Aspire Defence Finance plc

Strategic report, Directors' report and financial statements

Registered number 5700404

31 December 2020

Contents

Strategic Report

Principal Activity

Aspire Defence Finance plc ("the Company") is a financing conduit, a special purpose vehicle formed to raise the debt finance associated with the Allenby/Connaught Private Finance Initiative Project ("the Project") and on-lend it to Aspire Defence Limited ("ADL"), a fellow subsidiary of Aspire Defence Holdings Limited ("ADHL"), which is the Company's immediate parent company. ADHL, ADL and the Company are together the "Group".

The Project involves the design and build of military living accommodation, other similar structures, supporting infrastructure and amenities at sites on Salisbury Plain and in Aldershot, the demolition and refurbishment of various assets in those areas, and the provision of certain hard and soft facilities maintenance services to those assets and to other existing assets at the sites and associated locations for the Ministry of Defence ("the Authority"). A project agreement was signed on 6 April 2006 and was amended and restated on 31 October 2016 (the "Project Agreement") to include further scope associated with the Army Basing Programme ("ABP"). The Project has a thirty-five-year duration.

Business Review

During 2020, the Company repaid borrowings of £38.1m *(2019: £36.5m)* funded from similar amounts received from ADL, reducing the Company's interest income and expense during the year. In 2020, the Company earnt interest receivable and incurred interest payable of approximately £76m *(2019: £78m)* resulting in a profit before taxation of £116k *(2019: £120k)* which, after tax, increased shareholders' funds by £116k *(2019: £120k)*. The Company used these profits to pay interim dividends of £119k *(2019: £122k)*, leaving net assets of £167k *(2019: £170k)* at the end of the year.

During 2020, despite the global Coronavirus pandemic the Authority continued to make Unitary Payments to ADL as normal, and it continued to pay its supply chain, and make debt service payments to Company as normal. It was not necessary for the Company to take advantage of schemes introduced by Government to assist businesses such as the Coronavirus Large Business Interruption Loan Scheme, and the Covid-19 Corporate Financing Facility. Therefore, the pandemic did not have a material impact on cashflows

In December 2020 the Project won the gold award for the Best Operational Project – Social Infrastructure at the Partnership Awards and was commended on the Project's ability to change the original arrangements and the evidence of collaboration between the parties.

Key Risks and Uncertainties

Aspire Defence Finance plc is a special purpose vehicle formed to finance the performance of the Project. The Company is entirely dependent on ADL, to meet its commitments as they fall due.

The key risk faced by the Company is the inability of ADL to repay its indebtedness as it falls due. Therefore, to assess risks to the Company it is also necessary to review risks faced by ADL.

ADL, with the Authority as its only customer, is allocated numerous responsibilities under the Project Agreement. However, the contractual arrangements for the Project are structured so as to minimise risks inherent to the Project which are retained by ADL. Risks assumed by ADL are largely passed on to insurers or Aspire Defence Capital Works "(ADCW") or Aspire Defence Services ("ADS") as subcontractors, subject to agreed limits of liability. Only to the extent that any subcontractor, or if applicable its guarantor, or insurer, fails to meet their obligations or claims by ADL exceed their limits of liability, is ADL at risk. In relation to the capital expenditure required for the ABP related works, the arrangements are structured to ensure ADL is not at risk from any cost overruns arising, which would either be borne by ADCW or the Authority depending on the cause. The principal risks retained directly by ADL relate to: lifecycle works to the estate; insurance premia; overhead cost overruns; indexation, interest and credit risks and termination of the Project Agreement.

Strategic Report *(continued)*

Key Risks and Uncertainties *(continued)*

On 23 June 2016 the UK's electorate voted to leave the European Union ("EU"). Subsequently, Government commenced negotiations of the terms of the UK's departure, with a view to Brexit occurring on 29 March 2019. Following extensions of time and a General Election, the UK left the EU on 31 January 2020, and an 11-month transitional period ended on 31 December 2020.

As explained above the Company is dependent on repayments from ADL in order to meet its commitments as they fall due. ADL has subcontracted most of the risks related to the Project to ADCW and ADS on a fixed price basis, and deductions that may arise for performance beneath contractual thresholds are passed down the supply chain, insulating ADL and hence the Company.

Whilst Brexit discussions were continuing the Directors considered the Company's business, and made enquiries of ADL's immediate supply chain, to ensure it and they were prepared. ADL's sub-contractors' concerns principally relate to availability of EU produced foodstuffs and materials, and EU labour. The sub-contractors have developed contingency plans to ensure disruption to supplies and resources, and cost pressures are kept to a minimum for instance by sourcing supplies from the UK. At the time of writing, Brexit has not had a material impact on the Project, however, the Directors will continue to monitor the situation.

On 4 January 2021 a third Lockdown was announced. At the time of writing the Lockdown is gradually being released, infections, hospitalisations and fatalities have reduced substantially, and the number of people vaccinated is increasing rapidly. However, there continues to be a risk a new variant will emerge and infections will escalate again. The long term and full effects of the pandemic are not known, but the Company considers it is well placed to continue to provide the Services and deliver the remaining ABP related assets.

Going Concern

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment including the consideration of the impact of the Coronavirus pandemic is contained within Note 1 b).

Key Performance Indicators

Receipt of interest and repayments

The Company monitors the performance and ability of the Project Company, ADL, to meet its on-loan debt service obligations. The Company records whether all scheduled payments of interest and principal due from ADL are received in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2020, the Company recorded that all measures in this respect had been successfully achieved.

Debt service

The Company also measures compliance with its own debt service obligations. Any scheduled payments of interest, principal or fees due to Bondholders, Loan Note Holders, or the financial guarantors must be made in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2020, the Company recorded that all measures in this respect had been successfully achieved.

Section 172(1) Statement

The Directors believe that effective corporate governance is critical to delivering the strategy and creating long term value for the shareholders. The Directors also recognise the importance of wider stakeholders in delivering the strategy and achieving a sustainable business.

Each Director is fully aware of the obligations set out in Section 172 of the Companies Act 2006 ("Section 172") to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of the members as a whole, and in doing so have regard to the matters set out in Section 172 sub paragraphs a) to f).

Strategic Report *(continued)*

Section 172(1) Statement *(continued)*

The paragraphs below (following the structure of Section 172(1) sub-paragraph wording) summarise how the Board has had regard for these matters in coming to decisions previously and during 2020, including in relation to the payment of interim dividends:

a) The likely consequences of any decision in the longer term:

The Board oversees the development and periodic update of financial models to forecast the Group's cashflows, revenues and costs, and assets and liabilities over the remaining term of the Project Agreement. The Board considers the forecasts' assumptions and the results of the financial modelling, including compliance with certain financial ratios specified in the Project's financing agreements, and their robustness to downside sensitivity tests.

The Company operates a full distribution policy as is customary in leveraged finance transactions. Distributions are paid subject to compliance with certain covenants in the financing arrangements designed to ensure the Company can meet its commitments as they fall due, in particular the achievement of certain financial ratios in historic and future periods, and an obligation to maintain certain cash reserves at specified levels. The Project Agreement expires in 2041 after which it is expected that the Company will be wound up and any remaining assets distributed to the shareholders.

b) The interests of the Company's employees:

The Company acts as a financing company and has no employees.

c) The need to foster business relationships with suppliers, customers and others:

The Company regularly meets with, and reports to, its controlling creditors and their technical advisers. Many aspects of the Group's business are limited by the need to obtain creditor consent, and the Board promotes the need for collaborative and sustainable working relationships with these parties.

d) The impact on the Company's operations on the community and the environment:

As noted above the Company acts as a financing company and therefore the Company's operations have a minimal impact on the community and the environment.

e) The desirability of the Company maintaining a reputation for high standards of business conduct:

The Board has approved a Code of Conduct and periodically ensures the Company and Group's processes and procedures are compliant with the Bribery Act 2010 and other similar legislation. The Board reviews its subsidiaries compliance with such policies and procedures.

f) The need to act fairly as between members of the Company:

A Shareholders' Agreement provides a right for shareholders to nominate a Director or Directors to the Board based on shareholdings. All four shareholders have Board representation and participate in discussion and decisions.

Board Membership and Gender Diversity

The Company had nine male directors and two female directors during the year.

By order of the Board,

AR McColl
Company Secretary

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD
27 May 2021

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

Results and dividend

The results for the year are set out on page 15.

The Directors have paid an interim ordinary dividend in respect of the current year of £119,174 *(2019: £121,861)* and do not propose a final ordinary dividend in respect of the current year *(2019: £Nil)*.

Financial instruments

The Company's funding has been arranged using the principles of project finance with the terms of the financial instruments, and the resulting profile of the debt service costs, tailored to match the expected revenues arising from the Project Agreement.

The Company issued Bonds at par totalling £1.46bn in 2006 which are repayable in instalments from 2014 to 2040. The Company also issued Loan Notes totalling £119.9m from 2008 to 2012 which are repayable in instalments from 2014 to 2034 subject to the achievement of certain financial tests. Other disclosures in respect of financial instruments are given in Note 11 of the financial statements.

Employees

There were no direct employees of the Company during the year ended 31 December 2020 *(2019: Nil)*.

Governance and Regulation

The Modern Slavery Act 2015 requires companies to report publicly steps to ensure their operations and supply chains are free of trafficking and slavery. Further details are set out in the Group's Modern Slavery Act Transparency Statement on the website: http://aspiredefence.co.uk/.

Risk management

The risk management policy of the Company is designed to identify and manage risk at the earliest possible point. The Company maintains a detailed risk register which is formally reviewed by the Board on a six-monthly basis. The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet the commitments described in the terms of its Bonds and Loan Notes. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Company's contractual obligations.

Financial risk management objectives and policies

Management reports regularly to the Board of the Company. The Board receives regular reports from management which specifically summarise and address the financial, contractual and commercial risks that the Company is exposed to and are pertinent to the industry in which the Company operates.

The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to a Group financial model, which represents the long-term business plan of the Group and monitors its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. This process ensures that the Project remains robust and viable throughout the life of the Project Agreement.

Directors' report *(continued)*

Directors and Directors' interests

The Directors who held office during the year were as follows:

Director	Position
A Barrie	Non Executive Director
G Beazley-Long	Non Executive Director
D Brooking	Non Executive Director
A R McColl	Finance Director
P Meffan	Non Executive Director
A H Moore	Chairman
A Thomson	Chief Executive
N Sparrow	Non-Executive Director
S Springett	Non Executive Director
M Webber	Non Executive Director
E G Wegener	Non Executive Director

According to the Register of Directors' Interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them, during the year.

Disclosure of information to auditor

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Audit Committee

The Company is a subsidiary of ADHL. The Board of ADHL has constituted an Audit Committee. The Audit Committee is responsible to that Board for satisfying itself that the financial affairs of the Group's companies are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the companies in the Group and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the Company; and to review the need to carry out changes proposed by any internal audits carried out by the shareholders. The Audit Committee is comprised of the Non-Executive Directors appointed by each shareholder and is chaired by the Chairman.

Directors' report *(continued)*

Directors' Liabilities

The directors have the benefit of a qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) as they maintain Directors' and Officers' insurance in respect of the Company and its directors, and the Company has indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties. This insurance and these indemnities were in force throughout the financial year and up to the date of approval of these accounts.

Future Business Developments

The Company's activities are restricted to financing the Project. The Company's borrowings are scheduled to be repaid biannually until 2040, and the Project Agreement provides for service delivery to the Authority by the ADL until April 2041, unless it is terminated in accordance with its provisions. The Company's borrowings are expected to continue to reduce from positive cash flow from the Project.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Section 172(1) Statement including engagement with suppliers, customers and others in a business relationship with the Company

The Strategic Report includes a statement summarising how the Directors have had regard to the matters set out in Section 172(1) sub paragraphs a) to f) of the Companies Act 2006 in coming to decisions by the Company during the year.

Streamlined Energy and Carbon Reporting ("SECR")

The Company is taking the exemption to produce a Streamline Energy and Carbon report as it produces less than 40,000kWh of energy.

By order of the Board

AR McColl
Company Secretary

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD

27 May 2021

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- 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 strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

AR McColl
Finance Director

27 May 2021

Independent auditor's report to the members of Aspire Defence Finance plc

1 Our opinion is unmodified

We have audited the financial statements of Aspire Defence Finance PLC ("the Company") for the year ended 31 December 2020 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cashflows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the directors during the year ended 31 December 2006. The period of total uninterrupted engagement is for the 15 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of intra-group receivables balances

Risk vs 2019: ◄►

£1,386.3 million; 2019: £1,424.3 million)

Refer to page 21-23 (accounting policy) and page 26 (financial disclosures).

Independent auditor's report to the members of Aspire Defence Finance plc *(continued)*

The risk

The carrying amount of the company's intra-group receivables balances, held at amortised cost less impairment represents 99.99% (2019: 99.99%) of the company's total assets.

We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatements or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be the area which will have the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.

Our response

Our procedures included:

- **Tests of detail**: Comparing the carrying amount of the intra-group receivable with the net asset value of Aspire Defence Limited (the intra-group related party), excluding the intra-group liability to Aspire Defence Finance Plc, to identify whether the remaining net asset value of the counterparty, are sufficient to repay the intra-group receivables.
- **Forecast review**: We reviewed Aspire Defence Limited's (the intra-group related party) forecasts, to identify whether it is appropriate to consider it likely that sufficient cash will be generated to allow the repayment of the debt, when it falls due. As part of assessing the forecast cash inflows we have inspected the agreement between Aspire Defence Limited and the Secretary of State for Defence guaranteeing the unitary charge income until 2041, subject to meeting performance requirements, and assessed that the forecast cash flows are in line with our own expectations based on our knowledge of the entity and experience of the industry in which it operates.

We performed the tests above rather than seeking to rely on any of the company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

The results of our testing were satisfactory and we considered the recoverable amount of the intra-group receivables to be acceptable. (2019: acceptable).

We continue to perform procedures over the going concern assumption (which was presented as a key audit matter in the prior year). However, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £12.1 million (2019: £12.1 million), determined with reference to a benchmark of total assets of which it represents 0.87% (2019: 0.85%).

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £9.1 million (2019: £9.1 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.6 million (2019: £0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

Independent auditor's report to the members of Aspire Defence Finance plc *(continued)*

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and/or metrics relevant to debt covenants over this period were:

- Service failure points by Aspire Defence Limited being accrued in excess of the allowable levels in the contract which would cause an event of default under the financing documents.

We also considered less predictable but realistic second order impacts, such as financial failure of either the construction contractor or facilities management contractor for Aspire Defence Limited; which could lead to an event of default under the financing documents.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of Aspire Defence Finance plc *(continued)*

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Independent auditor's report to the members of Aspire Defence Finance plc *(continued)*

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the Strategic report and Directors' report

The directors are responsible for the Strategic report and Directors' report together with the financial statements. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic report and Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on our work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Aspire Defence Finance plc *(continued)*

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

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.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 May 2021

Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Administration expense		**(1)**	-
Financial income	5	**76,333**	78,359
Financial expenses	6	**(76,189)**	(78,212)
Profit before tax		**143**	147
Taxation	7	**(27)**	(27)
Profit for the financial year		**116**	120
Total comprehensive income for the year		**116**	120

All amounts arise from continuing operations.

The notes on pages 19 to 34 form part of these financial statements.

Balance Sheet
at 31 December 2020

	Note	31 December 2020 £000	31 December 2019 £000
Assets			
Non current assets			
Loans due from group undertakings	*8*	**1,328,118**	1,367,224
Current assets			
Loans due from group undertakings	*8*	**39,475**	37,826
Interest on loans due from group undertakings		**18,673**	19,234
Cash at bank and in hand		**193**	199
		58,341	57,259
Total assets		**1,386,459**	1,424,483
Liabilities			
Current liabilities			
Interest bearing loans and borrowings	*9*	**(39,475)**	(37,828)
Current tax liabilities		**(27)**	(28)
Interest accruals on loans and borrowings		**(18,640)**	(19,198)
		(58,142)	(57,054)
Non current liabilities			
Interest bearing loans and borrowings	*9*	**(1,328,150)**	(1,367,259)
Total liabilities		**(1,386,292)**	(1,424,313)
Net assets		**167**	170
Equity			
Issued share capital	*10*	**50**	50
Retained earnings		**117**	120
		167	170

The notes on pages 19 to 34 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 May 2021 and were signed on its behalf by:

AR McColl
Finance Director

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019	50	121	171
Comprehensive income for the year	-	120	120
Dividend	-	(121)	(121)
Balance at 31 December 2019	50	120	170
Comprehensive income for the year	-	116	116
Dividend	-	(119)	(119)
Balance at 31 December 2020	50	117	167

The notes on pages 19 to 34 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2020

	2020 £000	2019 £000
Cash flow from operating activities		
Profit before tax	**143**	147
Adjustments for:		
Financial income	**(76,333)**	(78,359)
Financial expense	**76,189**	78,212
Net cash outflows from operating activities	**(1)**	-
Cash flows from investing activities		
Interest received	**76,235**	78,179
Repayment of loans from fellow subsidiaries	**38,116**	36,481
Tax paid on investing activities	**(28)**	(29)
Net cash inflows from investing activities	**114,323**	114,631
Cash flows from financing activities		
Interest paid	**(76,093)**	(78,034)
Repayment of borrowings	**(38,116)**	(36,481)
Dividends paid	**(119)**	(121)
Net cash outflows from financing activities	**(114,328)**	(114,636)
Net decrease in cash and cash equivalents	**(6)**	(5)
Cash and cash equivalents at the beginning of the year	**199**	204
Cash and cash equivalents at the end of the year	**193**	199

Cash and cash equivalents comprise cash balances and call deposits

The notes on pages 19 to 34 form part of these financial statements.

Notes to the financial statements
(forming part of the financial statements)

1 Accounting policies

(a) Corporate information

The Company is a public company limited by shares, incorporated and domiciled in England, UK, with a registered office in Aspire Business Centre, Ordnance Road, Tidworth, SP9 7QD, England.

(b) Basis of preparation

The Company is a special purpose vehicle formed to act as a financing conduit to raise the debt finance associated with the Project.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides including the impact of Covid-19, the Company will have sufficient funds to meet its liabilities as they fall due for that period and to operate within the covenant ratios specified in the terms of its Bonds.

The Company lent the proceeds raised from the Bonds to ADL on similar terms. Therefore, to meet its liabilities the Company is dependent on ADL generating sufficient cashflows to make debt service payments to the Company. Consequently, in making this assessment the Directors have reviewed the cashflow forecasts for ADL covering a period of at least 12 months from the date of approval of these financial statements. These forecasts also take account of severe but plausible downside scenarios, including the impact of Covid-19 on ADL's operations. Specifically, the Directors have considered if, in downside scenarios, ADL's operational performance would lead to deductions awarded against ADL in accordance with the terms of the Project Agreement sufficient to cause an event of default under either the terms of the Bonds or the Project Agreement. To date, Covid-19 has had no material adverse impact on ADL's cashflows, or the service levels provided, and there has been no indication of heightened risk of subcontractor failure. The cashflow forecasts indicate that, even in downside scenarios, ADL will be able to make all required payments of principal and interest throughout the forecast period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

Impact of new and revised standards

Definition of Material (Amendments to IAS 1 and IAS 8): the new standard has had no impact on the financial statements of the Company.

Standards, amendments and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. These are not mandatory until the period stated and have therefore not been adopted in the current year. Unless otherwise stated, the Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the future financial statements of the Company.

Effective Date	New standards or amendments
To be confirmed	Classification of liabilities as current or non-current (Amendments to IAS 1)
To be confirmed	Annual Improvements to IFRS Standards 2018-2020

(c) Measurement convention

The statutory accounts have been prepared on the historical cost basis.

(d) Accounting estimates and critical judgements

Due to the nature of the Company's business the only key judgement made by the Directors is that the amounts due from fellow subsidiary ADL are recoverable (see Credit risk Note 11).

(e) Interest and ongoing finance charges

Finance income comprises interest income on funds invested. Income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(f) Debt issue costs

Costs arising in connection with the arrangement of loan finance are offset against the carrying value of the loan and are amortised through profit and loss over the period of the loan on the effective interest rate method. The costs are fully recovered from ADL so an equal and opposite receivable and interest income is shown in the statement of financial position and profit or loss respectively.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

(g) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

There are no temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, therefore no deferred tax has occurred.

(h) Financial Instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets
(a) Classification
On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. All the Company's financial assets are measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

(h) Financial Instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(b) Subsequent measurement and gains and losses
Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities at amortised cost - These liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit and loss.

(iii) Impairment

The company recognises loss allowances for expected credit losses ("ECLs" or "ECL") on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than an agreed period of days past due

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

(h) Financial Instruments (continued)

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2 Audit fees

	2020	2019
	£000	£000
Auditor's remuneration – audit of the statutory financial statements	**18**	17

One consolidated audit fee is paid by a fellow subsidiary company in respect of the audit of the Group.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

3 Remuneration of Directors

The Chief Executive and the Finance Director are employed by ADL and are remunerated by that company for their services to the Group as a whole. The Chairman is also remunerated by ADL for services to the Group as a whole.

	2020	2019
	£000	£000
Portion attributable to services provided to the Company	**32**	33

The other Directors of the Company are employed by either KBR, Inc. or Innisfree Limited or InfraRed Capital Partners Limited or a subsidiary thereof and are remunerated by subsidiary companies of the respective groups for their services to each group as a whole. They receive no emoluments in respect of services provided to the Company. Charges are made by the parent company's shareholder groups for the services of the Directors, these are paid by ADL.

	2020	2019
	Non-Executive	Non-Executive
	£'000	£'000
Kellogg Brown & Root Ltd	**5**	4
Innisfree Limited	**5**	4
InfraRed Capital Partners Ltd	**3**	3
	13	11

The Company's immediate and ultimate parent undertaking is ADHL, which in turn is owned is owned 45% by KBR (UK) Investments Limited, 37.5% by Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, 12.5% by Infrastructure Investment Holdings Limited and 5% by InfraRed Infrastructure Yield Holdings Limited. The ultimate parent company of KBR (UK) Investments Limited and Kellogg Brown & Root Limited is KBR, Inc (also see Note 12).

4 Employees

The Company has no employees *(2019: Nil).*

5 Financial income

	2020	2019
	£000	£000
Interest on amounts owing from ADL	**76,333**	78,359

Notes to the financial statements *(continued)*

(forming part of the financial statements)

6 Financial expenses

	2020 £000	2019 £000
Interest payable on guaranteed secured bonds	**63,342**	65,021
Interest payable on loan notes	**12,847**	13,191
	76,189	78,212

7 Taxation

Analysis of charge in year: -	2020 £000	2019 £000
UK corporation tax		
Current tax on income for the year	**27**	28
Tax on profit	**27**	28

There is no unprovided deferred tax.

Factors affecting the tax charge for the current year: -

The differences between the tax charge for the year and the effective statutory rate of corporation tax for the year of 19.0% *(2019: 19%)* are explained below.

	2020 £000	2019 £000
Current tax reconciliation		
Profit before tax	**143**	147
Current tax at 19.0% *(2019: 19%)*	**27**	28
Total tax charge	**27**	28

The March 2021 Budget announced that a rate of 25% would apply with effect from 1 April 2023. This will increase the company's future tax charge accordingly.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

8 Loans due from group undertakings

	2020 £000	2019 £000
Non-current assets		
Senior On- Loan	**1,226,618**	1,262,319
Junior On-Loan	**101,500**	104,905
	1,328,118	1,367,224
Current assets		
Senior On- Loan	**36,082**	34,808
Junior On-Loan	**3,390**	3,018
	39,472	37,826

There have been no impairment write-downs during the year *(2019: £nil)*.

Loans due from group undertakings are advances of the net bond proceeds (the "Senior On-Loan"), the share subscription and shareholder loan notes proceeds (the "Junior On-loan") to ADL, a fellow subsidiary, for the purpose of financing the project company. The advances are made on an arm's length basis. Interest accruing on the Senior On-Loan is payable at the bond coupon rate plus 1 basis point (4.684%) plus the reimbursement of any ongoing finance fees incurred by the company. Interest accruing on the Junior On-Loan is payable at LIBOR plus 100 bps on the share subscription proceeds (effective rate 1.34% *(2019: 1.85%)* during the year) and at the coupon rate plus 1 basis point on the shareholder loan notes (12.01%).

Payments of interest and principal are timed to coincide with the Company's obligations at each payment date in March and September.

9 Interest bearing loans and borrowings

	2020 £000	2019 £000
Non-current liabilities		
Guaranteed secured bonds	**1,226,626**	1,262,328
Loan notes	**101,524**	104,931
	1,328,150	1,367,259
Current liabilities		
Guaranteed secured bonds	**36,082**	34,808
Loan notes	**3,393**	3,020
	39,475	37,828

Notes to the financial statements *(continued)*
(forming part of the financial statements)

9 Interest bearing loans and borrowings *(continued)*

On 6 April 2006, the Company issued £884m 4.674% Series A Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series A Variation Bonds), and £884m 4.674% Series B Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series B Variation Bonds). The principal is repayable on a scheduled basis from 2014 to 2040 and interest is payable half yearly in March and September.

The Company retained £230m Authority Variation Bonds and £75m Rescue Variation Bonds which it could have later sold, subject to certain restrictions, to finance change and certain contingencies. The £230m Authority Variation Bonds and the £75m Rescue Variation Bonds were cancelled in 2014 and 2015 respectively. Accordingly, no Series A or Series B Variation Bonds remain in issue.

The Bonds are secured by first priority charges over the whole of the Company's undertaking, property and assets, and those of its parent, ADHL, and its fellow subsidiary, ADL. In addition, the Series A and Series B bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by Ambac Assurance UK Limited and Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc) respectively.

On 6 April 2006 the Company entered into a Loan Note Subscription Agreement and subsequently Deeds of Accession and Adherence thereto pursuant to which the loan note holders agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. The loan note subscription obligation has now been fully satisfied. Interest is payable half yearly in March and September and capital is repayable on a scheduled basis between 2015 and 2034, subject to the achievement of certain financial tests. The loan notes are subordinate to the Bond financing.

Changes in liabilities resulting from financing activities

	2019	Cashflows	Non-cash movements	2020
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1 year	(37,828)	38,116	(39,763)	(39,475)
Interest bearing loans and borrowings greater than 1 year	(1,367,259)	-	39,109	(1,328,150)
Interest accrual	(19,198)	76,047	(75,489)	(18,640)
	(1,424,285)	114,163	(76,143)	(1,386,265)

	2018	Cashflows	Non-cash movements	2019
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1 year	(36,194)	36,481	(38,115)	(37,828)
Interest bearing loans and borrowings greater than 1 year	(1,404,709)	-	37,450	(1,367,259)
Interest accrual	(19,684)	78,015	(77,529)	(19,198)
	(1,460,587)	114,496	(78,194)	(1,424,285)

Non-cash movements represent the interest payable measured under the effective interest method and reallocation of the amounts due within one year from greater than one year for presentational purposes.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

10 Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	**50**	50

11 Financial instruments

The Company's principal financial instruments comprise short term bank deposits, guaranteed secured bonds, and the on-loan of the bond proceeds, junior debt and equity to the project company, ADL. The objective of the Company's financial instruments is to provide sufficient financial resources to fund the operating requirements of the project company, ADL, whilst ensuring that the Company's own cash flows are efficiently tailored to meet its debt service obligations.

Nature and extent of risks arising from financial instruments

The Company's authorised investments are defined in its collateral deed. The deed sets out for each category of permitted investment the parameters for the management of risks. Where the Company seeks to deviate from the stated parameters Board and controlling creditor approval must be obtained.

The Company's activities expose it to a variety of financial risks:
- Credit risk
- Liquidity risk
- Market risk

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability so to do is restricted by covenants in its existing funding agreements

Exposure to credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. The Company has an intercompany balance outstanding from fellow subsidiary, ADL. ADL's income, which is earned from the Project Agreement with the Authority has been structured to meet its repayments to the Company.

The Company has no historical experience of counterparty default.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020 £000	2019 £000
Cash at bank and in hand	**193**	199
Amounts due from fellow subsidiary undertakings	**1,367,590**	1,405,050
	1,367,783	1,405,249

Notes to the financial statements *(continued)*
(forming part of the financial statements)

11 Financial instruments (continued)

The ageing of financial assets at the reporting date was:

	2020 £000	2019 £000
Due within one year	**39,472**	37,826
Due after one year	**1,328,118**	1,367,224
	1,367,590	1,405,050

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company ensures that it has adequate cash resources and borrowing arrangements at all times, to have the level of funds available which are necessary for the achievement of its business. A significant proportion of the Company's financial obligations consist of the Senior and Junior borrowings.

The Directors are satisfied that the Authority will be able to fulfil its obligations under the Project Agreement to the project company, ADL. They are therefore also content that ADL will make the scheduled payments required under the senior and junior on-loan agreements so that the Company can meet its own debt service obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2020	Carrying Amount £000	Contractual Cash flows £000	Less than One year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Accruals	18,052	18,052	18,052	-	-	-
Series A Bond	631,354	1,019,686	48,870	48,555	141,417	780,844
Series B Bond	631,354	1,019,686	48,870	48,555	141,417	780,844
Loan notes	104,917	214,850	15,903	15,904	47,720	135,323
	1,385,677	2,272,274	131,695	113,014	330,554	1,697,011

31 December 2019	Carrying Amount £000	Contractual Cash flows £000	Less than One year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Accruals	18,586	18,586	18,586	-	-	-
Series A Bond	648,568	1,068,781	49,095	48,870	143,683	827,133
Series B Bond	648,568	1,068,781	49,095	48,870	143,683	827,133
Loan notes	107,951	230,752	15,903	15,903	47,715	151,231
	1,423,673	2,386,900	132,679	113,643	335,081	1,805,497

Notes to the financial statements *(continued)*
(forming part of the financial statements)

11 Financial instruments *(continued)*

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The interest rate for the on-loan to ADL is fixed for the term of the loan.

The interest rate for the Bonds and loan notes is fixed for the terms of the loans.

At the reporting date the interest rate profile of interest bearing financial instruments was:

	2020	2019
	£000	£000
Fixed rate instruments		
Financial assets	**1,367,540**	1,405,000
Financial liabilities	**(1,367,625)**	(1,405,087)
	(85)	(87)
Variable rate instruments		
Financial assets	**243**	249

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through the profit or loss or available for sale with fixed interest rates. The analysis is performed on the same basis for 2019.

	Profit or loss		**Equity**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2020	**£000**	**£000**	**£000**	**£000**
Variable rate instruments	2	(2)	2	(2)
Cash flow sensitivity	2	(2)	2	(2)

Notes to the financial statements *(continued)*
(forming part of the financial statements)

11 Financial instruments *(continued)*

	Profit or loss		Equity	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2019	**£000**	**£000**	**£000**	**£000**
Variable rate instruments	2	(2)	2	(2)
Cash flow sensitivity	2	(2)	2	(2)

Price and foreign exchange risk

The Company does not invest in instruments such as equity shares and does not have financial assets or liabilities denominated in foreign currencies. Therefore, the Company has no exposure to these risks.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2020 Carrying Amount £000	**2020 Fair Value £000**	2019 Carrying Amount £000	2019 Fair Value £000
Cash at bank and in hand	**193**	**193**	199	199
Accrued income	**18,087**	**18,087**	18,623	18,623
Senior on-loan	**1,262,700**	**1,764,469**	1,297,127	1,704,091
Junior on-loan	**104,841**	**129,575**	107,872	129,421
Junior on-loan	**50**	**50**	50	50
Accruals	**(18,052)**	**(18,052)**	(18,586)	(18,586)
Series A bonds	**(631,354)**	**(881,528)**	(648,568)	(849,156)
Series B bonds	**(631,354)**	**(881,528)**	(648,568)	(853,490)
Loan notes	**(104,917)**	**(129,632)**	(107,951)	(129,481)
	194	**1,634**	198	1,671

Notes to the financial statements *(continued)*
(forming part of the financial statements)

11 Financial instruments *(continued)*

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

For payables and receivables with a remaining life of one year or less and floating rate payables, the carrying amount is deemed to reflect the fair value. The Series A and Series B fair values were measured at the reporting date using published market prices. The fair values of the on-loans and the loan notes are estimated using the bond fair values as a guide to the market price.

Fair value hierarchy

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable)

31 December 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at amortised cost				
Amounts due from fellow subsidiaries	-	1,894,094	-	1,894,094
Total financial assets	-	1,894,094	-	1,894,094
Financial liabilities				
Interest bearing loans and borrowings	(1,763,057)	(129,632)	-	(1,892,689)
Other payables	-	(18,052)	-	(18,052)
Total financial liabilities	(1,763,057)	(147,684)	-	(1,910,741)
Total financial instruments	(1,763,057)	1,746,410	-	(16,647)

Notes to the financial statements *(continued)*
(forming part of the financial statements)

11 Financial instruments *(continued)*

31 December 2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at amortised cost				
Amounts due from fellow subsidiaries	-	1,833,562	-	1,833,562
Total financial assets	-	1,833,562	-	1,833,562
Financial liabilities				
Interest bearing loans and borrowings	(1,702,646)	(129,481)	-	(1,832,127)
Other payables	-	(18,586)	-	(18,586)
Total financial liabilities	(1,702,646)	(148,067)	-	(1,850,713)
Total financial instruments	(1,702,646)	1,685,495	-	(17,151)

12 Related party disclosures

The Company entered into the following material transaction with related parties (see Note 3):

On 6 April 2006 the Company entered into a Loan Note Subscription Agreement pursuant to which (as amended by subsequent Deeds of Accession and Adherence) KBR (UK) Investments Limited, InfraRed Infrastructure Yield Holdings Limited, Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, and Infrastructure Investments General Partner Limited (in its capacity as general partner of Infrastructure Investments Limited Partnership) agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. Proceeds from the Loan Note subscriptions were lent to Aspire Defence Ltd at a margin of 1 basis point. All subscription obligations have now been fulfilled.

The interest paid to the loan note holders during the year and outstanding balances at the year-end were as follows:

	2020 Balance outstanding £000	**2020 Accrued interest £000**	**2020 Interest paid £000**	2019 Balance outstanding £000	2019 Accrued interest £000	2019 Interest paid £000
KBR (UK) Investments Limited	**47,371**	**1,433**	**5,824**	48,734	1,474	5,958
Innisfree Nominees Limited*	**39,476**	**1,194**	**4,854**	40,612	1,228	4,965
Infrastructure Investments General Partner Limited**	**13,159**	**398**	**1,618**	13,537	409	1,655
InfraRed Infrastructure Yield Holdings Limited	**5,263**	**159**	**647**	5,415	164	662
	105,269	**3,184**	**12,943**	108,298	3,275	13,240

*as nominee for and on behalf of Innisfree PFI Secondary Fund

** in its capacity as general partner of Infrastructure Investments Limited Partnership

Notes to the financial statements *(continued)*
(forming part of the financial statements)

13 Post Balance Sheet Event

There are no adjusting post balance sheet events.

14 Immediate parent undertaking

The Company's immediate and ultimate parent undertaking is Aspire Defence Holdings Limited, whose registered office is Aspire Business Centre, Ordnance Road, Tidworth, England, SP9 7QD.

The only group in which the financial statements of the Company are consolidated is that headed by Aspire Defence Holdings Limited. The consolidated financial statements of that group may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff.