MODUS SERVICES (HOLDINGS) LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2015

Registered Number 3871198

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

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DIRECTORS AND ADVISORS

Directors
C B Waples
C L Corpetti (appointed 25 February 2015)
S M Colvin (appointed 20 June 2014 , resigned 25 February 2015)
P R Armstrong (resigned 20 June 2014)
P Francis
G M Beazley-Long
M J Webber
S J Clark

Company secretary and registered office
S A Brooks
46 Charles Street
Cardiff
CF10 2GE

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
London

Principal bankers
Commerzbank AG
30 Gresham Street
London
EC2P 2XY

Solicitors
Clifford Chance LLP
10 Upper Bank Street
London
E14 5JDX

STRATEGIC REPORT

The Directors submit their Strategic Report for the year ended 31 March 2015.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Group principally operates as a holding company and was formed to hold the equity investment in Modus Services Limited whose principal activity is to design, refurbish, redevelop, finance, maintain and operate certain Ministry of Defence office facilities in London covered by a Project Agreement between Modus Services Limited and The Secretary of State for Defence, dated 4 May 2000, under the Government's Private Finance Initiative. The primary contract period of the Project Agreement is 30 years. The Group has sub-contracted some of these activities to other companies, including parties related to shareholders (see note 17).

There have not been any significant changes in the Group's principal activities in the year under review.

Financial Close was achieved on 4 May 2000. Construction of the Ministry of Defence facility was completed on 21 July 2004 and is now operational.

The London Rationalisation Project (LRP) works carried out by the project company at Main Building are an Authority variation issued under the Project Agreement. The works commenced in August 2013 and achieved practical completion on 1 July 2014. During the course of the works and as part of the LRP the Authority added a late variation for the creation of a data server room. This was completed to time and budget with practical completion on 15 May 2015.

FUTURE DEVELOPMENTS

The Directors are not aware, at the date of this report, of any likely major changes in the Group's activities in the next year.

KEY PEFORMANCE INDICATORS

The key performance indicator for the Group is the level of performance and unavailability deductions levied by the client, since this reflects the quality of service being provided. The Group suffered minimal deductions during the current and prior year.

PRINCIPAL RISKS AND UNCERTAINTIES

Cash flow Risk: The Group's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Group's exposure to interest rate risk is mitigated through the use of interest rate swaps, details of which are set out in note 12 to the financial statements.

Credit Risk: The Group's principal financial assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty although in the opinion of the Directors this risk is limited as the counterparty is a central government department.

Liquidity Risk: At the start of the PFI contract, the Group negotiated debt facilities with an external party to ensure that the Group has sufficient funds over the life of the PFI concession.

Operational Risk: The other principal risk is that maintenance costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the buildings, and by fixed price contracts for certain portions.

Financial Risk: Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the Directors consider that all significant risk has been transferred out.

On behalf of the Board

C L Corpetti
Director
2 July 2015

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 March 2015.

The Company is owned and jointly controlled between Palio (No 2) Limited (26.00%), a UK limited company wholly owned by JLIF Limited Partnership, an English Limited Partnership; Innisfree M&G PPP LP (13.40%), an English Limited Partnership jointly managed by Innisfree Limited and M&G Investment Management Limited; Innisfree PFI Continuation Fund LP (48.00%) and Innisfree PFI Secondary Fund (12.60%), each of which are English Limited Partnerships managed by Innisfree Limited. Palio (No 2) Limited, Innisfree Limited and M&G Investment Management Limited are incorporated in Great Britain and registered in England and Wales.

GOING CONCERN

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate. More information is provided in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £25,921,000 (2014 - £26,729,000). After a taxation charge of £7,869,000 (2014 - taxation credit £5,840,000), profit for the year was £18,052,000 (2014 - £32,569,000).

The Directors approved the payment of dividends totalling £24,831,000 (2014 - £18,062,000) during the year.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are 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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

DIRECTORS

The Directors who served throughout the year, except as noted, are shown on page 1.

EMPLOYEES

Details of the number of employees and related costs can be found in note 5 to the financial statements on page 12.

On behalf of the Board

C L Corpetti
Director
2 July 2015

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 year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether 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 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MODUS SERVICES (HOLDINGS) LIMITED

We have audited the financial statements of Modus Services (Holdings) Limited for the year ended 31 March 2015 which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, consolidated cashflow statement and the related notes 1 to 20. 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 Board'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 Group's and parent 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 March 2015 and of the Group's 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 Strategic Report and 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

Jacqueline Holden

Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
2 July 2015

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2015

	Notes	**2015**	2014
		£'000	£'000
Turnover	2	45,739	45,868
Cost of sales		(34,720)	(34,160)
Operating profit	3	11,019	11,708
Net interest receivable	6	14,902	15,021
Profit on ordinary activities before taxation		25,921	26,729
Tax (charge) / credit on profit on ordinary activities	7	(7,869)	5,840
Profit for the financial year	15	18,052	32,569

A reconciliation of movements in shareholders' funds is given in note 16.

All items in the profit and loss account relate to continuing operations.

There is no material difference between the results stated in the consolidated profit and loss account and their historical cost equivalents.

All gains and losses are recognised in the profit and loss account in both the current and preceding year, and therefore no separate statement of total recognised gains and losses has been presented.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2015

	Notes	2015 £'000	2014 £'000
Current assets			
Debtors		441,633	461,302
- due within one year	10	55,521	61,159
- due after more than one year	10	386,112	400,143
Cash at bank and in hand		50	713
		441,683	462,015
Current liabilities			
Creditors: amounts falling due within one year	11	(39,405)	(39,421)
Net current assets		402,278	422,594
Creditors: amounts falling due after more than one year	11	(340,895)	(362,301)
Provision for liabilities	13	(52,692)	(44,823)
Net assets		8,691	15,470
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account	15	8,591	15,370
Shareholders' funds	16	8,691	15,470

The consolidated financial statements of Modus Services (Holdings) Limited, registered number 3871198, were approved by the Board of Directors and authorised for issue on 2 July 2015. They were signed on its behalf by:

C L Corpetti
Director
2 July 2015

COMPANY BALANCE SHEET AS AT 31 MARCH 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments	9	**12,507**	12,507
Total assets less current liabilities		**12,507**	12,507
Creditors: amounts falling due after more than one year	11	**(12,407)**	(12,407)
Net assets		**100**	100
Capital and reserves			
Called up share capital	14	**100**	100
Profit and loss account		**-**	-
Shareholders' funds	16	**100**	100

The financial statements of Modus Services (Holdings) Limited, registered number 3871198, were approved by the Board of Directors and authorised for issue on 2 July 2015. They were signed on its behalf by:

C L Corpetti
Director
2 July 2015

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2015

	Notes	2015 £'000	2014 £'000
Net cash inflow from operating activities	18	**74,662**	64,225
Returns on investments and servicing of finance			
Interest received		**340**	355
Interest and other financing costs paid		**(28,262)**	(29,721)
Net cash outflow from returns on investments and servicing of finance		**(27,922)**	(29,366)
Equity dividends paid		**(24,831)**	(18,183)
Net cash inflow before financing and management of liquid resources		**21,909**	16,676
Financing			
Repayment of secured loan		**(27,231)**	(16,505)
Net cash outflow from financing		**(27,231)**	(16,505)
		(5,322)	171
Transfer to 'restricted' cash (see note 10)		**4,659**	(371)
Decrease in cash in the year	19	**(663)**	(200)

Notes to the financial statements for the year ended 31 March 2015

1 ACCOUNTING POLICIES

a) Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom law and accounting standards. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently throughout the current and preceding year, is shown below.

Company

The Company exists to hold investments in its subsidiary that provides services under certain private finance agreements. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made. Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Group

The current economic conditions create some uncertainty, including with respect to:
(a) the ability of key sub-contractors to continue to meet contractual commitments;
(b) the ability of the debt provider to continue to meet its contractual commitments; and
(c) the ability of the swap provider to continue to meet their commitments.

The Directors have also considered the ability of government authorities to continue to pay unitary fees due to the Company and do not consider this to be a material risk.

The Group's forecasts and projections, taking account of reasonably possible changes in counterparty performance, show that the Group expects to be able to continue to operate.

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.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March each year. The results of the subsidiaries acquired or sold are consolidated for the periods from or the date on which control passed. Acquisitions are accounted for under the acquisition method.

The Group made a profit before tax of £25,921,000 (2014 - £24,729,000) for the financial year. As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the parent company. A reconciliation of movements in shareholders' funds is given in Note 16.

b) Turnover

Turnover comprises revenues for the provision of facilities management services.

During the construction phase of the project, all attributable expenditure including finance costs are included in amounts recoverable on contracts and turnover. Upon the asset becoming operational, the costs are transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and turnover using a constant operating margin on costs. The remainder of the PFI income will be allocated to the finance debtor.

c) Finance debtor

The Company is an operator under a PFI contract. Under the terms of the contract, substantially all the risks and rewards of ownership of the property asset remain with the Ministry of Defence. The underlying asset is therefore not a fixed asset of the Company under FRS5 Application Note F and SSAP21.

d) Operating costs

Operating costs were added to amounts recoverable on contract during the construction period. Following commissioning, regular operating costs are expensed to the profit and loss account as incurred.

Notes to the financial statements for the year ended 31 March 2015 (continued)

1 ACCOUNTING POLICIES (continued)

e) Interest payable
Interest costs on borrowings attributable to assets under construction were added to amounts recoverable on contracts during the construction phase of the project, and are written off to the profit and loss account over the remaining period of operations of the concession. Interest payable attributable to the assets in use is charged directly to the profit and loss account.

f) Debt issue costs
Costs incurred in raising debt are held on the balance sheet and amortised over the period that the relevant debt is held, so as to give a constant rate of interest throughout the duration of the loan.

g) Taxation
Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

In accordance with FRS19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are not discounted.

h) Financial instruments
The Group uses interest rate swaps to hedge interest rate risk. Amounts payable or receivable in respect of interest rate swaps are recognised on an accruals basis and are shown as interest expense.

The Group does not hold or issue derivative financial instruments for speculative purposes.

i) Bank borrowings
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.

j) Cash
Cash comprise cash at bank and in hand and short term deposits with original maturity of less than three months.

Notes to the financial statements for the year ended 31 March 2015 (continued)

2 TURNOVER

	Group 2015 £'000	Group 2014 £'000
Turnover in the year is analysed as follows:		
Service fee revenue	**31,869**	32,090
Other revenue	**13,870**	13,778
	45,739	45,868

3 OPERATING PROFIT

	Group 2015 £'000	Group 2014 £'000
Operating profit is stated after charging:		
Fees payable to the Group's auditor for the audit of the annual accounts of the Company and the Company's subsidiary.	**27**	27
Operating and maintenance costs	**19,926**	19,741
Pass through and variation costs	**12,896**	12,699
Other overhead costs	**1,871**	1,693

4 DIRECTORS' REMUNERATION

Amounts paid to related parties in connection with the provision for services of Non-Executive Directors were £243,122 (2014 - £240,457). No Directors received remuneration for services to the Company during the current or prior year. The Company is managed by secondees from the shareholders under a management service contract.

5 STAFF NUMBERS AND COSTS

The Company had no employees during the year (2014 - nil)

6 NET INTEREST RECEIVABLE

	Group 2015 £'000	Group 2014 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	**340**	354
Interest receivable on finance debtor	**43,290**	44,650
	43,630	45,004
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	**(27,023)**	(28,256)
Interest payable to shareholders	**(1,239)**	(1,241)
Amortised debt issue costs	**(466)**	(486)
	(28,728)	(29,983)
Net interest receivable	**14,902**	15,021

Notes to the financial statements for the year ended 31 March 2015 (continued)

7 TAX (CHARGE) / CREDIT ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax (charge) / credit for the year	Group 2015 £'000	Group 2014 £'000
Deferred tax		
Changes to tax rates and laws	-	-
Origination and reversal of timing differences	(6,143)	(6,121)
Adjustments to prior periods	(1,726)	11,961
Total deferred tax	(7,869)	5,840
Total tax (charge) / credit on profit on ordinary activities	(7,869)	5,840

Factors affecting the tax charge for the current year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	Group 2015 £'000	Group 2014 £'000
	25,921	26,729
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2014 - 23%)	(5,443)	(6,148)
Effects of:		
Tax losses recognised for deferred tax purposes	5,443	6,148
Total current tax for the year	-	-

For the year ended 31 March 2015, the UK rate of 21% is applied due to the change in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and the reduction to 20% from 1 April 2015

8 DIVIDENDS

	Group 2015 £'000	Group 2014 £'000
Interim and final dividend paid of £248.31 (2014 - £181.83) per £1 share.	(24,831)	(18,183)

9 INVESTMENTS

	Interests in Subsidiary undertaking		
	Equity £'000	Loans £'000	Total £'000
Cost			
At 31 March 2014	100	12,407	12,507
At 31 March 2015	100	12,407	12,507
Net book value			
At 31 March 2015	100	12,407	12,507
At 31 March 2014	100	12,407	12,507

The sole investment is a 100% interest in Modus Services Limited, which is incorporated in Great Britain and registered in England and Wales whose principal activity is to design, refurbish, redevelop, finance, maintain and operate certain Ministry of Defence office facilities in London covered by a Project Agreement between Modus Services Limited and The Secretary of State for Defence.

In the opinion of the Directors the aggregate value of the investment is not less than the amount stated in the balance sheet.

Notes to the financial statements for the year ended 31 March 2015 (continued)

10 DEBTORS

	Group	
	2015	2014
Due within one year	**£'000**	£'000
Finance debtor	**13,199**	12,203
Trade debtors	**1,281**	8,593
Financial assets	**33,168**	37,827
Prepayments and accrued income	**7,873**	2,536
	55,521	61,159
Due after more than one year		
Finance debtor	**386,112**	**400,143**
	386,112	**400,143**

Financial assets include amounts held within deposit accounts with a maturity of not less than 3 months from the initial deposit.

The total finance debtor includes £84,600,000 (2014 - £87,400,000) of capitalised interest.In 2015, no costs were capitalised (2014 - Nil).

11 CREDITORS

	Group	
	2015	2014
	£'000	£'000
Amounts falling due within one year		
Bank loans (note 12)	**21,994**	27,231
Less: unamortised debt issue costs	**(446)**	(324)
Trade creditors	**2**	127
Other taxation and social security	**2,520**	3,610
Other creditors	**9,458**	1,970
Accruals and deferred income	**5,877**	6,807
	39,405	39,421

	Group		Company	
Amounts falling due after more than one year				
Bank loans (note 12)	**331,040**	353,034	-	-
Less: unamortised debt issue costs	**(2,552)**	(3,140)	-	-
Amounts owed to shareholders (note 12).	**12,407**	12,407	**12,407**	12,407
	340,895	362,301	**12,407**	12,407
Analysis of debt:				
Debt can be analysed as falling due:				
In one year or less	**21,994**	27,231	-	-
Between one and two years	**24,406**	23,068	-	-
Between two and five years	**89,866**	84,495	-	-
In five years or more	**229,175**	257,879	**12,407**	12,407
	365,441	392,673	**12,407**	12,407
Less: unamortised debt issue costs	**(2,998)**	(3,464)	-	-
	362,443	389,209	**12,407**	12,407

The Group incurred total issue costs of £10.475 million in respect of facilities made available to it under the terms of a credit agreement dated 4 May 2000.

Notes to the financial statements for the year ended 31 March 2015 (continued)

12 LOANS

The Group had fully drawn its £492.7 million term loan facility by 27 September 2005, comprising a Tranche A loan of £292.7 million and a Tranche B loan of £200 million. Tranche A and Tranche B of the term loan are repayable in instalments by 31 March 2025 and 31 March 2027 respectively, based on an agreed percentage amount of the total drawn down. Repayments on Tranche A and Tranche B commenced on 30 September 2006. The outstanding balances on Tranche A and B at 31 March 2015 were £205.9 million (2014 - £225.9 million) and £147.1 million (2014 - £154.4 million) respectively. Interest on these loans is charged at a variable interest rate of LIBOR plus a margin between 0.8% and 1.1%.

In May 2000, as part of its interest rate management strategy and in accordance with the terms of its credit agreement, the Group entered into four identical accreting and amortising interest rate swaps maturing on 31 March 2027. The maximum notional amount of each interest rate swap is £129.3 million. Under these swaps, the Group receives interest on a variable LIBOR basis and pays interest at a fixed rate of 6.61%.

The Group entered into an additional accreting and amortising interest rate swap on 7 November 2005, which will also mature on 31 March 2027. The maximum notional amount of this interest rate swap is £15.28 million. Under this swap, the Group receives interest on a variable LIBOR basis and pays interest at a fixed rate of 4.73%.

The Group entered into an additional accreting and amortising LIBOR basis swap on 22 October 2010 with an effective date of 31 March 2011 and maturing on 31 March 2016. The maximum notional amount of this interest rate swap is £426.24 million. Under this swap, the Group pays semi-annual floating rate interest and receives 1 month floating rate interest, determined with reference to the same LIBOR index as the debt instrument, plus an incremental amount of 26.0 basis points.

The interest rate swaps mitigate interest exposure and had a negative fair value at 31 March 2015 of - £108,266,821 (2014 negative fair value - £96,257,129).

Amounts owed to shareholders

In November 2004 the Company issued £26.5 million loan stock to its shareholders. On 23 September 2006, the Company converted a further £26.5 million of share capital into loan stock issued to its shareholders, and on 1 October 2006 the entire £53 million of loan stock became subject to a coupon rate of 12% per annum. In September 2008 the Directors then elected to apply a Spens clause which reduces the sub debt coupon from 12% to 10% and compensates the shareholders for loss of interest via an early payment redemption premium. The loan stock is repayable by instalments from surplus funds by 2028.

All the loans are secured by a debenture dated 4 May 2000 creating fixed and floating charges over the shares and assets of the Group.

13 PROVISION FOR LIABILITIES

There were no unprovided deferred tax amounts in the current or the previous year.

Deferred taxation liabilities in the current and prior year relate to timing differences between the Group's taxable profits and its results as stated in the financial statements.

	Group	
	2015	2014
	£'000	£'000
Deferred Taxation		
At 1 April	**44,823**	50,663
Charge / (credit) to profit and loss account during the year	**7,869**	(5,840)
At 31 March	**52,692**	44,823

14 CALLED UP SHARE CAPITAL

	Group / Company	
	2015	2014
	£'000	£'000
Allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	**100**	100

Notes to the financial statements for the year ended 31 March 2015 (continued)

15 MOVEMENT IN RESERVES

	Group profit and loss account £'000
At 1 April 2014	**15,370**
Profit for the financial year	**18,052**
Dividends paid on equity shares (note 8)	**(24,831)**
At 31 March 2015	**8,591**

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Profit for the financial year	**18,052**	32,569	**24,831**	18,183
Dividends paid on equity shares (note 8)	**(24,831)**	(18,183)	**(24,831)**	(18,183)
Net increase to shareholders' funds	**(6,779)**	14,386	**-**	-
Opening shareholders' funds	**15,470**	1,084	**100**	100
Closing shareholders' funds	**8,691**	15,470	**100**	**100**

17 TRANSACTIONS WITH RELATED PARTIES

There were related party transactions between the Company and the following parties:

	2015	2014
	£'000	£'000
Innisfree Limited		
Non-executive directors' fees	**122**	120
Balance payable at 31 March	**-**	-
HCP Social Infrastructure (UK) Limited		
Management services	**918**	943
Laing Investments Management Services Limited		
Management services	**153**	145
Balance payable at 31 March	**-**	-
JLIF (GP) Limited		
Non-executive directors' fees	**122**	120
Balance payable at 31 March	**-**	-
Palio (No 2) Limited (Shareholder)		
Subordinated loan interest	**322**	323
Dividends	**6,456**	4,728
Innisfree M&G PPP LP (Shareholder)		
Subordinated loan interest	**166**	166
Dividends	**3,327**	2,437
Innisfree PFI Continuation Fund LP (Shareholder)		
Subordinated loan interest	**595**	596
Dividends	**11,919**	8,728
Innisfree PFI Secondary Fund (Shareholder)		
Subordinated loan interest	**156**	156
Dividends	**3,129**	2,291

Notes to the financial statements for the year ended 31 March 2015 (continued)

17 TRANSACTIONS WITH RELATED PARTIES (continued)

HCP Social Infrastructure (UK) Limited is 100% owned by Innisfree M&G PPP LP, a shareholder of Modus Services (Holdings) Ltd.

Innisfree Limited manages Innisfree M&G PPP LP, Innisfree PFI Continuation Fund LP and Innisfree PFI Secondary Fund, all shareholders of Modus Services (Holdings) Limited.

Laing Investments Management Services Limited and JLIF (GP) Ltd are part of the John Laing Group which provides investment advisory services to the JLIF group, in which Palio (No 2) Limited, a shareholder of Modus Services (Holdings) Limited, is a wholly owned subsidiary.

The amounts shown due to the related parties are stated net of value added tax, where applicable. All transactions with related parties were at arm's length.

Amounts owed to shareholders relating to subordinate debt and accrued interest are disclosed under amounts owed to shareholders in note 11.

There were no provisions at 31 March 2015 in respect of amounts due to related parties and no amounts were written off in the period in respect of transactions with related parties.

18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2015	2014
	£'000	£'000
Operating profit	**11,019**	11,708
Decrease in debtors	**15,010**	9,250
Increase / (decrease) in creditors	**5,343**	(1,383)
Interest receivable on finance debtor	**43,290**	44,650
Net cash inflow from operating activities	**74,662**	64,225

19 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 April 2014	**Cash flow**	**Other non-cash changes**	**At 31 March 2015**
	£'000	**£'000**	**£'000**	**£'000**
Cash in hand and at bank	713	(663)	-	**50**
Financial asset	37,827	(4,659)	-	**33,168**
Debt due within one year	(27,231)	27,231	(21,994)	**(21,994)**
Debt due after one year	(365,441)	-	21,994	**(343,447)**
Less: unamortised debt issue costs	3,464	-	(466)	**2,998**
Net debt	**(350,668)**	**21,909**	**(466)**	**(329,225)**

	2015
	£'000
Decrease in cash in the year	**(663)**
Cash outflow from decrease in debt	**27,231**
Other non-cash movements	**(466)**
cash inflow from decrease in financial assets	**(4,659)**
Decrease in net debt	**21,443**
Net debt at 1 April	**(350,669)**
Net debt at 31 March	**(329,226)**

Notes to the financial statements for the year ended 31 March 2015 (continued)

20 ULTIMATE PARENT UNDERTAKING

The Company is owned and jointly controlled between Palio (No 2) Limited (26.00%), a UK limited company wholly owned by JLIF Limited Partnership, an English Limited Partnership; Innisfree M&G PPP LP (13.40%), an English Limited Partnership jointly managed by Innisfree Limited and M&G Investment Management Limited; Innisfree PFI Continuation Fund LP (48.00%) and Innisfree PFI Secondary Fund (12.60%), each of which are English Limited Partnerships managed by Innisfree Limited. Palio (No 2) Limited, Innisfree Limited and M&G Investment Management Limited are incorporated in Great Britain and registered in England and Wales. The Directors consider there to be no ultimate controlling entity.