

# Annual Report and Consolidated Financial Statements

## Alpha Schools (Highland) Holdings Limited

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For the Year Ended 31 January 2014



## Officers and professional advisers

<b>Company Registration Number</b>	05508168
<b>Registered Office</b>	20 Churchill Place London E14 5HJ
<b>Directors</b>	G A Quaife E G Wegener (appointed 2 December 2013 ) J Boags (resigned 22 March 2013) H O’Gorman (resigned 22 March 2013)
<b>Secretary</b>	State Street Secretaries (UK) Limited (UK) Limited
<b>Bankers</b>	Royal Bank of Scotland Plc 142 - 144 Princes Street EH2 4EQ
<b>Independent Auditor</b>	KPMG LLP Arlington Business Park Theale Reading RG7 4SD

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## Strategic Report

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

### **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 £7,320,553 (2013: £7,470,210) 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.

On 22 March 2013 HICL Infrastructure Company Limited increased its shareholding from 50% to 100%.

## Strategic Report (continued)

### Future developments

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

### Summary of key performance indicators

The directors have monitored the progress of the overall Group strategy and the individual strategic elements by reference to certain financial and non-financial indicators, and are satisfied with the Group's performance.

	2014	2013	Method of calculation
Net debt	£130,674,397	£134,274,582	Total net debt at balance sheet date
Performance and availability deductions	0.18%	0.16%	Percentage of turnover

Performance and availability deductions of £12,921 were incurred during the year. Of this cost, £11,683 was passed on to Morrison Facilities Services Limited, the facilities management contractor. The remaining cost of £1,238 was retained by the Group.

### Results and dividends

The results for the year are set out on page 9. The profit for the year amounted to £1,350,194 (2013: £2,249,350) and has been transferred to reserves. Dividends of £1,400,000 were declared in the year (2013: £750,000).

### Change in accounting policy

Following the acquisition of a controlling interest by HICL Infrastructure Company the 2013 comparatives have been restated to reclassify the finance debtor interest from turnover to below operating profit. This is to bring the presentation in line with the group accounting policies. The effect was to reduce turnover by £11,070,000 and increase interest receivable by the same amount, there was no impact on profit for the year. In addition within the cashflow statement £11,070,000 was reclassified from net cash inflow from operating activities to returns on investments and servicing of finance.

On behalf of the Board



**E G Wegener**  
Director

28 July 2014

Registered in England - No. 05508168  
Registered Office  
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 2 December 2013)  
J Boags (resigned 22 March 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.

### **Political donations**

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

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

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

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

The directors who held office at the date of approval of this director's 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.

On behalf of the Board



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

28 July 2014

Registered in England - No. 05508168  
Registered Office  
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 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 2014 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](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 group's and the parent company's affairs as at 31 January 2014 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

**29 July 2014**

## Group Profit and Loss Account

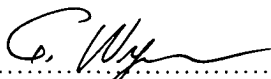
	2014	2013
	£	Restated £
Note		
Turnover	7,320,553	7,470,210
Cost of sales	<u>(6,377,975)</u>	<u>(6,230,193)</u>
<b>Gross profit</b>	<b>942,578</b>	<b>1,240,017</b>
Administration expenses	(639,234)	(834,416)
<b>Operating profit</b>	<u>2</u> <b>303,344</b>	<u>405,601</u>
Net interest receivable	3 <b>1,450,566</b>	2,526,552
<b>Profit on ordinary activities before taxation</b>	<u>1,753,910</u>	<u>2,932,153</u>
Taxation	4 <b>(403,716)</b>	(682,803)
<b>Retained profit for the year</b>	<u>12</u> <b>1,350,194</b>	<u>2,249,350</u>

All activities are continuing. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historic cost equivalents. The Group has no recognised gains and losses other than the profit for the year above and therefore no separate statement of total recognised gains and losses has been presented.

The 2013 comparatives have been restated to reclassify the finance debtor interest from turnover to below operating profit. See Note 1 for further details. There is no impact on profit resulting from this adjustment.

## Group and company balance sheet

	Note	Group		Company	
		2014 £	2013 £	2014 £	2013 £
<b>Investments</b>	6	-	-	50,099	50,099
<b>Current assets</b>					
Debtors - amounts falling due within one year	7	5,116,675	4,674,833	990,396	987,690
Debtors - amounts falling due after one year	8	137,457,013	140,173,509	15,279,796	15,279,796
Cash at bank and in hand		10,046,510	9,604,973	-	-
		<b>152,620,198</b>	<b>154,453,315</b>	<b>16,270,192</b>	<b>16,267,486</b>
<b>Current liabilities</b>					
Creditors - amounts falling due within one year	9	(7,451,187)	(5,969,522)	(1,040,395)	(1,037,689)
Net current assets		<b>145,169,011</b>	<b>148,483,793</b>	<b>15,229,797</b>	<b>15,229,797</b>
<b>Total assets less current liabilities</b>		<b>145,169,011</b>	<b>148,483,793</b>	<b>15,279,896</b>	<b>15,279,896</b>
Creditors - amounts falling due after more than one year	10	(137,455,931)	(140,720,907)	(15,229,796)	(15,229,796)
<b>Net assets</b>		<b>7,713,080</b>	<b>7,762,886</b>	<b>50,100</b>	<b>50,100</b>
<b>Capital and reserves</b>					
Called-up share capital	11	50,100	50,100	50,100	50,100
Profit and loss reserve		7,662,980	7,712,786	-	-
<b>Equity shareholders' funds</b>	12	<b>7,713,080</b>	<b>7,762,886</b>	<b>50,100</b>	<b>50,100</b>

  
.....  
E G Wegener  
Director

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

Registered in England - No. 05508168

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

## Group cash flow statement

		2014	2013
	Note	£	Restated £
<b>Operating activities</b>			
Net cash inflow from operating activities	13	4,215,877	2,182,701
<b>Returns on investments and servicing of finance</b>			
Interest paid		(8,381,795)	(8,542,455)
Interest received		9,947,577	11,195,195
Dividends paid		(1,400,000)	(1,000,000)
<b>Net cash flow before use of liquid resources and financing</b>		<b>4,381,660</b>	<b>3,835,441</b>
<b>Taxation</b>			
UK corporation tax paid		(668,965)	(697,689)
<b>Net cash flow before financing</b>		<b>3,712,695</b>	<b>3,137,752</b>
<b>Financing</b>			
Repayment of principal loan		(3,271,158)	(3,091,964)
<b>Increase in cash</b>		<b>441,537</b>	<b>45,788</b>

The 2013 comparatives have been restated to reclassify interest receivable on the finance debtor from net cash inflow from operating activities to returns on investments and servicing of finance. See note 1 for details.

## 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 these have been adopted consistently except for a prior year restatement has been performed to reflect a change in disclosure on turnover recognition.

#### **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 2014. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The Company has no associates or joint ventures.

#### **Investments**

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

#### **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**

Previously turnover consisted of service income and finance debtor interest receivable. As described below, the directors have changed this accounting policy and turnover now 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

Following the acquisition of a controlling interest by HICL Infrastructure Company the 2013 comparatives have been restated to reclassify £11,070,166 of finance debtor interest from turnover to below operating profit. This is to bring the presentation in line with the group accounting policies. There is no impact on profit for the year.

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### 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.

#### 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 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 auditors' remuneration of £15,000 (2013: £29,550). Non-audit services in respect of taxation services for the year amounted to £6,500 (2013: £8,675).

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:

## Notes to the financial statements (continued)

### 2 Operating profit (continued)

	2014	2013
	£	£
Infrastructure Investments GP Limited	120,000	86,907
Northern Infrastructure Investments LLP	-	86,907
	<u>120,000</u>	<u>173,814</u>

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

### 3 Net interest receivable

	2014	2013
	£	Restated £
Interest receivable on finance debtor	9,913,960	11,070,166
Bank interest receivable	33,617	125,029
Interest receivable on corporation tax	-	54
Interest payable on loans	(8,497,011)	(8,668,697)
	<u>1,450,566</u>	<u>2,526,552</u>

### 4 Taxation

	2014	2013
	£	£
<b>Tax on profit on ordinary activities comprises:</b>		
UK corporation tax at 23.16% (2013: 24.33%)	406,234	713,330
Adjustments in respect of previous periods	(2,518)	(30,527)
Total current tax	<u>403,716</u>	<u>682,803</u>
Tax on profit on ordinary activities	<u>403,716</u>	<u>682,803</u>

## Notes to the financial statements (continued)

### 4 Taxation (continued)

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:

	2014 £	2013 £
Profit on ordinary activities before tax	1,753,910	2,932,153
Profit on ordinary activities at the standard UK rate of tax of 23.16% (2013: 24.33%)	406,234	713,330
Adjustments in respect of prior periods	(2,518)	(30,527)
Current tax charge for the year	403,716	682,803

### 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 £1,400,000 (2013: £750,000).

### 6 Investments

#### Company

#### Shares in subsidiary undertaking cost

At 1 February 2013 and at 31 January 2014 £  
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%	£7,663,080	£1,350,194
Alpha Schools (Highland) Project Plc	PFI financing company	Great Britain	100%	£50,000	£Nil



## Notes to the financial statements (continued)

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

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Finance debtor	2,479,688	2,131,371	-	-
Trade debtors	2,069,780	2,032,012	-	-
Prepayments	307,412	312,361	-	-
Other debtors	4,421	199,089	-	-
Corporation tax recoverable	255,374	-	-	-
Interest due from Alpha Schools (Highland) Project Plc on subordinated loan notes	-	-	990,396	987,690
	<b>5,116,675</b>	<b>4,674,833</b>	<b>990,396</b>	<b>987,690</b>

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

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

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Finance Debtor	137,457,013	140,169,085	-	-
Other debtors	-	4,424	-	-
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
	<b>137,457,013</b>	<b>140,173,509</b>	<b>15,279,796</b>	<b>15,279,796</b>

#### Group

Other debtors are due from The Highland Council.

#### Company

The Company has received £15,229,796 (2013: £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.

## Notes to the financial statements (continued)

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

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Trade creditors	648,947	690,391	-	-
Other creditors and accruals	2,066,404	689,279	-	-
Accrued subordinated loan note interest	990,396	987,690	990,396	987,690
Corporation tax	-	29,370	-	-
VAT payable	480,464	414,144	-	-
Term loan and fixed rate secured bonds	3,264,976	3,158,648	-	-
Amounts owed to Alpha Schools (Highland) Project plc	-	-	49,999	49,999
	<b>7,451,187</b>	<b>5,969,522</b>	<b>1,040,395</b>	<b>1,037,689</b>

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

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
<b>Borrowings:</b>				
Fixed rate secured bonds	70,951,876	72,664,356	-	-
Secured bank term loans	51,274,259	52,826,755	-	-
Subordinated loan notes	15,229,796	15,229,796	15,229,796	15,229,796
	<b>137,455,931</b>	<b>140,720,907</b>	<b>15,229,796</b>	<b>15,229,796</b>
<b>Repayable as follows:</b>				
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	122,482,572	126,630,269	15,229,796	15,229,796
	<b>137,455,931</b>	<b>140,720,907</b>	<b>15,229,796</b>	<b>15,229,796</b>

#### 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.

## Notes to the financial statements (continued)

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

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 (2013: £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 £1,013,315 (2013: £1,060,260).

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

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

## Notes to the financial statements (continued)

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

#### Interest rate profile

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

	2014	2013
	£	£
Fixed rate borrowings	<u>140,720,907</u>	<u>143,879,556</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%.

#### 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 2014	Fair Value 2013	Book Value 2014	Book Value 2013
	£	£	£	£
Financial assets:				
Finance debtor	145,500,231	148,056,204	139,936,701	142,300,456
Debtors	2,636,987	2,547,886	2,636,987	2,547,886
Cash	10,046,510	9,604,976	10,046,510	9,604,973
At 31 January	<u>158,183,728</u>	<u>160,209,066</u>	<u>152,620,198</u>	<u>154,453,315</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
Trade creditors, accruals and deferred income	4,186,211	2,818,074	4,186,211	2,810,874
At 31 January	<u>148,246,154</u>	<u>155,606,820</u>	<u>144,907,118</u>	<u>146,697,629</u>

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 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 (2013: £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.

## Notes to the financial statements (continued)

### 11 Called up share capital

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
<b>Allotted, issued and fully paid</b>				
50,100 ordinary shares of £1 each	50,100	50,100	50,100	50,100
	<u>50,100</u>	<u>50,100</u>	<u>50,100</u>	<u>50,100</u>

### 12 Reconciliation of movement in shareholders' funds

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Opening shareholders' funds	7,762,886	6,263,536	50,100	50,100
Profit for financial year	1,350,194	2,249,350	1,400,000	750,000
Dividends	(1,400,000)	(750,000)	(1,400,000)	(750,000)
Closing shareholders' funds	<u>7,713,080</u>	<u>7,762,786</u>	<u>-</u>	<u>-</u>

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

	2014	2013
	£	Restated £
<b>Operating profit</b>	<b>303,344</b>	405,601
Increase / (decrease) in creditors	1,382,505	(784,991)
Decrease in debtors	2,530,028	2,562,091
<b>Net cash inflow from operating activities</b>	<b><u>4,215,877</u></b>	<u>2,182,701</u>

## Notes to the financial statements (continued)

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

	2014	2013
	£	£
Increase in cash in year	441,537	45,788
Decrease in net debt from repayment of debt principal	3,271,158	3,091,964
Change in net debt resulting from cash flows	3,712,695	3,137,752
Other non-cash changes	(112,510)	(129,772)
Movement in net debt in the year	3,600,185	3,007,980
Opening net debt	(134,274,582)	(137,282,562)
<b>Closing net debt</b>	<b>(130,674,397)</b>	<b>(134,274,582)</b>

### 15 Analysis of change in group net debt

	1 February 2013	Cash flow	Non-cash changes	31 January 2014
	£	£	£	£
Cash in hand and at bank	9,604,973	441,537	-	10,046,510
Debt due within one year	(3,158,648)	3,271,158	(3,377,486)	(3,264,976)
Debt due after one year	(140,720,907)	-	3,264,976	(137,455,931)
<b>Total</b>	<b>(134,274,582)</b>	<b>3,712,695</b>	<b>(112,510)</b>	<b>(130,674,397)</b>

Non-cash changes include £112,510 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 2014 are 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 Limited Partnership	2,067,996	16,220,192
	<b>5,147,619</b>	<b>16,827,423</b>

Comparative information for the year ended 31 January 2013 is set out below.

## Notes to the financial statements (continued)

### 16 Related party transactions (continued)

	Purchases from related parties £	Amounts owed to related parties £
Northern Infrastructure Investments LLP	84,834	8,108,743
Morrison Facilities Services Limited	6,289,826	498,897
Infrastructure Investments Limited Partnership	1,066,660	8,108,743
	<u>7,441,320</u>	<u>16,716,383</u>

There were no sales to related parties or amounts owed by related parties at 31 January 2014 or 31 January 2013.

During the year ended 31 January 2013, HICL Infrastructure Company Limited owned 50% of Alpha Schools (Highland) Holdings Limited. On 22 March 2013 it increased its shareholding to 100%. Directors' fees are charged to the Company by Infrastructure Investments GP Limited in respect of this shareholding.

During the year ended 31 January 2013, 3i Infrastructure Plc owned 50% of the Company through its investment vehicle, Northern Infrastructure Investments LLP and also provided management services to the Company. 3i Infrastructure Plc sold its entire investment on 22 March 2013.

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

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. Morrison Facilities Services is now controlled by Mears Group.

### 17 Post balance sheet events

On 19 March 2014 a dividend of £750,000 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.