Company Registration No 6261520

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors have pleasure in presenting their annual report together with the audited financial statements of Transform Schools (Knowsley) Limited ('the Company') and auditor's report for the year ended 31 December 2010

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 ('the Council') to design, build, finance and provide services within seven secondary schools The concession contract finishes on 31 August 2034

The Directors do not expect any significant change in the Company's activities in the following financial year However, on 18 May 2011, a variation to the original concession contract was finalised and this will provide the Council with a Special Educational Needs Facility until 31 August 2034

Results and Dividends

The results for the year are set out on Page 6 The loss for the year after taxation amounted to £21,000 (2009 profit £321 000) The Directors do not propose to pay any dividend in respect of the period ended 31 December 2010 (2009 £Nil)

Key performance indicators

The key performance indicators for the Company are

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

As at 31 December 2010 the construction programme was complete, with minor works outstanding

As at 31 December 2010, the net cash outflow before financing was £150 6m, compared to a forecast value of £151 7m The variance is due to a timing difference which is expected to reverse over the course of the project

Going Concern

The Directors believe that future economic benefits will cover the obligations that arose from the financing of the construction of the project for the Council

The Directors have also considered the ability of the Council to continue to pay the unitary fees, due under the concession contract, to the Company and do not consider this to be a material risk The Company's forecasts and projections, taking into account reasonable counterparty performance, show the Company 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 Company has adequate resources to continue to operate for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing their annual report and financial statements

Financial Risk Management

The financial risks which the Company is exposed to are Credit risk, Interest rate risk, Liquidity risk and Contractual relationships

Credit risk
The Company's credit risk is primarily attributable to it's trade receivables, each of which arise from it's sole client, Knowsley Metropolitan Borough Council The credit and cash flow risks are not considered significant as the client is a local government 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 Group's liquidity risk is principally managed through financing the Group by means of long term borrowings, with an amortisation profile that matches the expected availability of funds from the Group's operating activities In addition the Group maintain reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements

Contractual relationships

The Company operates within a contractual relationship with its primary customer, Knowsley Metropolitan Borough Council Impairment of this relationship could have an impact upon the Company and lead to a breach of contract Consequently, to manage this risk, the Company has regular meetings with the Council, including discussions on performance project processes, future plans and customer requirements In accordance with the Concession Agreement, the Company is responsible for constructing and providing services within the schools, which if not provided could have a detrimental impact upon the Company

Supplier payment policy

The Company's policy is to pay suppliers 30 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 Trade Creditors of the Company at 31 December 2010 were equivalent to 36 days purchases (2009 5 days)

Directors

The following persons were Directors of the Company during the year

M M B Ross	(Resigned 1 October 2010)
G L Buckley	(Appointed 1 October 2010)
K V Walker	
H M Wills	

Directors' Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which remain in force at the date of this report

Political and Charitable Contributions

The Company made no charitable or political contributions during the year (2009 £Nil)

Directors' Share Interests

No Director had any interest in the issued share capital of the Company at 31 December 2010 (2009 £Nil)

Registered Office

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

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
DIRECTORS' RESPONSIBILITIES STATEMENT

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) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing 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 will continue in business

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

Provision of Information to Auditors

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

(i) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(ii) the Director has taken all steps that he/she ought to have taken as a Director in order to make themselves 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 s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an AGM

By Order of the Board,

G L Buckley
Director

24 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

We have audited the financial statements of Transform Schools (Knowsley) Limited for the year ended 31 December 2010, which comprise the Profit and Loss Account, the Balance Sheet and the related Notes numbered 1 to 18 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Boards' (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of the Company's result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew Kelly 24 June 2011

Andrew J Kelly (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010	2009
		£'000	£'000
Turnover	2	**20,707**	157,946
Cost of sales		**(18,917)**	(157,246)
Gross profit		**1,790**	700
Admin expenses		**(1,607)**	(675)
Operating profit	3	**183**	25
Finance costs (net)	4	**(212)**	421
Profit on ordinary activities before taxation		**(29)**	446
Tax on profit on ordinary activities	5	**8**	(125)
Profit on ordinary activities after taxation		**(21)**	321

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

There were no recognised gains or losses for the current and preceding 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 2010

Company Registration No 6261520

	Notes	2010 £'000	2009 £'000
Current assets			
Investments	6	**9,350**	1,000
Construction work in progress	7	**-**	6,957
Debtors - due within one year	8	**545**	6,306
Debtors - FRS 5 finance debtor due within one year	9	**16,311**	15,018
Cash at bank and in hand		**457**	616
		26,663	29,897
Debtors - FRS 5 finance debtor due after more than one year	9	**158,453**	150,572
Current liabilities			
Creditors amounts falling due within one year	10	**(11,901)**	(23,783)
Net current assets		**173,215**	156,686
Total assets less current liabilities		**173,215**	156,686
Creditors amounts falling due after more than one year			
Borrowings	11	**(172,630)**	(156,080)
Net assets		**585**	606
Capital and reserves			
Called-up share capital	12	**50**	50
Profit and loss account	13	**535**	556
Shareholders' funds	14	**585**	606

These financial statements were approved by the Board of Directors on 24 June 2011 and signed on its behalf by

G L Buckley
Director

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 year is set out below

a) Basis of preparation
The financial statements have been prepared in accordance with applicable law and United Kingdom 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

b) Going concern
The current economic conditions create some general uncertainty The Directors have reviewed the Companys 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 Company and do not consider this to be a material risk The Company's forecasts and projections, taking account of reasonable counterparty performance, show the Company 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 Company has adequate resources to continue to operate for the foreseeable future Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements

c) 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

d) 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

e) Construction work in progress
All construction costs including the capitalised interest on finance up to the date of commission and incidental costs are recorded as construction work in progress

f) Capital instruments
Finance costs in relation to bank loans are recognised at a constant rate in accordance with the carrying value of those loans Bank loans are initially stated at the amount of the net proceeds after deduction of arrangement fees The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the same

g) 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

h) 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 Finance costs are expensed during the operational stage

i) 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 interest rate swap agreements whereby the Company has agreed to exchange at agreed 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 2010 was a liability of £25 696 170 (2009 £17 765 258) Market value has been used to determine the fair value

j) 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 shown within interest receivable The remaining payments being the full amounts received less the capital repayment and the imputed finance charge, are recorded within operating profit

k) 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 the asset created under the contract is accounted for as an FRS 5 finance debtor

l) Liquid resources
Liquid resources comprises current asset investments held as readily disposable investments They are readily convertible into known amounts of cash at, or close to, their carrying value The investments are carried at cost or net realisable value Net realisable value is based on mid-market price

m) Bank debt policy
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

2 Turnover

	2010	2009
Turnover by origin and destination from the Company's principal activity	£'000	£'000
United Kingdom	20,707	157,946

3 Operating profit

	2010	2009
Operating profit is stated after charging	£'000	£'000
Fees for tax compliance (not paid to Deloitte LLP)	6	6
Auditors remuneration for the Company's annual accounts	14	15

The Directors received no salary, fees or other benefits from the Company in respect of the performance of their duties in either the current year or prior year The Company had no employees in the current or preceding year All costs of the Directors and other staff are borne by Balfour Beatty Capital Limited, who second their employees to the Company

4 Finance costs (net)

	2010	2009
	£'000	£'000
Bank interest receivable	16	7
Interest receivable on FRS5 finance debtor	11,310	4 593
Interest receivable and similar income	11,326	4 600
Interest and fees payable on secured senior loan	(2,534)	(2,365)
Interest rate swap	(7,325)	(6,578)
Interest on Subordinated debt	(1,648)	-
Amortisation of loan arrangement fees	(182)	(175)
Interest payable and similar charges	(11,689)	(9 118)
Less amounts capitalised	151	4 939
Finance costs (net)	(212)	421

5 Taxation

	2010	2009
The tax charge is based on the (loss) / profit for the period at a taxation rate of 28% (2009 28%)	£'000	£'000
Current tax	8	(125)
	8	(125)
Tax reconciliation		
(Loss) / Profit on ordinary activities before taxation	(29)	446
(Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	8	(125)
Current tax charge for the year	8	(125)

6 Investments

	2010	2009
	£'000	£'000
Short-term deposits	9,350	1,000
Shown as		
Current asset	9,350	1,000
	9,350	1,000

Investments held as current assets represent amounts held on deposit with a financial institution which are not available for withdrawal without penalty in under 24 hours

7 Construction work in progress

	2010 £'000	2009 £'000
At 1 January	6,957	81 282
Interest payable and other financing costs	151	4,939
Construction and related costs	6,021	68 397
Transferred to FRS 5 finance debtor	(13,129)	(147,661)
At 31 December	-	6 957

8 Debtors - due within one year

	2010 £'000	2009 £'000
Trade debtors	270	5 587
VAT debtor	-	223
Corporation tax debtor	142	-
Prepayments	9	465
Accrued income	124	31
	545	6 306

9 Debtors - FRS 5 finance debtor

	2010 £'000	2009 £'000
At 1 January	165,590	19,637
Transferred from construction work in progress	13,129	147 661
Variations	61	-
Less council income received in the year	(15,326)	(6,301)
Add interest income accruing	11,310	4 593
At 31 December	174,764	165,590

Included in the FRS5 finance debtor is an amount of £158 453 000 (2009 £150 572 000) due after more than one year Included in the above debtor is an amount of £8 997 000 (2009 £8 844 000) which relates to Capital Interest

10 Creditors - due within one year

	2010 £ 000	2009 £'000
Trade creditors	883	1 118
Construction creditor	-	1,923
Accruals	2,648	2 228
Senior secured loan	4,487	3 173
Subordinated debt	237	-
Accrued interest	2,968	98
VAT liability	678	-
Equity bridge loan	-	15 209
Corporation tax payable	-	34
	11,901	23 783

11 Creditors - due after more than one year

	2010 £'000	2009 £ 000
Borrowings		
Construction loan	160,550	158 927
Subordinated debt	14,715	-
Less arrangement fees	(2,635)	(2,847)
	172,630	156 080

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

The secured subordinated loan stock has been subscribed by the parent company, Transform Schools (Knowsley) Holdings Limited The loan stock bears interest at a rate of 10 0% above RPIx, and is repayable in instalments between 2010 and 2034 It is secured by second fixed and floating charges over the undertaking property assets and rights of the Company

11 Creditors - due after more than one year (continued)

Borrowings are repayable in the following periods	2010 £'000	2009 £'000
Between one and two years	4,981	4,487
Between two and five years	15,797	14 204
After five years	154,487	140,236
Less arrangement fees	(2,635)	(2 847)
	172,630	156,080

12 Called up share capital

	2010 £'000	2009 £'000
Authorised issued and fully paid share capital		
50 100 Ordinary Shares of £1 each	50	50
	50	50

13 Profit and loss account

	2010 £'000	2009 £ 000
Profit and loss account		
At 1 January	556	235
Profit for the year	(21)	321
At 31 December	535	556

14 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Opening shareholders funds	606	285
Profit for the year	(21)	321
Closing shareholders' funds	585	606

15 Capital commitments

	2010 £'000	2009 £ 000
Contracted but not provided for	178	6 507

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 smallest and largest Group that results of Transform Schools (Knowsley) Limited are consolidated in are Transform Schools (Knowsley) Holdings Limited and Balfour Beatty plc Copies of the financial statements are available from the registered offices at 6th Floor 350 Euston Road, Regent's Place, London NW1 3AX and 130 Wilton Road London SW1V 1LQ respectively

17 Post balance sheet events

On 18 May 2011 a variation to the original concession contract was finalised and this will provide the Council with a Special Educational Needs facility until 31 August 2034

18 Related party transactions

As a wholly-owned subsidiary of Transform Schools (Knowsley) Holdings Limited, the Company has taken advantage of the exemption in FRS 8 'Related party disclosures' from disclosing related party transactions with Transform Schools (Knowsley) Holdings Limited within these financial statements

During the year the value of work certified as complete under contracts between the Company and subsidiaries of Balfour Beatty plc for the construction and refurbishment of schools and the provision of services within schools, was £14 065 870 (2009 £81,687 688) of which amounts accrued as at 31 December 2010 totalled £973 912 (2009 £3 613 846) and the debtor amount outstanding totalled £12,900 (2009 £136 009)