Registered No 05527709

Axiom Education (Rochdale) Limited

Report and Financial Statements

31 December 2011

Registered No 05527709

Directors

E J R Koolhaas (Chairman)
P Nash
S Smylie

Secretary

IPFI Financial Ltd

Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

Bankers

Bank of America Merrill Lynch
London Branch
5 Canada Square
London E14 5AQ

Registered Office

Tubs Hill House
London Road
Sevenoaks
Kent
TN13 1BL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

Result and dividends

The profit for the year, after taxation, amounted to £163,000 (2010 £167,000) The directors did not recommend the payment of a dividend

Principal activities and review of business

The principal activity of the company during the period was the design, build, financing and operation ('DBFO') of four new schools on a 27-year contract under the Private Finance Initiative

The company commenced the construction phase in February 2006 and completed one of the schools on 29 September 2006 and the three remaining schools on 3 September 2007 During the construction phase, all attributable expenditure, including net finance costs, was included in the cost of the finance asset The company commenced operational phase on 3 September 2007, and full services were delivered from that date to the end of December 2011, with all expenditure, including amortisation of finance receivable debtor, expensed to the profit & loss account

On 29 January 2010, Operon, the facilities maintenance sub-contractor to this project, was placed into administration which constitutes an event of default under the loan agreement On 18 February 2011, the directors appointed Grosvenor Facilities Management Limited as permanent facilities maintenance sub-contractor, a company which had been engaged on a temporary basis from 29 January 2010, and the company's lenders waived the event of default under the loan agreement

Financial risk management

The financial risk management policy of the company is designed to identify and manage risk at the earliest possible point The directors actively monitor and manage financial risk through monthly meetings

The company does not undertake financial instrument transactions that 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 to enter into any new transaction is constrained by covenants in its existing funding agreement

The company's exposure to and management of price risk, credit risk, cash flow risk and liquidity risk is detailed below

Price risk

The company's price risk is managed through a 27-year project agreement with Rochdale Metropolitan Borough Council providing for payments that are fixed subject to performance and inflation indexation and through sub-contracts with suppliers that largely mirror the provisions of the project agreement with Rochdale Metropolitan Borough Council

Cash flow and credit risk

The company receives availability and facilities management cash flows which are subject to non-availability and performance deductions Cash flows are secured under a long-term contract with Rochdale Metropolitan Borough Council, whose liabilities are effectively underwritten by the Government

Directors' report (continued)

Liquidity risk

The company's liquidity risk is principally managed through financing the company by means of long-term borrowings which are tailored to match expected revenues arising from the contract under the Private Finance Initiative In addition, the company maintains a debt service reserve bank account to provide short-term liquidity against future debt service requirements

Key performance indicators

(1) Availability and performance deductions under the service contracts

Financial penalties are levied by Rochdale Metropolitan Borough Council in the event of areas of the schools becoming unavailable (availability deductions) or in the event of service performance standards not being achieved in accordance with criteria set out in the contract (performance deductions) Any such deductions are passed down to the relevant service provider under the terms of their sub-contracts However, their quantum is an indication of the level of performance achieved In the year ended 31 December 2011 full services were delivered and there were availability and performance deductions of £11,000 (2010 £15,000), representing approximately 0 2% (2010 0 2%) of the unitary charge income, which is an acceptable level of performance

(2) Financial performance

The company has modelled the anticipated financial performance of its concession across its full term The company monitors its actual financial performance against this anticipated performance At 31 December 2011 the company's performance against this anticipated performance was satisfactory

Principal risks and uncertainties

(1) Rochdale Metropolitan Borough Council is the sole client of the company, but the directors consider that no significant risk arises from having such a small client base, as should Rochdale Metropolitan Borough Council cease to exist, under the provisions of the contract, the Government must secure that all its liabilities are dealt with

(2) Performance risk under the project agreement and related contracts is passed down to the service providers under the terms of their sub-contracts The obligations of the sub-contractors are underwritten by parent company guarantees or letters of credit

Directors and their interests

The directors holding office during the period and up to the date of this report are set out below Directors were in office for the entire period unless otherwise stated

E J R Koolhaas
P Nash
S Smylie

During the period an indemnity provision was in force for one or more of the directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Employee involvement

The company operates through sub-contracting services and does not directly employ any staff

Directors' report (continued)

Creditor payment terms

When entering into commitments for the purchase of services and goods, the company gives due consideration to quality, price and the terms of payment Suppliers are made aware of these terms and the company abides by these terms where it is satisfied that suppliers have provided the service or goods in accordance with such agreed terms and conditions In the event of dispute, every effort is made to resolve these quickly

Auditor

Having passed elective resolutions of the shareholders at an Extraordinary General Meeting, the company is exempt from the obligation to annually reappoint auditors and to hold Annual General Meetings Accordingly, the Board recommend that Grant Thornton UK LLP continues in office as auditor to the company

On behalf of the Board

E J R Koolhaas

Director

29 May 2012

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 financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

In so far as each of the directors is aware

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

Independent auditor's report to the members of Axiom Education (Rochdale) Limited

We have audited the financial statements of Axiom Education (Rochdale) Limited for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Axiom Education (Rochdale) Limited (continued)

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP

Richard Hagley

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

29 May 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Turnover	3	4,867	4,077
Cost of sales		(4,361)	(3,525)
Gross profit		506	552
Administrative expenses		(340)	(374)
Operating profit	4	166	178
Interest receivable and similar income	7	2,539	2,587
Interest payable and similar charges	8	(2,483)	(2,545)
Profit on ordinary activities before taxation		222	220
Tax on profit on ordinary activities	9	(59)	(53)
Profit retained for the financial period		163	167

All amounts relate to continuing activities

The company has no recognised gains and losses other than the profit recognised for the year to 31 December 2011 (2010 none) and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet
at 31 December 2011

Company Registration No. 05527709

	Notes	*31 December 2011* *£000*	*31 December 2010* *£000*
Current assets			
Debtors amounts receivable within one year	10	1,139	1,003
Debtors amounts receivable after more than one year	11	40,415	41,472
Cash at bank and in hand	12	5,612	4,706
		47,166	47,181
Creditors amounts falling due within one year	13	(7,820)	(43,791)
Net current assets		39,346	3,390
Creditors amounts falling due after more than one year	14	(39,015)	(3,222)
Net assets		331	168
Capital and reserves			
Called up share capital	16	50	50
Profit and loss account	17	281	118
Equity shareholders' funds	17	331	168

The financial statements were approved and authorised for issue by the board on the date below and signed on its behalf by

E J R Koolhaas

Director

29 May 2012

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 2006

The directors have reviewed the company's projected profits and cash flows by reference to a financial model covering accounting periods up to August 2032 They have also examined the current status of the company's principal contracts and likely developments in the foreseeable future Having reviewed the financial facilities available to the company and subject to existing loan facilities remaining in place (see below), the directors consider that the company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis

On 29 January 2010 Integrated Building Services Engineering Consultants Limited (trading as 'Operon'), the facilities management sub-contractor, was placed in administration which constituted an event of default under the loan agreement On 18 February 2011, the directors appointed Grosvenor Facilities Management Limited as permanent facilities maintenance sub-contractor, which had been engaged on a temporary basis from 29 January 2010, and the company's lenders waived the event of default under the loan agreement The directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements

Cashflow statement

The company is exempt from the requirement under FRS 1 (revised) to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and its cash flows are included in the consolidated cash flow statement of its parent undertaking

Finance receivable

The company has adopted the provisions of FRS 5 (Application Note F) in determining the appropriate treatment of the principal asset of the company After due consideration the company has accounted for attributable expenditure as a finance receivable asset In accounting for costs as a finance receivable, all attributable expenditure during the construction phase of the project, including net finance costs, is included in the cost of the finance asset On completion of the construction phase the amortisation of the finance asset is calculated to write off the cost over the operational phase of the project

Taxation

(i) Current tax

The charge for current taxation for the year is based on the result for the year, adjusted for disallowable items

(ii) Deferred tax

Full provision has been made for deferred taxation in respect of timing differences that have originated, but not reversed, at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except that

- Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 31 December 2011

Debt

Debt is initially stated at the amount of net proceeds after deduction of issue costs The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

Revenue from construction activity

Revenue from construction activity is recognised by reference to costs incurred in the period that are directly attributable to the construction of the asset No attributable profit is recognised on the construction of the asset

Facilities management services

Revenue from the provision of the facilities management services is recognised as contract activity progresses at a mark up on related costs to reflect the value of work performed This mark up is calculated as total facilities management income receivable over the concession, less all service costs and other operating costs payable over the concession

Interest receivable on finance asset

Revenue in relation to the finance asset is recognised as finance income at a property specific rate of 6% per annum starting from when each school becomes operational

Interest income

Revenue is recognised as interest accrues using the effective interest method

Finance costs

Debt issue costs are amortised in the profit and loss account as finance costs over the term of the debt at a constant rate on the carrying value of debt

On completion of the construction phase, net finance costs, including interest payable on bank loans, are expensed to the profit and loss account during the operational phase of the project using the effective interest method

Related party transactions

The company is a wholly owned subsidiary undertaking of Axiom Education (Rochdale) Holdings Limited and as such the company has taken advantage of the terms of FRS 8 not to disclose related party transactions which are eliminated on consolidation

2. Principal activity

The company has one continuing activity, the operation of the Design, Build, Finance & Operate ("DBFO") contract with Rochdale Metropolitan Borough Council, which is undertaken entirely in the United Kingdom

Notes to the financial statements

at 31 December 2011

3. Turnover

Turnover represents income, excluding VAT, for the construction activities and operational service delivery of the DBFO contract

	Year ended	*Year ended*
	31 December 2011	*31 December 2010*
	£000	*£000*
Operational services	4,867	4,077
	4,867	4,077

4. Operating profit

This is stated after charging

	Year ended	*Year ended*
	31 December 2011	*31 December 2010*
	£000	*£000*
Fees payable to the company's auditor for,		
– the audit of the financial statements	10	10
– tax services - compliance	3	3
	13	13

A principal liability limitation agreement was entered into between the Company and its auditors, Grant Thornton UK LLP, for financial periods commencing on or after 1 January 2008, which limits the liability owed to the Company by the auditors in respect of any negligence, default, breach of duty or breach of trust occurring during the course of the audit of the accounts The resolution approving this arrangement was passed on 16 March 2011

During the year an amount of £168,000 was included in turnover and cost of sales with a nil impact on operating profit This was to recognise costs incurred in relation to the FM contractor's insolvency financed by the calling of a letter of credit in the amount of £750,000 The funds of £750,000 were received by the company on 12th April 2010

5. Directors' remuneration

The directors received no remuneration from the company for their services (2010 £nil)

6. Staff costs

There were no persons employed by the company at any time during the year (2010 none)

Notes to the financial statements

at 31 December 2011

7. Interest receivable and similar income

	Year ended 31 December 2011	*Year ended 31 December 2010*
	£000	*£000*
Interest income on finance receivable	2,525	2,582
Interest received on cash at bank	14	5
	2,539	2,587

8. Interest payable and similar charges

	Year ended 31 December 2011	*Year ended 31 December 2010*
	£000	*£000*
Interest on bank loans	2,483	2,545
	2,483	2,545

Notes to the financial statements

at 31 December 2011

9. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	Year ended 31 December 2011 £000	*Year ended 31 December 2010 £000*
Total current tax charge (note 9(b))	54	33
Deferred tax		
Origination and reversal of timing differences (note 15)	5	20
Tax charge on profit on ordinary activities	59	53

(b) Factors affecting current tax credit

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 26% (2010 28%) The differences are reconciled below

	Year ended 31 December 2011 £000	*Year ended 31 December 2010 £000*
Profit on ordinary activities before tax	222	220
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK 26% (2010 28%)	59	62
Effects of		
Expenses not deductible for tax purposes	-	-
Other short-term timing differences	(5)	(4)
Tax losses (utilised)	-	(25)
Total current tax (note 9 (a))	54	33

Notes to the financial statements

at 31 December 2011

10. Debtors: amounts receivable within one year

	31 December 2011	*31 December 2010*
	£000	*£000*
Finance receivable	1,050	989
Trade debtors	34	14
Sundry debtors	55	-
	1,139	1,003

11. Debtors: amounts receivable after more than one year

	31 December 2011	*31 December 2010*
	£000	*£000*
Finance receivable	40,415	41,465
Deferred tax asset (note 15)	-	7
	40,415	41,472

The finance receivable asset includes nil net finance costs capitalised in the year to 31 December 2011 (2010 nil)
Total net finance costs capitalised to date are £2,186,000 (2010 £2,186,000)

12. Cash at bank and in hand

The cash at bank and in hand balance of £5,612,000 (2010 £4,706,000) includes £171,000 (2010 £172,000) which is held in a bank account that has restrictions on the withdrawals to meet certain obligations of the company, and therefore is classified as restricted use

Notes to the financial statements

at 31 December 2011

13. Creditors: amounts falling due within one year

	31 December 2011	*31 December 2010*
	£000	*£000*
Borrowings (see note 14)		
Senior debt	1,333	38,406
Sub-ordinated loan notes	101	62
Less unamortised issue costs	(31)	(33)
	1,403	38,435
Trade creditors	376	633
VAT payable	207	211
Corporation tax	30	33
Accruals and deferred income	5,804	4,479
	7,820	43,791

Notes to the financial statements

at 31 December 2011

14. **Creditors:** amounts falling due after more than one year

	31 December 2011	*31 December 2010*
	£000	*£000*
Senior debt	35,801	-
Sub-ordinated loan notes	3,575	3,614
Less unamortised issue costs	(361)	(392)
	39,015	3,222

	31 December 2011	*31 December 2010*
	£000	*£000*
Maturity of debt		
In one year or less	1,434	38,468
In more than one year but not more than two years	1,493	40
In more than two years but not more than five years	4,088	154
In more than five years	33,795	3,420
	40,810	42,082
Less unamortised issue costs	(392)	(425)
	40,418	41,657

The senior debt of £37,134,000 consists of a loan that is repayable by August 2031 with principal repayments on the loan commencing in February 2008 The interest rate on the loan has been fixed through the use of a swap, at a rate of 5 16% per annum At 31 December 2011, the fair value of the interest rate swap for the senior debt is negative £7,211,000 (2010 negative £2,964,000)

The equity bridge debt of £4,371,000 was fully repaid in February 2008 The equity bridge interest rate was fixed by the use of a swap at the rate of 4 93% per annum The equity bridge debt was repaid from the proceeds of sub-ordinated loan notes, subscribed for by the company's shareholders in February 2008 The sub-ordinated loan notes carry a coupon of 13%

The senior debt is secured by way of a first fixed charge over the company's interest in the finance receivable asset

Notes to the financial statements
at 31 December 2011

15. Deferred tax asset

	31 December 2011	*31 December 2010*
	£000	*£000*
Tax losses	2	7

The movement in deferred taxation during the current year is as follows

	31 December 2011
	£000
At 1 January 2011	7
Charge for the year (note 9a)	(5)
At 31 December 2011	2

16. Share capital

	31 December 2011	*31 December 2010*
Authorised, allotted, called up and fully paid	*£000*	*£000*
50,000 ordinary shares of £1 each	50	50

17. Reconciliation of shareholders' deficit and movements on reserves

	Share capital	*Profit and loss account*	*Total shareholders' deficit*
	£000	*£000*	*£000*
At 1 January 2011	50	118	168
Profit for year	-	163	163
At 31 December 2011	50	281	331

Notes to the financial statements

at 31 December 2011

18. Related party transactions

During the year the company incurred costs of £792,000 (2010 £nil) in respect of construction services provided by Shepherd Construction Limited and nil costs (2010 £nil) in respect of project development services provided by PFI Securities (Rochdale) Limited, both are subsidiaries of the Shepherd Building Group Limited Shepherd Building Group Limited, through its subsidiary undertaking PFI Securities (Rochdale) Limited, is a 10% shareholder in the company's immediate parent undertaking No amounts (2010 nil) are outstanding to Shepherd Construction Limited at 31 December 2011

The company incurred no costs (2010 nil) during the year in respect of project development services, debt & financing arrangement and commitment fees, bank agency fees and interest on loans provided by The Royal Bank of Scotland N V The Royal Bank of Scotland N V is a 30% shareholder in RBS PPP Investments SCA SICAR which is a 90% shareholder in the company's immediate parent undertaking No amounts (2010 £nil) are outstanding to The Royal Bank of Scotland N V at 31 December 2011 No loan balances are outstanding with The Royal Bank of Scotland N V as at 31 December 2011 (2010 £nil loans), as all loans were transferred to new lenders during November 2006

The company incurred costs of £15,000 (2010 £46,000) during the year in respect of project development services and insurance brokerage fees provided by Dutch Infrastructure Fund BV Dutch Infrastructure Fund BV is a 70% shareholder in RBS PPP Investments SCA SICAR which is a 90% shareholder in the company's immediate parent undertaking No amounts (2010 £51,000) are outstanding to Dutch Infrastructure Fund BV at 31 December 2011

19. Parent undertakings and controlling parties

The company's immediate parent undertaking is Axiom Education (Rochdale) Holdings Limited, a company registered in England and Wales The parent undertaking for the smallest and largest groups of which the company is a member and for which group financial statements are prepared is Axiom Education (Rochdale) Holdings Limited These are available from its registered office Tubs Hill House, London Road, Sevenoaks, Kent, TN13 1BL

The controlling parties of Axiom Education (Rochdale) Holdings Limited are RBS PPP Investments SCA SICAR, an entity incorporated in Luxembourg, who own 45,000 Ordinary shares and PFI Securities (Rochdale) Ltd who own 5,000 Ordinary shares in the company

The 45,000 Ordinary shares of Axiom Education (Rochdale) Holdings Limited held by RBS PPP Investments SCA SICAR were originally subscribed for by an affiliate company, RBS Infrastructure Capital Holdings Limited and were sold to RBS PPP Investments SCA SICAR during November 2006

The ultimate controlling party of Axiom Education (Rochdale) Holdings Limited is RBS PPP Investments SCA SICAR (acting through its general partner RBS PPP Investments Sarl)