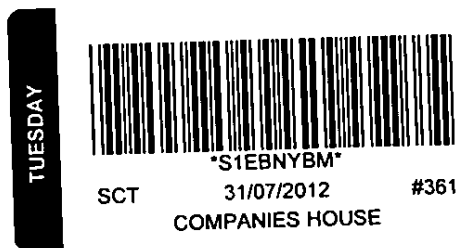


# Annual Report and Financial Statements Alpha Schools (Highland) Project Plc

---

**For the Year Ended 31 January 2012**



**Company No. 05516176**

## Company information

<b>Company registration number</b>	05516176
<b>Registered office</b>	1 <sup>st</sup> Floor Phoenix House 18 King William Street London EC4N 7BP
<b>Directors</b>	P J Cooper (resigned 1 October 2011) G A Quafe H O’Gorman
<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>	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1-4 Atholl Crescent Edinburgh EH3 8LQ

## Index

<b>Report of the directors</b>	3 - 5
<b>Corporate governance statement</b>	6 - 8
<b>Report of the independent auditor</b>	9- 10
<b>Profit and loss account</b>	11
<b>Balance sheet</b>	12
<b>Notes to the financial statements</b>	13 - 21

The directors submit their annual report and the audited financial statements for the year ended 31 January 2012

### **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. Alpha Schools (Highland) Holdings Limited is ultimately owned fifty per cent by HICL Infrastructure Company Limited and fifty per cent by 3i Infrastructure plc.

### **Principal risks and uncertainties**

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

In order to meet its contractual obligations, the Company is dependent on receipt of funds from Alpha Schools (Highland) Limited and therefore is dependent on the successful operation of Alpha Schools (Highland) Limited and the PFI contract in general. The contractual arrangements for the PFI contract have however been structured to minimise the risks retained by Alpha Schools (Highland) Limited and there are various security and contractual arrangements in place to protect Alpha Schools (Highland) Limited from default or non-performance by any sub-contractors. Intra-group loan agreements are in place to define the funding arrangements between the Company and Alpha Schools (Highland) Limited. It is due to the contractual arrangements that are in place, and the certainty of the service payments being received by The Highland Council by Alpha Schools (Highland) Limited that the directors have adopted the going concern basis of accounting.

### **Future developments**

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

## Results and dividends

The profit for the year amounted to £Nil (2011 £Nil)

The directors do not recommend payment of a dividend in respect of the year (2011 £Nil)

## Financial risk management objectives

The directors' approach to financial risk management objectives and exposures have 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

	2012 £	2011 £	Method of calculation
Net debt	146,841,748	149,928,241	Total net debt at balance sheet date

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

## Directors and their interests

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

P J Cooper (resigned 1 October 2011)  
G A Quaife  
H O'Gorman

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

## Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.


The directors confirm that

the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company faces.

**Auditor**

Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with section 489(4) of the Companies Act 2006.

ON BEHALF OF THE BOARD



**H O'Gorman**

**Director**

19 July 2012

Registered in England - No 05516176  
1<sup>st</sup> Floor Phoenix House  
18 King William Street  
London  
EC4N 7BP

## Corporate governance statement

The Company has listed securities in issue and is required to provide a corporate governance statement in accordance with DTR 7.2.2 of the FSA Handbook. The Company has however voluntarily applied the provisions set out in the UK Corporate Governance Code ('the Code'). The Company is committed to applying the highest principles of corporate governance, as they relate to the Company's business. Due to the size and restricted nature of the Company's business, there are certain areas of the UK Corporate Governance Code where the directors consider that full compliance would not be justified.

### **The Board and its directors**

The Company is led by a Board of non-executive directors. The appointment of the directors is pursuant to a Shareholders' Agreement dated 29 March 2006 and under the terms of this Agreement, both Infrastructure Investment GP Limited and Northern Infrastructure Investments LLP are entitled to appoint two directors to the Board of the Company, on behalf of the ultimate shareholders HICL Infrastructure Company Limited and 3i Infrastructure plc respectively.

One director is currently appointed by Infrastructure Investment GP Limited and one director is appointed by Northern Infrastructure Investments LLP. Each director is entitled to appoint an Alternate Director for the purposes of attending a specific board meeting.

Each director is of equal standing. Due to the size and nature of the Company, there is no appointed chairman or chief executive. There is also no distinction drawn between executive and non-executive directors. As such the Company does not comply with Provisions A 1.2, A 2, A 3, A 4.1 and A 4.2 of the Code.

As the Board members all have considerable experience of similarly structured infrastructure projects and their financing, the Company does not arrange any formal induction or training for new directors. This is not in compliance with Provision B 4.

The Company has arranged appropriate insurance cover for its directors and officers in respect of legal action against him or herself.

The Board acknowledges that it is collectively responsible for the success of the company by providing leadership, setting the company's strategic aims, ensuring that the necessary financial and human resources are in place, and reviewing management performance.

In order to discharge these responsibilities, the Board meet on a regular basis throughout the year. Since the commencement of the PFI contract in April 2006, the Board has held monthly Management Meetings at which it discusses the activities of the Company, Alpha Schools (Highland) Limited and Alpha Schools (Highland) Holdings Limited. In addition the Board holds a semi-annual Board Meeting. The Management and Board Meetings are also attended by key members of the project's management team. The table below indicates the number of meetings held and the number of meetings attended by each director.

## Corporate governance statement (continued)

### The Board and its directors (continued)

	Board	Management
Number of meetings held in the year	2	12
P J Cooper	1	7
G A Quaife	1	2
H O’Gorman	1	12

All directors receive appropriate and timely information and briefing papers in advance of the Management and Board Meetings. Whilst day to day management of the Company is delegated to the management team, there is a formal schedule of matters reserved for decision by the Board. These include such matters as the provision of guarantees or indemnities in respect of any liability, entering into any other financing facility, approval of the annual budget or engaging in any other activity.

Appointments to the Board are made in line with the Shareholders’ Agreement. There is no Nomination Committee and therefore the Company does not comply with Provision B 2 of the Code.

Due to the size and nature of the Company, the Board does not undertake a formal annual evaluation of its performance and that of its directors and there is no formal policy on re-election of directors. Consequently, the Company does not comply with Provisions B 6 and B 7 of the Code. The directors however ensure that the Board is structured in such a way that each member of the Board is able to bring different experiences and skills to the operation of the Company and encourages and supports each director to regularly update and refresh their skills and knowledge.

### Remuneration

None of the directors receive any remuneration as directors of the Company. There is therefore no remuneration policy or procedure and no Remuneration Committee. The Company has therefore not complied with Provisions D 1 or D 2 of the Code.

### Accountability and audit

The Board seeks to present a balanced and understandable assessment of the Company’s position and prospects. There is no Audit Committee as the size and nature of the Company does not warrant such a committee. The company therefore does not comply with Provision C 3 of the Code. The Board itself maintains a relationship with the external auditor which allows it to monitor their objectivity, independence and cost-effectiveness.

### Internal control

The Board has applied principle C 2 of the Code by establishing a process for identifying, evaluating and managing the significant risks the Company faces. The Board annually reviews the process, which has been in place from the start of the year to the date of approval of this report. However, due to the size and nature of the Company’s business, this process is not in compliance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is responsible for the Company’s system of internal control and for reviewing its effectiveness. Such a system is designed to



## Corporate governance statement (continued)

manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss

In compliance with Provision C 2.1 of the Code, the Board reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing financial and operational reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

The Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant during the course of its review of the system of internal control. Therefore a confirmation in respect of necessary actions has not been considered appropriate. Due to the size and nature of the Company, the Board does not consider there to be a requirement for an Internal Audit Function although the requirement for this is considered annually.

### **Going concern**

The directors are required under the Code on Corporate Governance to have satisfied themselves as to the Company's ability to continue in existence for the foreseeable future. The directors have reviewed and challenged the latest forecasts for Alpha Schools (Highland) Limited and have concluded that the Group has adequate resources and is justified in using the going concern basis in preparing the financial statements.

### **Dialogue with shareholders**

The Company is a wholly owned subsidiary of Alpha Schools (Highland) Holdings Limited although one nominee share is held by Infrastructure Investment Holdings Limited. Dialogue with the ultimate parent undertaking and controlling parties is managed through the monthly management meetings, six-monthly board meetings and the Annual General Meeting ("AGM").

All Directors attend the AGM, and shareholders have the opportunity to question any member of the Board on any relevant topic. Each substantial issue raised is proposed as an individual resolution of the AGM and voted on.



## 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 2012 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on pages 4 to 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **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 2012 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 matters prescribed by the Companies Act 2006**

In our opinion

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 7 to 9 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements



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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters when 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, or
- a Corporate Governance Statement has not been prepared by the company

*Grant Thornton UK LLP*

Robert Hannah  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants

**Edinburgh**

*31* July 2012

## Profit and loss account

	Note	2012 £	2011 £
Interest receivable	3	8,806,850	8,957,847
Interest payable and similar charges	3	<u>(8,806,850)</u>	<u>(8,957,847)</u>
<b>Profit 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 profit 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	2012 £	2011 £
<b>Fixed asset investment</b>			
Loans to fellow subsidiary undertakings	5	143,929,556	146,782,391
<b>Current assets</b>			
Debtors - amounts falling due within one year	6	3,953,411	4,186,246
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	7	(3,953,412)	(4,186,246)
Net current assets	-	1 00	-
<b>Total assets less current liabilities</b>		<b>143,929,555</b>	<b>146,782,391</b>
Creditors - amounts falling due after more than one year	8	(143,879,555)	(146,732,391)
<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
<b>Equity shareholders' funds</b>	11	<b>50,000</b>	<b>50,000</b>

  
H O'Gorman  
Director

The directors authorised and approved the financial statements for issue on 19 July 2012

Company Registration Number 05516176

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

## Notes to the financial statements

### 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 more important accounting policies is set out below. There have been no changes made to previous accounting policies.

#### 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.

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

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### 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.

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 £13,250 (2011 £12,800) and other administration expenses are borne by Alpha Schools (Highland) Limited, a fellow subsidiary undertaking.

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

	2012	2011
	£	£
Interest payable on bonds and secured loans	(6,841,383)	(6,993,203)
Interest payable due to Alpha Schools (Highland) Holdings Ltd	(1,965,467)	(1,964,644)
Interest receivable on loans made to Alpha Schools (Highland) Ltd	8,806,850	8,957,847
Finance costs net	-	-

### 4 Taxation

The results for the year do not give rise to a tax charge (2011 £Nil).

## Notes to the financial statements (continued)

### 5 Fixed asset investments

	2012	2011
	£	£
Amounts owed by Alpha Schools (Highland) Limited	143,879,556	146,732,391
Amounts owed by Alpha Schools (Highland) Holdings Limited	49,999	49,999
Amounts owed by Infrastructure Investments Holdings Ltd	1	1
	<u>143,929,556</u>	<u>146,782,391</u>

Loans to fellow subsidiary undertakings are considered to be fixed asset investments as they are intended for use on a continuing basis in the company's activities. The directors consider such loans to be held for the long term over the life of the related debt.

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 £131,611,952 of which £3,091,964 is due within one year (Note 6) (2011 £134,698,445, of which £3,195,850 was due within one year), and,
- subordinated debt facilities of £15,229,796, none of which is due within one year (Note 6) (2011 £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 £1,107,204 (2011 £1,154,149). 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.

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

	2012	2011
	£	£
Amounts owed by Alpha Schools (Highland) Limited (refer to Note 5)	2,962,192	3,195,850
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	991,219	990,396
	<u>3,953,411</u>	<u>4,186,246</u>



## Notes to the financial statements (continued)

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

	2012 £	2011 £
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	991,219	990,396
Borrowings – amounts falling due within one year		
Fixed rate secured bonds	1,557,164	1,798,940
Secured bank term loans	1,405,028	1,396,910
	<u>3,953,411</u>	<u>4,186,246</u>

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

	2012 £	2011 £
Borrowings		
Fixed rate secured bonds	74,342,186	75,838,943
Secured bank term loans	54,307,574	55,663,652
Amounts owed to Alpha Schools (Highland) Holdings Limited	15,229,795	15,229,796
	<u>143,879,555</u>	<u>146,732,391</u>
Repayable as follows		
Between one and two years	3,158,648	3,091,964
Between two and five years	10,321,122	10,232,981
After five years	130,399,785	133,407,446
Total borrowings	<u>143,879,555</u>	<u>146,732,391</u>
The undiscounted contractual maturities are repayable as follows		
Less than one year	3,091,964	3,195,850
Between one and two years	3,271,157	3,091,964
Between two and five years	10,676,457	10,232,981
After five years	132,059,592	135,774,226
Total borrowings	<u>149,099,170</u>	<u>152,295,021</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)

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 £1,107,204 (2011 £1,154,149). 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 (2011 £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%. During the prior year the repayment terms of the loan note were changed and the loan notes are now repayable in three instalments beginning on 31 July 2036 and ending on 31 July 2037. The loan notes were previously repayable on an annuity basis beginning on 31 January 2010 and ending on 31 July 2036.

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 £153,831,378 (2011 £158,689,639).

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 Onloan 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

	2012	2011
	£	£
<b>Financial assets</b>		
Loans and receivables	<u>147,882,967</u>	<u>150,968,637</u>
<b>Financial liabilities</b>		
Other creditors (accrued subordinated loan note interest – see Note 7)	991,219	990,396
Measured at amortised cost	<u>146,841,748</u>	<u>149,928,241</u>
	<u>147,832,967</u>	<u>150,918,637</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 Onloan 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)

### Interest rate profile

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

	2012 £	2011 £
Fixed rate borrowings	<u>146,841,748</u>	<u>149,928,241</u>

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

### Borrowing facilities

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

The Company has the above undrawn borrowing facilities at 31 January 2012, 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 2012 £	Fair Value 2011 £	Book Value 2012 £	Book Value 2011 £
Financial assets				
Loans to fellow subsidiary undertakings	150,480,042	145,426,394	146,841,748	149,928,241
Fixed asset investments	50,000	50,000	50,000	50,000
At 31 January	<u>150,530,042</u>	<u>145,476,394</u>	<u>146,891,748</u>	<u>149,978,241</u>
Financial liabilities				
Fixed rate secured bonds	73,328,233	66,594,019	75,899,351	77,637,883
Secured bank term loan	61,972,013	63,652,579	55,712,601	57,060,562
Subordinated loan notes	15,229,796	15,229,796	15,229,796	15,229,796
At 31 January	<u>150,530,042</u>	<u>145,476,394</u>	<u>146,841,748</u>	<u>149,928,241</u>

The fair value of the loans to fellow subsidiary undertakings is based on the market value of similar debt instruments at 31 January 2012. The terms of the loans to fellow subsidiaries are fixed therefore no adjustment has been made to reduce the book value to fair value. The cost of the fixed asset investments approximates fair value.

The fair value of the fixed rate secured bond is based on its market value at 31 January 2012. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 4.11% (2011 4.11%). The terms of both the loan and the bond are fixed therefore no adjustment has been made to reduce the book value to fair value.

## Notes to the financial statements (continued)

### 9 Financial instruments (continued)

#### 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 2012 and 31 January 2011 were as follows

	2012 £	2011 £
Fixed rate secured bonds and secured bank term loan	131,611,952	134,698,445
Equity plus subordinated loan notes	15,279,796	15,279,796
Total capital	<u>146,891,748</u>	<u>149,978,241</u>
Gearing ratio	<u>90%</u>	<u>90%</u>

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

### 10 Called up share capital

	2012 £	2011 £
Allotted, issued and fully paid 50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

### 11 Reconciliation of movement in shareholders' funds

	2012 £	2011 £
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 £75,899,351 (£77,637,883) and in respect of the European Investment Bank loan was £55,712,601 (2011 £57,060,562).

The Company has received £15,229,796 (2011 £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.

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

### 13 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Alpha Schools (Highland) Holdings Limited which is incorporated in Great Britain and registered in England and Wales. Copies of Alpha Schools (Highland) Holdings Limited consolidated financial statements can be obtained from the Company Secretary at 1<sup>st</sup> Floor, Phoenix House, 18 King William Street, London EC4N 7BP.

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 parties to be HICL Infrastructure Company Limited and 3i Infrastructure Plc.