

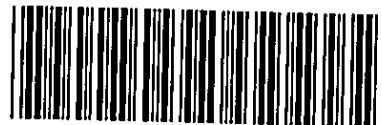
Company Registration No. 6261520

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2008

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**TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008**

The directors have pleasure in presenting their annual report together with the audited financial statements and auditor's report for the year ended 31 December 2008.

Principal Activities and Business Review

On 13 December 2007, the Company entered into a Private Finance Initiative (PFI) concession contract with Knowsley Metropolitan Borough Council to design, build, finance and provide services within seven secondary schools. The concession contract finishes on 31 August 2034.

No change in the Company's activities is anticipated.

Results and Dividends

The profit for the year after taxation was £243,000 (2007: £8,000 loss). The directors do not propose to pay any dividend in respect of the year ended 31 December 2008 (2007: £Nil). The directors expect the Company to continue its operations for the foreseeable future.

Key performance indicators

The key performance indicators during the construction and operational stage are:

- schools become available on the scheduled date; and
- the net cash flow is in line with (or better) than forecast.

As at 31 December 2008, the net cash outflow before financing was £98.6m, compared to a forecast value of £98.9m. The variance is due to a timing difference which is expected to reverse over the course of construction.

Financial Risk Management

The financial risks which the Group is exposed to are credit risk, interest rate risk and liquidity risk.

Credit risk

The Group's credit risk is primarily attributable to its trade and construction work in progress receivables, each of which arise from its primary client, Knowsley Metropolitan Borough Council. The credit and cashflow 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. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2007 and 2034 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings, with an amortisation profile that matches the expected availability of funds from the Company's operating activities.

**TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

Contractual relationships

The Company operates within a contractual relationship with its primary customer, Knowsley Metropolitan Borough Council. To manage this relationship the Company has regular meetings with the Council, including discussions on performance, project process, future plans and customer requirements. In accordance with the Project Agreement, the Company is responsible for constructing and providing services within the schools.

Supplier payment policy

The Company's policy is to pay suppliers thirty days from the date of receipt of the supplier's agreed invoice, unless otherwise contractually agreed, and this policy is made known to all suppliers on request. The number of suppliers' days outstanding at the end of the financial period was 3 days (2007: Nil).

Directors

The following persons were directors of the Company during the year, except as noted :-

C.L. Spencer

M.M.B. Ross

I F Appuhamy (Resigned 17 Jan 2008)

H.M. Wills (Appointed 17 January 2008)

Since the end of the year:-

C.L. Spencer (Resigned 3 June 2009)

K.V. Walker (Appointed 23 June 2009)

Provision of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

Deloitte LLP have been appointed as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Registered Office

The Company's Registered Office is 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX.

By Order of the Board,



H.M. Wills
Director

23 June 2009

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

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 that period. 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;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and Group 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 1985. 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.

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) LTD

We have audited the financial statements of Transform Schools (Knowsley) Limited for the year ended 31 December 2008, which comprise the Profit and Loss Account, the Balance Sheet and the related Notes numbered 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

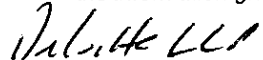
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors

London

23 June 2009

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

		2008	2007
	Notes	£'000	£'000
Turnover	2	20,567	-
Cost of sales		(20,525)	-
Gross profit		<u>42</u>	<u>-</u>
Net operating expenses		<u>(5)</u>	<u>(11)</u>
Operating profit/(loss)	3	37	(11)
Finance costs (net)	4	303	-
Profit/(loss) on ordinary activities before taxation		<u>340</u>	<u>(11)</u>
Tax on profit on ordinary activities	5	<u>(97)</u>	<u>3</u>
Retained profit/(loss) on ordinary activities after taxation for the financial year/period	13	<u><u>243</u></u>	<u><u>(8)</u></u>

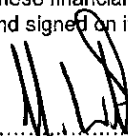
All the Company's activities were derived from continuing operations in the United Kingdom.

There were no recognised gains or losses for the current year other than those stated in the profit and loss account above; consequently no statement of total recognised gains and losses is presented.

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
BALANCE SHEET
AT 31 DECEMBER 2008

		2008	2007
	Notes	£'000	£'000
Current assets			
Construction work in progress	7	81,282	25,509
Debtors - due within one year	8	5,334	4,506
Debtors - FRS 5 Finance Debtor due within one year	9	5,937	-
Cash at bank and in hand		389	2,785
		<u>92,942</u>	<u>32,800</u>
 Debtors - FRS 5 Finance Debtor due after more than one year	 9	 13,700	 -
Current liabilities			
Creditors: amounts falling due within one year	10	(7,370)	(1,867)
Net current assets		<u>99,272</u>	<u>30,933</u>
Total assets less current liabilities		99,272	30,933
 Creditors: amounts falling due after more than one year	 11	 (98,987)	 (30,891)
Net assets		<u>285</u>	<u>42</u>
 Capital and reserves			
Called-up share capital	12	50	50
Profit and loss account	13	235	(8)
Shareholders' funds	14	<u>285</u>	<u>42</u>

These financial statements were approved by the Board of Directors on 23 June 2009 and signed on its behalf by :-



 H.M. Willis
 Director

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1 Accounting policies

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout the current year and preceding period, is set out below:

a) Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards and under the historical cost convention. They include the result of the activities described in the directors' report, all of which are continuing.

The current economic conditions create some general uncertainty. The directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the council to continue to pay unitary fees due under the concession contract to the Group and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

b) Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard No.1 (Revised) 1996 to prepare a cash flow statement as it is a wholly-owned subsidiary of Transform Schools (Knowsley) Holdings Limited, which prepares consolidated financial statements that include a cash flow statement and are publicly available.

c) Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

d) Construction Work In Progress

The directly attributable costs of construction work in schools not complete at the balance sheet date are held as construction work in progress.

e) Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if they are not included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated over the term of the instrument.

f) Finance costs

Finance costs are capitalised during the construction phase of the contract, and will be amortised over the period of the concession. The finance costs on the debt are recognised at a constant rate in accordance with the value of the debt.

g) Derivative financial instruments

The company uses derivative financial instruments to manage its exposure to changes in interest rates. These transactions are accounted for on an accruals basis. The Company does not hold or issue derivative financial instruments for speculative purposes.

In order to hedge against interest rate variations on the loans the Company has entered into an interest rate swap agreement whereby the Company has agreed to exchange at monthly intervals with its bankers sums reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount. The fair value of the interest rate swaps at 31 December 2008 was a liability of £30,068,541 (2007: £5,079,796). Market value has been used to determine the fair value.

h) FRS 5 Finance Debtor

The FRS 5 Finance Debtor recorded is equal to the amounts due for the fair value of the property. The FRS 5 Finance Debtor is reduced in subsequent years as payments are received. Revenues received from Knowsley Metropolitan Borough Council are apportioned between capital repayments and operating revenue. The "finance income" element of the capital repayment is recorded using a property-specific rate and is shown within interest receivable. The remaining payments, being the full amounts received less the capital repayment, are recorded within operating profit.

i) Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided in the year.

It has been determined in accordance with FRS 5 Application Note F "Private Finance Initiative and Similar Contracts" that the balance of risks and rewards derived from the underlying asset is not borne by the Company. Accordingly, when construction is complete, the asset created under the contract will be accounted for as an FRS 5 finance debtor.

2 Turnover

	2008	2007
Turnover by origin and destination from the companies principal activity:	£'000	£'000
United Kingdom	20,567	-

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

3 Operating profit

	2008 £'000	2007 £'000
Operating profit is stated after charging:		
Auditors' remuneration for the audit of company's annual accounts	<u>12</u>	<u>9</u>

The audit fee for the Group was borne by Transform Schools (Knowsley) Limited in the current year and amounted to £14,000. Of this £12,000 is attributable to the Company.

The directors received no salary, fees or other benefits from the Company in the performance of their duties in either the current year or preceding period. The Company has no employees in the current year or preceding period. All costs of the directors and other staff are borne by the shareholders of the ultimate parent companies, who second their employees to the Company.

4 Finance costs (net)

	2008 £'000	2007 £'000
Bank interest receivable	47	1
Interest receivable on financial asset	<u>321</u>	
Interest receivable and similar income	<u>368</u>	<u>1</u>
Interest and fees payable on secured senior loan	<u>(3,865)</u>	<u>(122)</u>
Interest payable and similar charges	<u>(3,865)</u>	<u>(122)</u>
Less: amounts capitalised	3,800	121
Finance costs (net)	<u>303</u>	<u>-</u>

5 Taxation

	2008 £'000	2007 £'000
Current tax	(97)	3
Deferred tax	<u>(97)</u>	<u>-</u>
	<u>(97)</u>	<u>3</u>
Tax reconciliation:		
Profit/(loss) on ordinary activities before taxation	<u>340</u>	<u>(11)</u>
(Profit)/loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%(2007: 30%)	(96)	3
Effects of:		
Corporation Tax @ 30%	(2)	-
Current tax charge for the year/period	<u>(97)</u>	<u>3</u>

6 Dividends

No dividends are paid or payable.

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

7 Construction work in progress	2008	2007
	£'000	£'000
At 1 January	25,509	-
Interest payable and other financing costs	3,799	121
Construction and related costs	71,293	25,388
Transferred to financial asset	(19,318)	-
At 31 December	<u>81,282</u>	<u>25,509</u>
8 Debtors - due within one year	2008	2007
	£'000	£'000
Trade debtors	1,830	-
VAT debtor	2,236	4,489
Prepayments	1,101	14
Accrued Income	387	-
Deferred tax	-	3
	<u>5,334</u>	<u>4,506</u>
9 Debtors - FRS 5 Finance Debtors	2008	2007
	£'000	£'000
At 1 January	-	-
Transferred from construction work in progress	19,319	-
Less: council income received in the year / period	(3)	-
Add: interest Income accruing	321	-
At 31 December	<u>19,837</u>	<u>-</u>
Included in the financial asset is an amount of £13,700 (2007: £Nil) due after more than one year.		
10 Creditors - due within one year	2008	2007
	£'000	£'000
Trade creditors	258	985
Accruals	7,018	882
Corporation tax payable	94	-
	<u>7,370</u>	<u>1,867</u>
11 Creditors - due after more than one year	2008	2007
	£'000	£'000
Borrowings:		
Construction loan	88,800	18,790
Equity Bridge loan	15,209	15,209
Less arrangement fees	(3,022)	(3,108)
	<u>98,987</u>	<u>30,891</u>

The secured senior loans represent amounts borrowed by the Company under facility agreements with banks. The loans bear interest at a margin over LIBOR and are repayable in instalments between 2010 and 2034. The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Company, and have certain covenants attached.

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

11 Creditors - due after more than one year (continued)	2008	2007
Borrowings are repayable in the following periods:	£'000	£'000
Between one and two years	18,382	
Between two and five years	13,869	27,588
After five years	69,758	6,411
Less arrangement fees	(3,022)	(3,108)
	<u>98,987</u>	<u>30,891</u>
12 Called up share capital	2008	2007
	£'000	£'000
<i>Authorised, issued and fully paid share capital</i>		
50,100 Ordinary Shares of £1 each	50	50
	<u>50</u>	<u>50</u>
13 Profit and loss account	2008	2007
	£'000	£'000
<u>Profit and loss account</u>		
At 1 January	(8)	
Profit for the year/period	243	(8)
At 31 December	<u>235</u>	<u>(8)</u>
14 Reconciliation of movements in shareholders' funds	2008	2007
	£'000	£'000
Opening shareholders' funds	42	
Shares issued in the period		50
Profit for the year/period	243	(8)
Closing shareholders' funds	<u>285</u>	<u>42</u>
15 Capital commitments	2008	2007
	£'000	£'000
Contracted but not provided for	<u>73,605</u>	<u>144,607</u>

16 Ultimate parent undertaking and controlling party

The Company is a subsidiary of Transform Schools (Knowsley) Holdings Limited, which is incorporated in Great Britain and registered in England and Wales. 100 ordinary shares are held by Transform Schools (Knowsley) Intermediate Limited, which is incorporated in Great Britain and registered in England and Wales, on trust for Transform Schools (Knowsley) Holdings Limited. The ultimate controlling party is Balfour Beatty PLC.

The only company in which the result of Transform Schools (Knowsley) Limited are consolidated is Transform Schools (Knowsley) Holdings Limited. Copies of the financial statements are available from the registered office at 6th Floor, 350 Euston Road, Regent's Place, London NW1 3AX.

17 Related party transactions

As a wholly-owned subsidiary of Transform Schools (Knowsley) Holdings Limited, the company has taken advantage of the exemption in FRS 6 'Related party disclosures' from disclosing related party transactions with other group companies within these financial statements.