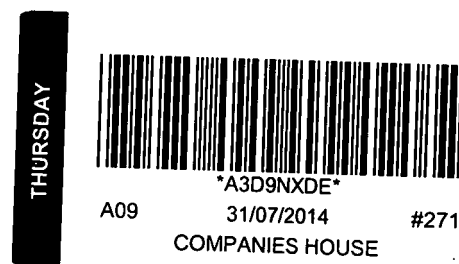


# Annual Report and Financial Statements Alpha Schools (Highland) Project Plc

---

**For the Year Ended 31 January 2014**



**Company No. 05516176**

## Company information

<b>Company registration number</b>	05516176
<b>Registered office</b>	20 Churchill Place London E14 5HJ
<b>Directors</b>	G A Quaife E G Wegener (appointed 27 November 2013) H O’Gorman (resigned 22 March 2013)
<b>Secretary</b>	State Street Secretaries (UK) Limited
<b>Bankers</b>	Royal Bank of Scotland Plc 142-144 Princes Street Edinburgh EH2 4EQ
<b>Independent Auditor</b>	KPMG LLP Arlington Business Park Theale Reading RG7 4SD

## Index

<b>Strategic Report</b>	3 - 4
<b>Directors' Report</b>	5
<b>Statement of Directors' Responsibilities</b>	6
<b>Independent Auditor's Report</b>	7- 8
<b>Profit and Loss Account</b>	9
<b>Balance Sheet</b>	10
<b>Notes to the Financial Statements</b>	11 - 19

## Strategic report

The directors submit their annual report and the audited financial statements for the year ended 31 January 2014.

### **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. For part of the year, Alpha Schools (Highland) Holdings Limited was ultimately owned fifty per cent by HICL Infrastructure Company Limited and fifty per cent by 3i Infrastructure plc. On 22 March 2013, this changed to one hundred percent ownership by HICL Infrastructure Company 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. On 22 March 2013 HICL Infrastructure Company Limited increased its shareholding to 100%.

### **Future developments**

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

## Strategic report (continued)

### 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.

	2014	2013	Method of calculation
	£	£	
Net debt	141,711,303	144,867,245	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**

28 July 2014

Registered in England - No. 05516176  
20 Churchill Place  
London  
E14 5HJ

## 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 (appointed 27 November 2013)  
H O'Gorman (resigned 22 March 2013)

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.

### **Results and dividends**

The result for the year amounted to £Nil (2013: £Nil).

The directors do not recommend payment of a dividend in respect of the year (2013: £Nil).

### **Political donations**

The Company made no political donations in the year (2013: £Nil).

### **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**

On 14 February 2014 Grant Thornton LLP resigned as auditors. KPMG LLP were appointed to fill the casual vacancy arising. A resolution to appoint KPMG LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.



**E G Wegener**

**Director**

28 July 2014

Registered in England - No. 05516176  
20 Churchill Place  
London  
E14 5HJ

## 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing 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 2014 set out on pages 9 to 19. 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](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 2014 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 2014**

## Profit and loss account

	Note	2014 £	2013 £
Interest receivable	3	8,497,011	8,668,697
Interest payable and similar charges	3	<u>(8,497,011)</u>	<u>(8,668,697)</u>
<b>Result on ordinary activities before taxation</b>		-	-
Taxation	4	-	-
<b>Results for the year</b>		<u>-</u>	<u>-</u>

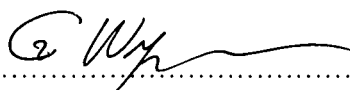
All activities are continuing.

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

The Company has no recognised gains and losses other than the result stated above and therefore no separate statement of total recognised gains and losses has been presented.

## Balance sheet

	Note	2014 £	2013 Restated £
<b>Current assets</b>			
Debtors - amounts falling due after one year	5	137,505,931	140,770,907
Debtors - amounts falling due within one year	6	4,255,372	4,146,338
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	7	(4,255,372)	(4,146,338)
Net current assets		-	-
<b>Total assets less current liabilities</b>		<b>137,505,931</b>	<b>140,770,907</b>
Creditors - amounts falling due after more than one year	8	(137,455,931)	(140,720,907)
<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
Profit and loss account		-	-
<b>Equity shareholders' funds</b>	11	<b>50,000</b>	<b>50,000</b>

  
.....  
E G Wegener  
Director

The director authorised and approved the financial statements for issue on 28 July 2014.

Company Registration Number: 05516176

## Notes to the financial statements (continued)

### **1 Principal accounting policies**

#### **Basis of preparation**

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards (United Kingdom Generally Accepted Accounting Practice). A summary of the material accounting policies is set out below these have been adopted consistently except for a prior year restatement has been performed to reflect a change in disclosure of the long term financing debtor.

Previously the long term financing debtors were classified as a fixed asset investment.

Following the acquisition of a controlling interest by HICL Infrastructure Company the 2013 comparatives have been restated to reclassify £140,770,907 from fixed asset investments to debtors greater than one year. This is to bring the presentation in line with the group accounting policies. There is no impact on profit for the year.

#### **Cash flow statement**

The Company is exempt from the requirement of FRS 1 (Revised) to prepare a cash flow statement as its results are included in the consolidated financial statements of Alpha Schools (Highland) Holdings Limited which includes a cash flow statement.

#### **Taxation**

The current tax charge is based on the profit for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantively enacted by the balance sheet date. Current tax is recognised in the profit and loss account for the period.

#### **Financial liabilities**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are subsequently recorded at amortised cost using the effective interest method, with interest-related charges, including third party guarantee charges, recognised as an expense in finance cost in the profit and loss account. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the profit and loss account on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### Going concern

The company is reliant on the operations of its fellow subsidiary Alpha Schools (Highland) Limited to be able to meet its liabilities as they fall due. The Directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to Alpha Schools (Highland) Limited and the fact that the obligations of Alpha Schools (Highland) Limited's sole customer are underwritten by the Secretary of State for Education, the Directors have a reasonable expectation that the Company 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.

#### Financial assets

All financial assets are categorised as loans and receivables. Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Inter-company debtors are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Provision against inter-company debtors is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

An assessment for impairment is undertaken at least at each balance sheet date.

### 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 (2013: £13,650) and other administration expenses are borne by Alpha Schools (Highland) Limited, a fellow subsidiary undertaking.

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

	2014	2013
	£	£
Interest payable on bonds and secured loans	(6,532,367)	(6,704,877)
Interest payable due to Alpha Schools (Highland) Holdings Ltd	(1,964,644)	(1,963,820)
Interest receivable on loans made to Alpha Schools (Highland) Ltd	8,497,011	8,668,697
Finance costs net	-	-

### 4 Taxation

The results for the year do not give rise to a tax charge (2013: £Nil).

## Notes to the financial statements (continued)

### 5 Debtors – amounts falling due after one year

	2014	2013
	£	£
Amounts owed by Alpha Schools (Highland) Limited	137,455,931	140,720,907
Amounts owed by group undertakings	50,000	50,000
	<u>137,505,931</u>	<u>140,770,907</u>

Amounts owed by group undertakings consist of £49,999 owed by Alpha Schools (Highlands) Holdings Limited and £1 owed by Infrastructure Investments Holdings Limited. The directors consider such debtors to be held for the long term over the life of the related contract.

The amounts stated above are all due in more than one year (refer to Note 6 for those amounts due within one year).

Amounts owed by Alpha Schools (Highland) Limited comprise:

- senior debt facilities of £125,491,111 of which £3,264,976 is due within one year (Note 6) (2013: £128,649,761 of which £3,158,648 was due within one year), and;
- subordinated debt facilities of £15,229,796, none of which is due within one year (Note 6) (2013: £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 £1,013,315 (2013: £1,060,260). 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. Further details on the terms and interest rates of these debtors are disclosed within note 8.

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

	2014	2013
	£	£
Amounts owed by Alpha Schools (Highland) Limited (refer to Note 5)	3,264,976	3,158,648
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	990,396	987,690
	<u>4,255,372</u>	<u>4,146,338</u>

## Notes to the financial statements (continued)

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

	2014	2013
	£	£
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	990,396	987,690
Borrowings – amounts falling due within one year:		
Fixed rate secured bonds	1,712,480	1,677,830
Secured bank term loans	1,552,496	1,480,818
	<u>4,255,372</u>	<u>4,146,338</u>

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

	2014	2013
	£	£
Borrowings:		
Fixed rate secured bonds	70,951,876	72,664,356
Secured bank term loans	51,274,259	52,826,755
Amounts owed to Alpha Schools (Highland) Holdings Limited	15,229,796	15,229,796
	<u>137,455,931</u>	<u>140,720,907</u>
Repayable as follows:		
Between one and two years	3,471,593	3,264,976
Between two and five years	11,501,765	10,825,663
After five years	122,482,573	126,630,268
Total borrowings	<u>137,455,931</u>	<u>140,720,907</u>
The undiscounted contractual maturities are repayable as follows:		
Less than one year	3,377,857	3,271,157
Between one and two years	3,583,967	3,377,857
Between two and five years	11,858,745	11,181,769
After five years	123,915,481	128,176,424
Total borrowings	<u>142,736,050</u>	<u>146,007,207</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.

## Notes to the financial statements (continued)

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

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 £1,013,315 (2013: £1,060,260). 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 (2013: £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 £149,983,211 (2013: £151,905,429).

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.

### 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.



## Notes to the financial statements (continued)

### 9 Financial instruments (continued)

The Company's financial instruments are summarised as follows:

	2014	2013
	£	£
<b>Financial assets</b>		
Loans and receivables	<u>141,761,303</u>	<u>144,917,245</u>
<b>Financial liabilities</b>		
Other creditors (accrued subordinated loan note interest – see Note 7)	990,396	987,690
Measured at amortised cost	<u>140,720,907</u>	<u>143,879,555</u>
	<u>141,711,303</u>	<u>144,867,245</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.

#### 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.

#### Foreign currency risk

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

## Notes to the financial statements (continued)

### 9 Financial instruments (continued)

#### Interest rate profile

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

	2014 £	2013 £
Fixed rate borrowings	<u>140,720,907</u>	<u>143,879,555</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>19,000,000</u>	<u>19,000,000</u>

The Company has the above undrawn borrowing facilities at 31 January 2014, expiring 2036, which are subject to various conditions.

#### Fair values

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

	Fair Value 2014 £	Fair Value 2013 £	Book Value 2014 £	Book Value 2013 £
Financial assets:				
Loans to fellow subsidiary undertakings	144,009,943	152,738,746	140,720,907	143,879,555
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	990,396	987,690	990,396	987,690
At 31 January	<u>145,000,339</u>	<u>153,726,436</u>	<u>141,711,303</u>	<u>144,867,245</u>
Financial liabilities:				
Fixed rate secured bonds	74,536,938	77,340,185	72,664,355	74,342,186
Secured bank term loan	54,293,209	60,218,765	52,826,756	54,307,573
Subordinated loan notes	15,229,796	15,229,796	15,229,796	15,229,796
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	990,396	987,690	990,396	987,690
At 31 January	<u>145,050,339</u>	<u>153,776,436</u>	<u>141,711,303</u>	<u>144,867,245</u>

The fair value of the loans to fellow subsidiary undertakings is based on the market value of similar debt instruments at 31 January 2014.

## Notes to the financial statements (continued)

### 9 Financial instruments (continued)

The fair value of the fixed rate secured bond is based on its market value at 31 January 2014. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 5.01% (2013: 4.11%). 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 2014 and 31 January 2013 were as follows:

	2014	2013
	£	£
Fixed rate secured bonds and secured bank term loan	125,491,111	128,649,761
Equity plus subordinated loan notes	15,279,796	15,279,796
Total capital	<u>140,770,907</u>	<u>143,929,555</u>
Gearing ratio	<u>89%</u>	<u>89%</u>

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

### 10 Called up share capital

	2014	2013
	£	£
Allotted, issued and unpaid 50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

### 11 Reconciliation of movement in shareholders' funds

	2014	2013
	£	£
Opening shareholders' funds	50,000	50,000
Result for the financial year	-	-
Closing shareholders' funds	<u>50,000</u>	<u>50,000</u>

There has been no movement in shareholders' funds during the year.

## Notes to the financial statements (continued)

### **12 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 £72,664,355 (2013: £74,342,186) and in respect of the European Investment Bank loan was £52,826,765 (2013: £54,307,573).

During the year, the Company received interest from Alpha Schools (Highland) Limited of £3,843,631 (2013: £3,937,461) in respect of the bonds and £2,688,736 (2013: £2,767,416) in respect of the EIB loan.

The Company has received £15,229,796 (2013: £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 (2013: £1,963,820) 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.

### **13 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 and largest group financial statements within which the company's result is consolidated are Alpha Schools (Highland) Holdings Limited. Copies of Alpha Schools (Highland) Holdings Limited consolidated financial statements can be obtained from the Company Secretary at 20 Churchill Place, London, E14 5HJ.

One ordinary share is held by Infrastructure Investments Holdings Ltd which is incorporated in Great Britain and registered in England and Wales. The directors consider the ultimate controlling party to be HICL Infrastructure Company Limited which is incorporated in the Channel Islands.