

Defence Management (Holdings) Limited

Directors' Report and Financial Statements

For the Year Ended 31 December 2012

Registered Number: 03564570

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Financial Statements

For the Year Ended 31 December 2012

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Company Information

The Board of Directors	Nigel Middleton (Resigned 1 December 2012) Graham Baldock Thomas Haga (Resigned 1 December 2012) BIIF Corporate Services Limited (Appointed 1 December 2012) Richard Hoile (Appointed 1 December 2012)
Company Secretary	Infrastructure Managers Limited
Registered Office	C/o Dundas & Wilson Northwest Wing Bush House Aldwych London WC2B 4EZ
Auditor	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors PO Box 90 Erskine House 68-73 Queen Street Edinburgh EH2 4NH
Bankers	Royal Bank of Scotland 36 St Andrews Square Edinburgh EH2 2YB

The Directors' Report

The directors have pleasure in presenting their report and the consolidated financial statements of Defence Management (Holdings) Limited ("the Company") and its subsidiary undertaking (together referred to as "the Group") for the year ended 31 December 2012

Principal Activities

The Company's principal activity during the year is a holding company to Defence Management (Watchfield) Limited a Private Finance Initiative Project

The principal activity of Defence Management (Watchfield) Limited is the design, construction and management of the Joint Services Command and Staff College

Results and Dividends

The profit for the year amounted to £5,492,000 (2011 £4,663,000) Particulars of the dividend paid are detailed in note 8 to the financial statements

The profit for the year will be transferred to reserves

The directors consider the results for the year to be satisfactory and are confident that 2013 will be another successful year

Key Performance Indicators

The performance of the Group from a cash perspective is assessed on a six monthly basis by the testing of the covenants of the senior debt provider The key indicator being the debt service cover ratio The Group has been performing well and has been compliant with the covenants laid out in the loan agreement

Financial Instruments

Details of the Group's financial risk management objectives and policies are included in note 1 to the accounts The fair values of the financial instruments are included in note 14 to the accounts

Directors

The directors who served the Group during the year and up to the date of this report are listed on page 1

The Directors' Report (continued)

Auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Registered office
C/o Dundas & Wilson
Northwest Wing Bush House
Aldwych
London
WC2B 4EZ

Signed by order of the directors

A handwritten signature in black ink, appearing to be 'S. R.', with a long horizontal line extending from the end of the signature.

Infrastructure Managers Limited
Company Secretary

Approved by directors on 02/05/13

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year ended 31 December 2012. In preparing these 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 proper accounting records that 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 the directors are 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' Responsibilities were approved by the board on 02/05/13 and signed on its behalf by



Michael Forrest, for and on behalf of
BIIF Corporate Services Limited
Director

Independent Auditors' Report to the Members of Defence Management (Holdings) Limited

We have audited the Group and parent Company financial statements ("the financial statements") of Defence Management (Holdings) Limited for the year ended 31 December 2012 which comprise the consolidated Profit and Loss Account, the Group and Company Balance Sheets 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).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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.

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Annual Report and Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Group and parent Company's affairs as at 31 December 2012 and of its 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent Auditors' Report to the Members of
Defence Management (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, 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

M. Cowie

Martin Cowie (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

2 May 2013

Group Profit and Loss Account

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	2	21,467	20,200
Cost of sales		(14,532)	(13,952)
Gross profit		6,935	6,248
Administrative expenses		(1,697)	(2,158)
Operating profit		5,238	4,090
Interest receivable and similar income	4	4,763	5,075
Interest payable and similar charges	5	(4,246)	(4,476)
Profit on ordinary activities before taxation	6	5,755	4,689
Tax on profit on ordinary activities	7	(263)	(26)
Profit on ordinary activities after taxation	16	5,492	4,663

All of the activities of the Group are classed as continuing

There were no recognised gains or losses other than those shown in the profit and loss account. Therefore, no separate statement of total recognised gains and losses is presented. All amounts in the profit and loss account relate to continuing operations.

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

Group Balance Sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
Current Assets			
Debtors - amounts falling due within one year	10	6,468	5,946
- amounts falling due after more than one year	10	84,571	88,228
Cash at bank and in hand		12,291	10,892
		103,330	105,066
Creditors: amounts falling due within one year	11	(13,468)	(11,583)
Net Current Assets		89,862	93,483
Total Assets less Current Liabilities		89,862	93,483
Creditors: amounts falling due after more than one year	12	(48,765)	(52,756)
Provisions for Liabilities	13	(14,301)	(16,423)
Net Assets		26,796	24,304
Capital and Reserves			
Called up share capital	15	5,833	5,833
Profit and loss account	16	20,963	18,471
Equity shareholders' funds	17	26,796	24,304

These financial statements on pages 7 to 17 were approved by the Directors on and authorised for issued on 02/05/13, and signed on their behalf by



Michael Forrest, for and on behalf of
BIIF Corporate Services Limited
Director

Company Balance Sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
<hr/>			
Fixed Assets			
Investments	9	5,833	5,833
Net Assets		5,833	5,833
<hr/>			
Capital and Reserves			
Called up share capital	15	5,833	5,833
Equity shareholders' funds		5,833	5,833
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These financial statements on pages 7 to 17 were approved by the Directors on and authorised for issued on _____, and signed on their behalf by



Michael Forrest, for and on behalf of
BIIF Corporate Services Limited
Director

Company Registration Number 03564570

Notes to the Financial Statements

For the year ended 31 December 2012

1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. The financial statements have been prepared on a going concern basis as the Company's financial projections indicate that sufficient funds will be generated to allow on-going obligations to be met as they fall due.

Cash flow statement

The Company is a wholly owned subsidiary of BIIF Holdco Limited and is included in the consolidated financial statements of BIIF Holdco Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1.

Turnover

Turnover represents net sales of goods and services to third parties. All turnover is derived from the management of the Joint Services Command Staff Collage in the United Kingdom.

Deferred taxation

Deferred tax is provided, using the incremental liability method, on timing differences that have originated but not reversed at the balance sheet date where the transactions or events that give rise to an obligation to pay more or less tax in the future have occurred by the balance sheet date. A deferred tax asset is recognised only when it is considered more likely than not that it will be recovered. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws in force at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Financial Instruments

The Group uses derivative financial instruments to manage exposures to fluctuations in interest rates. Amounts payable and receivable in respect of these derivatives are recognised as adjustments to interest expense over the term of the contracts.

Accounting for PFI contracts

Within Public Private Partnership ("PPP") projects (including Private Finance Initiative ("PFI") projects), where the concession agreement transfers limited risk and rewards associated with ownership to the contractor, the costs incurred during the period of initial asset construction, as a direct consequence of financing, designing and constructing the asset, are shown as 'assets in the course of construction' within current assets. On completion of the asset construction phase the asset is transferred to debtors as 'amounts receivable under PFI contracts'.

Revenues received from the customer, following completion of the asset construction phase, are apportioned between capital repayments and operating revenue based on an implicit rate over the contract life. The 'finance income' element of the capital repayments will be shown within interest receivable.

Notes to the Financial Statements
For the year ended 31 December 2012

1 Accounting policies (continued)

Taxation

The tax expense represents the sum of current tax expense and deferred tax expense

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Accounting for asset renewal

As part of the unitary charge the Group receives a contribution towards all asset renewal programs. Amounts received but not yet exhausted are treated as deferred income and released to the Profit & Loss account as expenditure becomes due.

Fixed asset investments

Unlisted investments are stated at cost less provision required for diminution in value.

2. Turnover

The turnover and profit before tax are attributable to the one principal activity of the Group. An analysis of turnover is given below.

	2012 £000	2011 £000
United Kingdom	21,467	20,200

3. Information regarding Directors and Employees

No directors received any remuneration for services to the Group during the current or prior year. There were no other employees of the Group in the current or preceding years.

4. Interest Receivable and Similar Income

	2012 £'000	2011 £'000
Interest receivable on bank balances	122	146
Finance income receivable under PFI contracts	4,641	4,929
	4,763	5,075

Notes to the Financial Statements
For the year ended 31 December 2012

5. Interest payable and similar charges

	2012 £'000	2011 £'000
Interest payable on bank loans	3,304	3,522
Interest payable on Subordinated debt	454	466
Amortisation of issue costs	488	488
	4,246	4,476

6. Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is after charging
Auditors' remuneration of £10,000 (2011 £10,000) are borne by another group company

7. Tax on Profit on Ordinary Activities

	2012 £'000	2011 £'000
Current tax:		
United Kingdom corporation tax at 24 50% (2011 – 26 49%)	2,386	2,219
Over/under provision in prior year	(1)	-
Total current tax	2,385	2,219
Deferred tax:		
Origination and reversal of timing differences	(2,122)	(2,193)
Total tax charge on profit on ordinary activities	263	26

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 24 50% (2011 - 26 49%)

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	5,755	4,689
Profit on ordinary activities by rate of tax	1,410	1,242
Capital allowances for year in excess of depreciation	698	818
Expenses not deductible for tax purposes	114	114
Other timing differences	164	45
Adjustment to tax charge in respect of previous periods	(1)	-
Current tax charge for the year	2,385	2,219

Notes to the Financial Statements
For the year ended 31 December 2012

7. Tax on Profit on Ordinary Activities (continued)

(c) Factors that may affect future tax charges

During the year, as a result of the change in the UK main corporation tax rate from 24% to 23% that was enacted on 17 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured. This change has reduced the deferred tax liability at the balance sheet date, and so has increased profit in the year, by £622,000.

Further reductions to the UK main corporation tax rate have not been substantively enacted at the balance sheet and therefore are not recognised in these financial statements. Firstly, a change proposing to reduce the rate by a further 2% to 21% from 1 April 2014 was announced in the 2012 Autumn Statement. Secondly, a further change proposing to reduce the rate to 20% from 1 April 2015 was announced in the March 2013 Budget. The effect of these further changes from 23% to 20%, if they applied to the deferred tax balance at 31 December 2012, would be to reduce the deferred tax liability by £1,865,000, and so would increase profit in the year by £1,865,000.

Deferred tax	2012 £'000	2011 £'000
Movement on deferred tax:		
Opening balance	16,423	18,616
Movement	(2,122)	(2,193)
Closing balance	14,301	16,423
Analysis of deferred tax balances:		
Accelerated capital allowances	16,565	18,737
Short term timing differences	(2,264)	(2,314)
Deferred tax liability	14,301	16,423

8. Equity Dividends

	2012 £'000	2011 £'000
Interim dividend of £0.51 per ordinary share (2011 - £0.57)	3,000	3,300

9. Fixed Assets

Company	2012 £'000	2011 £'000
Investments held as Fixed Assets		
Shares in subsidiary company at cost at 31 December	5,833	5,833
	5,833	5,833

The Company owns 100% of the ordinary share capital of Defence Management (Watchfield) Limited, a company registered in England and Wales. Its principal activity is the design, construction, management and finance of Joint Services Command and Staff College. The results for the year were Profit for the financial year £5,492,000 (2011: £4,663,000), Capital and reserves £26,796,000 (2011: £24,304,000).

Notes to the Financial Statements
For the year ended 31 December 2012

10. Debtors

Group

a) Amounts falling due within one year

	2012	2011
	£'000	£'000
Trade debtors	290	147
Prepayments and accrued income	2,521	2,411
Amounts recoverable on PFI contracts	3,657	3,388
	6,468	5,946

b) Amounts falling due after more than one year

	2012	2011
	£'000	£'000
Amounts recoverable on PFI contracts	84,571	88,228
	84,571	88,228

Amounts recoverable on PFI contracts

The movement is analysed as follows

	2012	2011
	£'000	£'000
Balance as at 1 January	91,616	94,734
Payments received	(3,388)	(3,118)
Balance as at 31 December	88,228	91,616

11. Creditors – amounts falling due within one year

Group

	2012	2011
	£'000	£'000
Trade creditors	286	171
Bank loans – Senior Debt (Note 12)	3,630	3,288
Bank loans – Subordinated Debt (Note 12)	359	319
Amounts owed to group undertakings	2,385	2,218
Other taxes and social security	601	470
Accruals and deferred income	6,196	5,082
Other creditors	11	35
	13,468	11,583

Notes to the Financial Statements
For the year ended 31 December 2012

12. Creditors – amounts falling due after more than one year

Group	2012 £'000	2011 £'000
Bank loans – Senior Debt	42,102	45,734
Bank loans – Subordinated Debt	6,663	7,022
	48,765	52,756

The Senior Debt is secured by full fixed and floating charges over the assets of the Group. The debt bears interest at the rate per annum determined by the lender which will be calculated according to the aggregate of margin, LIBOR and mandatory costs. A swap has been taken out against the debt, which eliminates the variable nature of the interest charge. The debt is repayable in 41 consecutive six monthly instalments, the first of which was paid in August 2002 with the final instalment due on 31 August 2023. Issue costs of £4,975,000 (2011: £5,463,000) have been set off against total loan drawdowns in line with FRS4.

The Subordinated Debt is secured by full fixed and floating charges. The debt bears interest at the rate per annum determined by the lender, which will be calculated according to the aggregate of margin, LIBOR and mandatory costs. The debt is repayable in 41 consecutive six monthly instalments, the first of which was paid in August 2002 with the final instalment due on 31 August 2023.

	2012 £'000	2011 £'000
Analysis of bank loan repayments:		
In one year or less or on demand	3,989	3,607
In more than one year but not more than two years	4,230	3,990
In more than two years but not more than five years	14,859	13,936
In more than five years	29,676	34,830
Total loan repayments (net of arrangement fees)	52,754	56,363

13. Provisions for Liabilities

The Group movement in the deferred taxation provision during the year was

	2012 £000	2011 £000
Provision brought forward	16,423	18,616
Profit and loss account movement arising during the year	(2,122)	(2,193)
Provision carried forward	14,301	16,423

Notes to the Financial Statements

For the year ended 31 December 2012

14. Financial risk management objectives and policies

Due to the nature of the Company's business, the only financial risks the directors consider relevant to this Company is credit, cash flow, interest rate and liquidity risk. The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. The company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Credit risk

The Directors do not consider that the Company is exposed to significant credit risk due to the nature and size of the contract and the key customer being the Ministry of Defence.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the company's financial instruments that are carried in the financial statements at other than fair values.

	2012		2011	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<i>Financial liabilities</i>				
Long term borrowing	(50,707)	(38,995)	(54,484)	(42,696)
Interest rate swap	—	(11,712)	—	(11,788)

The fair values of the fixed rate borrowing and the interest rate swap have been calculated by discounting the fixed cashflows at the prevailing interest rates at the year end.

15. Called Up Share Capital (Company and Group)

	2012 £'000	2011 £'000
Authorised		
6,000,000 ordinary shares of £1 each	6,000	6,000
Called up, allotted and fully paid		
5,833,002 ordinary shares of £1 each	5,833	5,833

Notes to the Financial Statements
For the year ended 31 December 2012

16. Profit & Loss Account

Group	Profit and loss account £'000
Balance at 1 January 2012	18,471
Retained profit for the year	5,492
Interim Dividends paid	(3,000)
Balance at 31 December 2012	20,963

Company

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these accounts. The result for the Company for the year ended 31 December 2012 is £3,000,000 (2011 - £3,300,000)

17. Reconciliation of Movement in Shareholders' Funds

Group	2012 £'000	2011 £'000
Profit for the financial year	5,492	4,663
Interim dividends paid and proposed	(3,000)	(3,300)
Net increase in shareholders' funds	2,492	1,363
Opening shareholders' funds	24,304	22,941
Closing shareholders' funds	26,796	24,304

18. Related Party Transactions

The Directors have considered the provisions contained within FRS 8 and are satisfied that there are no further disclosures required

Disclosure of related party transactions that the Directors have with the Group which is consolidated at BIIF Holdco Limited are included in the accounts of that entity

19. Ultimate Parent Company

The immediate parent company is Matrix Premier Holdings Limited, a company incorporated in Great Britain and registered in England and Wales

The ultimate parent and controlling entity is Barclays Integrated Infrastructure Fund LP. Barclays Integrated Infrastructure Fund LP is owned by a number of investors, with no one investor having individual control