---|---|---|---|---|
| Financial assets: | | | | |
| Finance debtor | **142,718,238** | 145,500,231 | **137,401,574** | 139,936,701 |
| Debtors | **2,407,400** | 2,636,987 | **2,407,400** | 2,636,987 |
| Cash | **11,090,896** | 10,046,510 | **11,090,896** | 10,046,510 |
| At 31 January | **156,216,534** | 158,183,728 | **150,899,870** | 152,620,198 |
| Financial liabilities: | | | | |
| Fixed rate secured bonds | **85,096,099** | 74,536,938 | **70,951,876** | 72,664,355 |
| Secured bank term loan | **59,291,138** | 54,293,209 | **51,274,259** | 52,826,756 |
| Subordinated loan notes | **15,229,796** | 15,229,796 | **15,229,796** | 15,229,796 |
| Trade creditors, accruals and deferred income | **5,945,557** | 4,186,211 | **5,946,557** | 4,186,211 |
| At 31 January | **165,562,590** | 148,246,154 | **143,140,488** | 144,907,118 |

The fair value of the fixed rate secured bond is based on its market value at 31 January 2015. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 3.51% (20140: 5.01%).

The fair value of the Finance debtor is calculated by discounting the future cash flows at an appropriate interest rate. The future cash flows are defined by apportioning the revenue received from Alpha Schools (Highland) Limited under the Project Agreement between principal repayments, finance income and service income at an effective interest rate of 7.25%. The discount rate that has been applied is 6.59% and is calculated by adding a risk premium of 1% to the Group's weighted average cost of capital.

**The Company**

The Company received £15,229,796 (2014: £15,229,796) 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%. The loan notes are repayable in three instalments beginning on 31 July 2036 and ending on 31 July 2037.

## 11 Called up share capital

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2015 £** | 2014 £ | **2015 £** | 2014 £ |
| **Allotted, issued and fully paid** | | | | |
| 50,100 ordinary shares of £1 each | **50,100** | 50,100 | **50,100** | 50,100 |
| | **50,100** | 50,100 | **50,100** | 50,100 |

# Notes to the financial statements (continued)

## 12 Reconciliation of movement in shareholders' funds

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| Opening shareholders' funds | **7,713,080** | 7,762,886 | **50,100** | 50,100 |
| Profit for financial year | **1,285,304** | 1,350,194 | **1,500,000** | 1,400,000 |
| Dividends | **(1,500,000)** | (1,400,000) | **(1,500,000)** | (1,400,000) |
| Closing shareholders' funds | **7,498,384** | 7,713,080 | **50,100** | 50,100 |

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

| | 2015 | 2014 |
|---|---|---|
| | **£** | £ |
| **Operating profit** | **191,847** | 303,344 |
| Increase / (decrease) in creditors | **1,753,206** | 1,382,505 |
| Decrease in debtors | **2,509,342** | 2,530,028 |
| **Net cash inflow from operating activities** | **4,454,395** | 4,215,877 |

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

| | 2015 | 2014 |
|---|---|---|
| | **£** | £ |
| Increase in cash in year | **1,044,386** | 441,537 |
| Decrease in net debt from repayment of debt principal | **3,377,857** | 3,271,158 |
| Change in net debt resulting from cash flows | **4,422,243** | 3,712,695 |
| Other non-cash changes | **(112,879)** | (112,510) |
| Movement in net debt in the year | **4,309,364** | 3,600,185 |
| Opening net debt | **(130,674,397)** | (134,274,582) |
| **Closing net debt** | **(126,365,033)** | (130,674,397) |

# Notes to the financial statements (continued)

## 15 Analysis of change in group net debt

| | 1 February 2014 | Cash flow | Non-cash changes | 31 January 2015 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Cash in hand and at bank | 10,046,510 | 1,044,386 | - | **11,090,896** |
| Debt due within one year | (3,264,976) | 3,377,857 | (3,358,712) | **(3,471,593)** |
| Debt due after one year | (137,455,931) | - | 3,471,595 | **(133,984,336)** |
| Total | (130,674,397) | 4,422,243 | (112,879) | **(126,365,033)** |

Non-cash changes include £112,879 of amortisation costs in respect of the EIB loan and fixed rate senior guaranteed secured bonds.

## 16 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 2015 are set out below.

| | Purchases from related parties | Amounts owed to related parties |
|---|---|---|
| | £ | £ |
| Infrastructure Investments Limited Partnership | **2,085,267** | **16,220,192** |

Comparative information for the year ended 31 January 2014 is set out below.

| | Purchases from related parties | Amounts owed to related parties |
|---|---|---|
| | £ | £ |
| Northern Infrastructure Investments LLP | 43,530 | - |
| Morrison Facilities Services Limited | 3,036,093 | 607,231 |
| Infrastructure Investments GP Limited | 2,067,996 | 16,220,192 |
| | 5,147,619 | 16,827,423 |

# Notes to the financial statements (continued)

## 16 Related party transactions (continued)

There were no sales to related parties or amounts owed by related parties at 31 January 2015 or 31 January 2014.

During the year ended 31 January 2015, HICL Infrastructure Company Limited owned 100% of Alpha Schools (Highland) Holdings Limited. Directors' fees are charged to the Company by Infrastructure Investments GP Limited in respect of this shareholding.

Until November 2012, Morrison Facilities Services Limited was ultimately controlled by Anglian Water Group Limited which in turn was 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. Since November 2012 Morrison Facilities Services is now controlled by Mears Group and is therefore no longer a related party.

## 17 Post balance sheet events

On 25 March 2015 a dividend of £600,000 was declared and paid to shareholders.

## 18 Ultimate parent undertaking

The company is a wholly owned subsidiary of Infrastructure Investments (Holdings) Limited, registered in England and Wales. The director considers the ultimate controlling party to be HICL Infrastructure Company Limited a company registered in the Channel Islands. These are the only group financial statements in which the company is consolidated.