# MODUS SERVICES (HOLDINGS) LIMITED

**DIRECTORS' REPORT**
**AND**
**FINANCIAL STATEMENTS FOR THE YEAR ENDED**
**31 MARCH 2014**



**Registered Number 3871198**

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

**CONTENTS**

## DIRECTORS AND ADVISORS

**Directors**
P Armstrong (resigned 20 June 2014)
G Beazley-Long
S J Clark (appointed 27 June 2013)
S M Colvin (appointed 20 June 2014)
P Francis
C B Waples
M J Webber

**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 2014.

### 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 works carried out by the project company at Main Building are an Authority variation issued under the Project Agreement. The value of the works is circa £20 million and the works commenced in August 2013 and achieved practical completion on 1 July 2014. The work consisted of upgrading the 7th and 8th floors with additional cooling capability, enhanced security physical access measures and additional management information systems to the 4th floor.

### 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

S M Colvin
Director
29 July 2014

## DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 March 2014.

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

### RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £26,729,000 (2013 - £24,701,000). After a taxation credit of £5,840,000 (2013 - taxation charge £6,129,000), profit for the year was £32,569,000 (2013 - £18,572,000).

The Directors approved the payment of dividends totalling £18,183,000 (2013 - £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

S M Colvin
Director
29 July 2014

**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 2014 which comprise the consolidated profit and loss account, the consolidated and Company balance sheet, 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 2014 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
29 July 2014

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31 MARCH 2014

| | Notes | **2014** | 2013 |
|---|---|---|---|
| | | **£'000** | £'000 |
| Turnover | 2 | 45,868 | 29,755 |
| Cost of sales | | (34,160) | (20,154) |
| **Operating profit** | 3 | 11,708 | 9,601 |
| Net interest receivable | 6 | 15,021 | 15,100 |
| **Profit on ordinary activities before taxation** | | 26,729 | 24,701 |
| Tax credit / (charge) on profit on ordinary activities | 7 | 5,840 | (6,129) |
| **Profit for the financial year** | 15 | 32,569 | 18,572 |

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 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Current assets** | | | |
| Debtors | | 461,302 | 470,183 |
| - due within one year | 10 | 61,159 | 57,051 |
| - due after more than one year | 10 | 400,143 | 413,132 |
| Cash at bank and in hand | | 713 | 913 |
| | | 462,015 | 471,096 |
| **Current liabilities** | | | |
| **Creditors**: amounts falling due within one year | 11 | (39,421) | (30,140) |
| **Net current assets** | | 422,594 | 440,956 |
| **Total assets less current liabilities** | | 422,594 | 440,956 |
| **Creditors:** amounts falling due after more than one year | 11 | (362,301) | (389,209) |
| **Provision for liabilities** | 13 | (44,823) | (50,663) |
| **Net assets** | | 15,470 | 1,084 |
| **Capital and reserves** | | | |
| Called up share capital | 14 | 100 | 100 |
| Profit and loss account | 15 | 15,370 | 984 |
| **Shareholders' funds** | 16 | 15,470 | 1,084 |

The consolidated financial statements of Modus Services (Holdings) Limited, registered number 3871198, were approved by the Board of Directors and authorised for issue on 29 July 2014. They were signed on its behalf by:

S M Colvin
Director
29 July 2014

## COMPANY BALANCE SHEET AS AT 31 MARCH 2014

| | Notes | 2014 £'000 | 2013 £'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 29 July 2014. They were signed on its behalf by:

S M Colvin
Director
29 July 2014

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2014**

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 18 | **64,225** | 64,032 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **355** | 706 |
| Interest and other financing costs paid | | **(29,721)** | (30,440) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(29,366)** | (29,734) |
| Equity dividends paid | | **(18,183)** | (18,062) |
| **Net cash inflow before financing and management of liquid resources** | | **16,676** | 16,236 |
| **Financing** | | | |
| Repayment of secured loan | | **(16,505)** | (15,274) |
| **Net cash outflow from financing** | | **(16,505)** | (15,274) |
| | | **171** | 962 |
| Transfer to 'restricted' cash (see note 10) | | **(371)** | (328) |
| **(Decrease)/ increase in cash in the year** | 19 | **(200)** | 634 |
| Net debt at 1 April | | **(366,858)** | (382,588) |
| (Decrease)/ increase in cash in the year | | **(200)** | 634 |
| Movement in borrowings | | **16,505** | 15,274 |
| Other non-cash changes | | **(486)** | (506) |
| Movement in financial assets | | **370** | 328 |
| **Net debt at 31 March** | 19 | **(350,669)** | (366,858) |

**Notes to the financial statements for the year ended 31 March 2014**

## 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 £26,729,000 (2013 - £24,701,000) 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 2014 (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 Company 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 Company 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 2014 (continued)**

## 2 TURNOVER

| | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| Turnover in the year is analysed as follows: | | |
| Service fee revenue | **32,090** | 29,111 |
| Other revenue | **13,778** | 644 |
| | **45,868** | 29,755 |

## 3 OPERATING PROFIT

| | Group 2014 £'000 | Group 2013 £'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** | 25 |
| Operating and maintenance costs | **19,741** | 18,123 |
| Pass through and variation costs | **12,699** | 609 |
| Other overhead costs | **1,693** | 1,397 |

The audit fee of £4,000 for the Company was borne by its subsidiary.

## 4 DIRECTORS' REMUNERATION

Amounts paid to related parties in connection with the provision for services of Non-Executive Directors were £240,457 (2013 - £233,984). 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 (2013 - nil)

## 6 NET INTEREST RECEIVABLE

| | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| **Interest receivable and similar income** | | |
| Interest receivable on bank deposits | **354** | 708 |
| Interest receivable on finance debtor | **44,650** | 45,561 |
| | **45,004** | 46,269 |
| **Interest payable and similar charges** | | |
| Interest payable on bank loans and overdrafts | **(28,256)** | (29,413) |
| Interest payable to shareholders | **(1,241)** | (1,250) |
| Amortised debt issue costs | **(486)** | (506) |
| | **(29,983)** | (31,169) |
| Net interest receivable | **15,021** | 15,100 |

**Notes to the financial statements for the year ended 31 March 2014 (continued)**

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

| Analysis of tax credit / (charge) for the year | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| **Deferred tax** | | |
| Changes to tax rates and laws | - | 495 |
| Origination and reversal of timing differences | (6,121) | (6,624) |
| Adjustments to prior periods | 11,961 | - |
| **Total deferred tax** | 5,840 | (6,129) |
| **Total tax credit / (charge) on profit on ordinary activities** | 5,840 | (6,129) |

Factors affecting the tax credit 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 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| | 26,729 | 24,701 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013 - 24%) | (6,148) | (5,928) |
| **Effects of:** | | |
| Tax losses recognised for deferred tax purposes | 6,148 | 5,928 |
| **Total current tax for the year** | - | - |

For the year ended 31 March 2014, the UK rate of 23% is applied due to the change in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013.

## 8 DIVIDENDS

| | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| Interim and final dividend paid of £181.83 (2013 - £180.62) per £1 share. | (18,183) | (18,062) |

## 9 INVESTMENTS

| | Interests in Subsidiary undertaking | | |
|---|---|---|---|
| | Equity £'000 | Loans £'000 | Total £'000 |
| **Cost** | | | |
| At 31 March 2013 | 100 | 12,407 | 12,507 |
| **At 31 March 2014** | 100 | 12,407 | 12,507 |
| **Net book value** | | | |
| **At 31 March 2014** | 100 | 12,407 | 12,507 |
| At 31 March 2013 | 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 2014 (continued)**

## 10 DEBTORS

| | Group 2014 | Group 2013 |
|---|---|---|
| **Due within one year** | **£'000** | £'000 |
| Finance debtor | **12,203** | 11,234 |
| Trade debtors | **8,593** | 8,341 |
| Financial assets | **37,827** | 37,457 |
| Prepayments and accrued income | **2,536** | 19 |
| | **61,159** | 57,051 |
| **Due after more than one year** | | |
| Finance debtor | **400,143** | **413,132** |
| | **400,143** | **413,132** |

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 £87,400,000 (2013 - £90,100,000) of capitalised interest. In 2014, £nil (2013 - £232,000) of costs were capitalised.

## 11 CREDITORS

| | Group 2014 | Group 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Amounts falling due within one year** | | |
| Bank loans (note 12) | **27,231** | 16,505 |
| Less: unamortised debt issue costs | **(324)** | (486) |
| Trade creditors | **127** | 40 |
| Other taxation and social security | **3,610** | 3,537 |
| Other creditors | **1,970** | 6,884 |
| Accruals and deferred income | **6,807** | 3,660 |
| | **39,421** | 30,140 |

| | Group | | Company | |
|---|---|---|---|---|
| **Amounts falling due after more than one year** | | | | |
| Bank loans (note 12) | **353,034** | 380,266 | **-** | - |
| Less: unamortised debt issue costs | **(3,140)** | (3,464) | **-** | - |
| Amounts owed to shareholders (note 12). | **12,407** | 12,407 | **12,407** | 12,407 |
| | **362,301** | 389,209 | **12,407** | 12,407 |
| **Analysis of debt:** | | | | |
| Debt can be analysed as falling due: | | | | |
| In one year or less | **27,231** | 16,505 | **-** | - |
| Between one and two years | **23,068** | 27,231 | **-** | - |
| Between two and five years | **84,495** | 71,367 | **-** | - |
| In five years or more | **257,879** | 294,075 | **12,407** | 12,407 |
| | **392,673** | 409,178 | **12,407** | 12,407 |
| Less: unamortised debt issue costs | **(3,464)** | (3,464) | **-** | - |
| | **389,209** | 405,714 | **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 2014 (continued)**

## 12 LOANS

The Group fully drewdown its £492.7 million term loan facility by 27 September 2005, comprising of 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 2014 were £225.9 million (2013 - £235.7 million) and £154.4 million (2013 - £161.1 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 2014 of - £96,257,129 (2013 negative fair value - £138,595,863).

**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 | |
|---|---|---|
| | **2014** | 2013 |
| | **£'000** | £'000 |
| **Deferred Taxation** | | |
| At 1 April | **50,663** | 44,534 |
| (Credit) / charge to profit and loss account during the year | **(5,840)** | 6,129 |
| **At 31 March** | **44,823** | 50,663 |

## 14 CALLED UP SHARE CAPITAL

| | Group / Company | |
|---|---|---|
| | **2014** | 2013 |
| | **£'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 2014 (continued)**

## 15 MOVEMENT IN RESERVES

| | Group profit and loss account £'000 |
|---|---|
| **At 1 April 2013** | **984** |
| Profit for the financial year | **32,569** |
| Dividends paid on equity shares (note 8) | **(18,183)** |
| **At 31 March 2014** | **15,370** |

## 16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Profit for the financial year | **32,569** | 18,572 | **18,183** | 18,062 |
| Dividends paid on equity shares (note 8) | **(18,183)** | (18,062) | **(18,183)** | (18,062) |
| Net increase to shareholders' funds | **14,386** | 510 | **-** | - |
| Opening shareholders' funds | **1,084** | 574 | **100** | 100 |
| **Closing shareholders' funds** | **15,470** | 1,084 | **100** | **100** |

## 17 TRANSACTIONS WITH RELATED PARTIES

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

| | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| Innisfree Limited | | |
| Non-executive directors' fees | **120** | 117 |
| Balance payable at 31 March | - | - |
| HCP Social Infrastructure (UK) Limited | | |
| Management services | **943** | 1,449 |
| Laing Investments Management Services Limited | | |
| Staff and other costs | **145** | 139 |
| Balance payable at 31 March | - | - |
| JLIF (GP) Limited | | |
| Non-executive directors' fees | **120** | 117 |
| Balance payable at 31 March | - | - |
| Palio (No 2) Limited (Shareholder) | | |
| Subordinated loan interest | **323** | 325 |
| Dividends | **4,728** | 4,696 |
| Balance payable at 31 March | - | 3 |
| Innisfree M&G PPP LP (Shareholder) | | |
| Subordinated loan interest | **166** | 168 |
| Dividends | **2,437** | 2,420 |
| Balance payable at 31 March | - | 1 |
| Innisfree PFI Continuation Fund LP (Shareholder) | | |
| Subordinated loan interest | **596** | 600 |
| Dividends | **8,728** | 8,670 |
| Balance payable at 31 March | - | 5 |
| Innisfree PFI Secondary Fund (Shareholder) | | |
| Subordinated loan interest | **156** | 158 |
| Dividends | **2,291** | 2,276 |
| Balance payable at 31 March | - | 1 |

**Notes to the financial statements for the year ended 31 March 2014 (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 plc 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 2014 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

| | **2014** | 2013 |
|---|---|---|
| | **£'000** | £'000 |
| Operating profit | **11,708** | 9,601 |
| Decrease in debtors | **9,250** | 513 |
| (Decrease)/increase in creditors | **(1,383)** | 8,357 |
| Interest receivable on finance debtor | **44,650** | 45,561 |
| Net cash inflow from operating activities | **64,225** | 64,032 |

## 19 RECONCILIATION OF MOVEMENT IN NET DEBT

| | **At 1 April 2013** | **Cash flow** | **Other non-cash changes** | **At 31 March 2014** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Cash in hand and at bank | 913 | (200) | - | **713** |
| Financial asset | 37,457 | 370 | - | **37,827** |
| Debt due within one year | (16,505) | 16,505 | (27,231) | **(27,231)** |
| Debt due after one year | (392,673) | - | 27,232 | **(365,441)** |
| Less: unamortised debt issue costs | 3,950 | - | (486) | **3,464** |
| Net debt | **(366,858)** | **16,675** | **(485)** | **(350,668)** |

## 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.