

Aspire Defence Finance plc

Strategic report, Directors' report and
financial statements

Registered number 5700404

31 December 2022

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Strategic Report

Principal Activity

Aspire Defence Finance plc ("the Company") is a financing conduit, a special purpose vehicle formed to raise the debt finance associated with the Allenby/Connaught Private Finance Initiative Project ("the Project") and on-lend it to Aspire Defence Limited ("ADL"), a fellow subsidiary of Aspire Defence Holdings Limited ("ADHL"), which is the Company's immediate ultimate parent company. ADHL, ADL and the Company are together the "Group".

The Project involves the design and build of military living accommodation, other similar structures, supporting infrastructure and amenities at sites on Salisbury Plain and in Aldershot, the demolition and refurbishment of various assets in those areas, and the provision of certain hard and soft facilities maintenance services to those assets and to other existing assets at the sites and associated locations for the Ministry of Defence ("the Authority"). A project agreement was signed on 6 April 2006 and was amended and restated on 31 October 2016 (the "Project Agreement") to include further scope associated with the Army Basing Programme ("ABP"). The Project has a thirty-five-year duration from 2006.

Business Review

During 2022, the Company repaid borrowings of £41.3m (2021: £39.8m) funded from similar amounts received from ADL, reducing the Company's interest income and expense during the year. In 2022, the Company earned interest receivable and incurred interest payable of £72m (2021: £74m) resulting in a profit before taxation of £0.1m (2021: £0.1m) which, after tax, increased shareholders' funds by £0.1m (2021: £0.1m). The Company used accumulated profits to pay interim dividends of £0.1m (2021: £0.1m), leaving net assets of £0.2m (2021: £0.2m) at the end of the year.

Key Risks and Uncertainties

Aspire Defence Finance plc is a special purpose vehicle formed to finance the performance of the Project. The Company is entirely dependent on ADL to meet its commitments as they fall due.

The key risk faced by the Company is the inability of ADL to repay its indebtedness as it falls due. Therefore, to assess risks to the Company it is also necessary to review risks faced by ADL.

ADL, with the Authority as its only customer, is allocated numerous responsibilities under the Project Agreement. However, the contractual arrangements for the Project are structured so as to minimise risks inherent to the Project which are retained by ADL. Risks assumed by ADL are largely passed on to insurers or Aspire Defence Capital Works ("ADCW") or Aspire Defence Services ("ADS") as subcontractors, subject to agreed limits of liability. ADCW and ADS are comprised of wholly owned subsidiaries of KBR, Inc.. KBR, Inc. has provided parent company guarantees of its wholly owned subsidiaries, to certain limits."

Only to the extent that any subcontractor, or if applicable its guarantor, or insurer, fails to meet their obligations or claims by ADL exceed their limits of liability, is ADL at risk. In relation to the capital expenditure required for the ABP related works, the arrangements are structured to ensure ADL is not at risk from any cost overruns arising, which would either be borne by ADCW or the Authority depending on the cause. The principal risks retained directly by ADL relate to: lifecycle works to the estate; insurance premia; overhead cost overruns; indexation, interest and credit risks and termination of the Project Agreement.

Going Concern

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment is contained within Note 1 b).

Strategic Report (*continued*)

Key Performance Indicators

Receipt of interest and repayments

The Company monitors the performance and ability of ADL to meet its on-loan debt service obligations. The Company records whether all scheduled payments of interest and principal due from ADL are received in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2022, the Company recorded that all measures in this respect had been successfully achieved.

Debt service

The Company also measures compliance with its own debt service obligations. Any scheduled payments of interest, principal or fees due to Bondholders, Loan Note Holders, or the financial guarantors must be made in full and in strict compliance with the timings laid out in the relevant financing documents. During the year ended 31 December 2022, the Company recorded that all measures in this respect had been successfully achieved.

Section 172(1) Statement

The Directors believe that effective corporate governance is critical to delivering the strategy and creating long term value for the shareholders. The Directors also recognise the importance of wider stakeholders in delivering the strategy and achieving a sustainable business.

Each Director is fully aware of the obligations set out in Section 172 of the Companies Act 2006 ("Section 172") to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of the members as a whole, and in doing so have regard to the matters set out in Section 172 sub paragraphs a) to f).

The paragraphs below (following the structure of Section 172(1) sub-paragraph wording) summarise how the Board has had regard for these matters in coming to decisions previously and during 2022, including in relation to the payment of interim dividends:

a) The likely consequences of any decision in the longer term:

The Board oversees the development and periodic update of financial models to forecast the Group's cashflows, revenues and costs, and assets and liabilities over the remaining term of the Project Agreement. The Board considers the forecasts' assumptions and the results of the financial modelling, including compliance with certain financial ratios specified in the Project's financing agreements, and their robustness to downside sensitivity tests.

The Company operates a full distribution policy as is customary in leveraged finance transactions. Distributions are paid subject to compliance with certain covenants in the financing arrangements designed to ensure the Company can meet its commitments as they fall due, in particular the achievement of certain financial ratios in historic and future periods, and an obligation to maintain certain cash reserves at specified levels. The Project Agreement expires in 2041 after which it is expected that the Company will be wound up and any remaining assets distributed to the shareholders.

b) The interests of the Company's employees:

The Company acts as a financing company and has no employees.

c) The need to foster business relationships with suppliers, customers and others:

The Company regularly meets with, and reports to, its controlling creditors and their advisers. Many aspects of the Group's business are limited by the need to obtain creditor consent, and the Board promotes the need for collaborative and sustainable working relationships with these parties. The Company acts as a financing company and has no direct customers or suppliers.

Strategic Report (*continued*)

Section 172(1) Statement (*continued*)

- d) The impact on the Company's operations on the community and the environment:
As noted above the Company acts as a financing company and therefore the Company's operations have a minimal impact on the community and the environment.
- e) The desirability of the Company maintaining a reputation for high standards of business conduct:
The Board has approved a Code of Conduct and periodically ensures the Company and Group's processes and procedures are compliant with the Bribery Act 2010 and other similar legislation. The Board reviews its subsidiaries compliance with such policies and procedures.
- f) The need to act fairly as between members of the Company:
A Shareholders' Agreement provides a right for shareholders to nominate a Director or Directors to the Board based on shareholdings. All four of the company's ultimate shareholders have Board representation and participate in discussion and decisions.

Board Membership and Gender Diversity

At the year end the Company had 10 male directors and 2 female directors.

By order of the Board,


Angus McColl (Sep 21, 2023 21:04 GMT+1)

AR McColl
Company Secretary

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD
21 September 2023

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

Results and dividend

The results for the year are set out on page 15.

The Directors have paid an interim ordinary dividend in respect of the current year of £112,491 (*2021: £116,002*) and do not propose a final ordinary dividend in respect of the current year (*2021: £Nil*).

Political Donations

The Company did not make any political donations during the year (*2021: £nil*).

Financial instruments

The Company's funding has been arranged using the principles of project finance with the terms of the financial instruments, and the resulting profile of the debt service costs, tailored to match the expected revenues arising from the Project Agreement.

The Company issued Bonds at par totalling £1.46bn in 2006 which are repayable in instalments from 2014 to 2040. The Company also issued Loan Notes totalling £119.9m from 2008 to 2012 which are repayable in instalments from 2014 to 2034 subject to the achievement of certain financial tests. Other disclosures in respect of financial instruments are given in Note 11 of the financial statements.

Employees

The Company had no employees during the year ended 31 December 2022 (*2021: Nil*).

Governance and Regulation

The Modern Slavery Act 2015 requires companies to report publicly steps to ensure their operations and supply chains are free of trafficking and slavery. Further details are set out in the Group's Modern Slavery Act Transparency Statement on the website: <http://aspiredefence.co.uk/>.

Risk management

The risk management policy of the Company is designed to identify and manage risk at the earliest possible point. The Company maintains a detailed risk register which is formally reviewed by the Board on a six-monthly basis. The Company recognises that effective risk management is fundamental to achieving its business objectives to meet the commitments described in the terms of its Bonds and Loan Notes. Risk management contributes to the success of the business by identifying opportunities and anticipating risks to improve business performance and fulfil the Company's contractual obligations.

Directors' report *(continued)*

Financial risk management objectives and policies

Management reports regularly to the Board of the Company. The Board receives regular reports from management which specifically summarise and address the financial, contractual and commercial risks that the Company is exposed to and are pertinent to the industry in which the Company operates.

The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to a Group financial model, which represents the long-term business plan of the Group and

Directors and Directors' interests

The Directors who held office during the year were as follows:

Director		Position
A Barrie	(Resigned 05.11.22)	Non Executive Director
G Beazley-Long		Non Executive Director
D Brooking		Non Executive Director
V Colyer	(Appointed 24.03.22)	Operations Director
J Heath	(Appointed 23.06.22)	Non Executive Director
C Leverd	(Resigned 23.06.22)	Non Executive Director
A R McColl		Finance & Commercial Director
P Meffan		Non Executive Director
D Monk	(Appointed 24.11.22)	Non Executive Director
A H Moore		Chairman
N Saunders	(Surname changed 03.01.23)	Non Executive Director
A Thomson		Chief Executive
A V Thorne	(Appointed 05.01.22)	Non Executive Director
M Webber		Non Executive Director

According to the Register of Directors' Interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them, during the year.

Disclosure of information to auditor

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

Directors' report *(continued)*

Audit Committee

The Company is a subsidiary of ADHL. The Board of ADHL has constituted an Audit Committee. The Audit Committee is responsible to that Board for satisfying itself that the financial affairs of the Group's companies are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the companies in the Group and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the Company; and to review the need to carry out changes proposed by any internal audits carried out by the shareholders. The Audit Committee is comprised of the Non-Executive Directors appointed by each shareholder and is chaired by the Chairman.

Directors' Liabilities

The directors have the benefit of a qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) as they maintain Directors' and Officers' insurance in respect of the Company and its directors, and the Company has indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties. This insurance and these indemnities were in force throughout the financial year and up to the date of approval of these accounts.

Future Business Developments

The Company's activities are restricted to financing the Project. The Company's borrowings are scheduled to be repaid biannually until 2040, and the Project Agreement provides for service delivery to the Authority by the ADL until April 2041, unless it is terminated in accordance with its provisions. The Company's borrowings are expected to continue to reduce from positive cash flow from the Project.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Section 172(1) Statement including engagement with suppliers, customers and others in a business relationship with the Company

The Strategic Report includes a statement summarising how the Directors have had regard to the matters set out in Section 172(1) sub paragraphs a) to f) of the Companies Act 2006 in coming to decisions by the Company during the year.

Directors' report *(continued)*

Streamlined Energy and Carbon Reporting ("SECR")

The Company is taking the exemption to produce a Streamline Energy and Carbon report as it produces less than 40,000kWh of energy.

By order of the Board



Angus McColl (Sep 21, 2023 21:04 GMT+1)

AR McColl
Company Secretary

Aspire Business Centre
Ordnance Road
Tidworth
SP9 7QD

21 September 2023

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 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 its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.


Angus McColl (Sep 21, 2023 21:04 GMT+1)

AR McColl
Finance Director

21 September 2023

Independent auditor's report to the members of Aspire Defence Finance plc

1 Our opinion is unmodified

We have audited the financial statements of Aspire Defence Finance Plc ("the Company") for the year ended 31 December 2022 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 31 December 2006. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2021) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of intra-group receivables balances

Risk vs 2021:

£1,304.8 million; 2021: (£1,346.1 million)

Refer to page 22-24 (accounting policy) and page 27-28 (financial disclosures).

The risk

The carrying amount of the Company's intra-group receivables balances, held at amortised cost less impairment represents 99.9% (2021: 99.9%) of the Company's total assets.

Independent auditor's report to the members of Aspire Defence Finance plc (*continued*)

We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatements or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be the area which will have the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response

Our procedures included:

- Tests of detail: Comparing the carrying amount of the intra-group receivable with the net asset value of Aspire Defence Limited (the intra-group related party), excluding the intra-group liability to Aspire Defence Finance Plc, to identify whether the remaining net asset value of the counterparty is sufficient to repay the intra-group receivables.
- Forecast review: We inspected Aspire Defence Limited's forecasts, to identify whether it is appropriate to consider it likely that sufficient cash will be generated to allow the repayment of the debt, when it falls due. As part of assessing the forecast cash inflows we have inspected the agreement between Aspire Defence Limited and the Secretary of State for Defence guaranteeing the unitary charge income until 2041, subject to meeting performance requirements, and assessed that the forecast cash flows are in line with our own expectations based on our knowledge of the entity and experience of the industry in which it operates.
- We performed the tests above rather than seeking to rely on any of the company's controls because the small number of transactions meant that detailed testing is inherently the most effective means of obtaining audit evidence.

Our results

The results of our testing were satisfactory and we considered the recoverable amount of the intra-group receivables to be acceptable. (2021: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £11.0 million (2021: £11.0 million), determined with reference to a benchmark of total assets of which it represents 0.84% (2021: 0.82%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £8.25 million (2021: £8.25 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55 million (2021: £0.55 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

Independent auditor's report to the members of Aspire Defence Finance plc (*continued*)

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included :

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board minutes
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent turnover recognition, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition as the company has no revenue.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

We did not identify any additional fraud risks.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

Independent auditor's report to the members of Aspire Defence Finance plc (*continued*)

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Aspire Defence Finance plc (*continued*)

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

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.



Matthew Gillett (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Gateway House

Eastleigh

Hampshire

SO53 3TG

22 September 2023

Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 December 2022

	<i>Note</i>	2022 £000	2021 £000
Financial income	5	71,971	74,206
Financial expenses	6	(71,835)	(74,067)
Profit before tax		136	139
Taxation	7	(26)	(26)
Profit for the financial year		110	113
Total comprehensive income for the year		110	113

All amounts arise from continuing operations.

The notes on pages 19 to 34 form part of these financial statements.

Balance Sheet at 31 December 2022

		31 December 2022 £000	31 December 2021 £000
Assets			
Non current assets			
Loans due from group undertakings	8	1,245,549	1,287,445
Current assets			
Loans due from group undertakings	8	42,273	41,050
Interest on loans due from group undertakings		17,004	17,558
Prepayments		554	571
Cash at bank and in hand		182	187
		60,013	59,366
Total assets		1,305,562	1,346,811
Liabilities			
Current liabilities			
Interest bearing loans and borrowings	9	(42,273)	(41,050)
Current tax liabilities		(26)	(26)
Interest accruals on loans and borrowings		(16,974)	(17,527)
Deferred income		(554)	(571)
		(59,827)	(59,174)
Non current liabilities			
Interest bearing loans and borrowings	9	(1,245,575)	(1,287,474)
Total liabilities		(1,305,402)	(1,346,648)
Net assets		160	163
Equity			
Issued share capital	10	50	50
Retained earnings		110	113
		160	163

The notes on pages 19 to 34 form part of these financial statements.

These financial statements were approved by the Board of Directors on 21 September 2023 and were signed on its behalf by:


Angus McColl (Sep 21, 2023 21:04 GMT+1)

AR McColl
Finance Director

Statement of Changes in Equity

for the year ended 31 December 2022

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021	50	117	167
Comprehensive income for the year	-	113	113
Dividend	-	(116)	(116)
Rounding due to accounts presented in £,000s	-	(1)	(1)
Balance at 31 December 2021	50	113	163
Comprehensive income for the year	-	110	110
Dividend	-	(112)	(112)
Rounding due to accounts presented in £,000s	-	(1)	(1)
Balance at 31 December 2022	50	110	160

The notes on pages 19 to 34 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2022

	2022 £000	2021 £000
Cash flow from operating activities		
Profit before tax	136	139
<i>Adjustments for:</i>		
Financial income	(71,971)	(74,206)
Financial expense	71,835	74,067
Net cash outflows from operating activities	-	-
Cash flows from investing activities		
Interest received	71,874	74,084
Repayment of loans from fellow subsidiaries	41,340	39,763
Tax paid on investing activities	(26)	(27)
Net cash inflows from investing activities	113,188	113,820
Cash flows from financing activities		
Interest paid	(71,741)	(73,947)
Repayment of borrowings	(41,340)	(39,763)
Dividends paid	(112)	(116)
Net cash outflows from financing activities	(113,193)	(113,826)
Net decrease in cash and cash equivalents	(5)	(6)
Cash and cash equivalents at the beginning of the year	187	193
Cash and cash equivalents at the end of the year	182	187

Cash and cash equivalents comprise cash balances

The notes on pages 19 to 34 form part of these financial statements.

Notes to the financial statements *(forming part of the financial statements)*

1 Accounting policies

(a) Corporate information

The Company is a public company limited by shares, incorporated and domiciled in England, UK, with a registered office in Aspire Business Centre, Ordnance Road, Tidworth, SP9 7QD, England. Registered number 5700404.

(b) Basis of preparation

The company financial statements have been prepared and approved by the directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS").

Going Concern

The Company is a special purpose vehicle formed to act as a financing conduit to raise the debt finance associated with the Project.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides the Company will have sufficient funds to meet its liabilities as they fall due for that period and to operate within the covenant ratios specified in the terms of its Bonds.

The Company lent the proceeds raised from the Bonds to ADL on similar terms. Therefore, to meet its liabilities the Company is dependent on ADL generating sufficient cashflows to make debt service payments to the Company. Consequently, in making this assessment the Directors have reviewed the cashflow forecasts for ADL covering a period of at least 12 months from the date of approval of these financial statements. These forecasts also take account of severe but plausible downside scenarios. Specifically, the Directors have considered if, in downside scenarios, ADL's operational performance would lead to deductions awarded against ADL in accordance with the terms of the Project Agreement sufficient to cause an event of default under either the terms of the Bonds or the Project Agreement. The cashflow forecasts indicate that, even in downside scenarios, ADL will be able to make all required payments of principal and interest throughout the forecast period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

1 Accounting policies *(continued)*

Impact of new and revised standards

None

Standards, amendments and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. These are not mandatory until the period stated and have therefore not been adopted in the current year. Unless otherwise stated, the Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the future financial statements of the Company.

Effective Date	New standards or amendments
1 Jan 2023	Classification of debt with covenants as current or non-current (Amendments to IAS 1)
1 Jan 2023	Disclosure of Accounting Policies (Amendments to IAS 1)
1 Jan 2023	Definition of Accounting Estimate (Amendments to IAS 8)
1 Jan 2024	Classification of liabilities as current or non-current (Amendments to IAS 1)

(c) Measurement convention

The statutory accounts have been prepared on the historical cost basis.

(d) Accounting estimates and critical judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. There are no significant accounting estimates or critical judgements affecting the company

(e) Interest and ongoing finance charges

Finance income comprises interest income on loans to group undertakings. Income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(f) Debt issue costs

Costs arising in connection with the arrangement of loan finance are offset against the carrying value of the loan and are amortised through profit and loss over the period of the loan on the effective interest rate method. The costs are fully recovered from ADL so an equal and opposite receivable and interest income is shown in the statement of financial position and profit or loss respectively.

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

1 Accounting policies *(continued)*

(g) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

There are no temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, therefore no deferred tax has occurred.

(h) Financial Instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. All the Company's financial assets are measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

1 Accounting policies *(continued)*

(h) Financial Instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

(b) Subsequent measurement and gains and losses

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities at amortised cost - These liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit and loss.

(iii) Impairment

The company recognises loss allowances for expected credit losses ("ECLs" or "ECL") on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than an agreed period of days past due

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

(h) Financial Instruments *(continued)*

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2 Audit fees

	2022	2021
	£000	£000
Auditor's remuneration – audit of the statutory financial statements	24	23
	<u> </u>	<u> </u>

One consolidated audit fee is paid by a fellow subsidiary company in respect of the audit of the Group.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

3 Remuneration of Directors

The Chief Executive, the Finance Director and the Operations Director are employed by ADL and are remunerated by that company for their services to the Group as a whole. The Chairman is also remunerated by ADL for services to the Group as a whole.

	2022 £000	2021 £000
Portion attributable to services provided to the Company	43	31

The other Directors of the Company are employed by either KBR, Inc. or Innisfree Limited or InfraRed Capital Partners Limited or a subsidiary thereof and are remunerated by subsidiary companies of the respective groups for their services to each group as a whole. InfraRed Capital Partners Ltd employs directors for and on behalf of InfraRed Infrastructure Holdings Limited and InfraRed Infrastructure Yield Holdings Limited. They receive no emoluments in respect of services provided to the Company. Charges are made by the parent company's shareholder groups for the services of the Directors, these are paid by ADL.

	2022 Non-Executive £'000	2021 Non-Executive £'000
Kellogg Brown & Root Ltd	6	5
Innisfree Limited	6	5
InfraRed Capital Partners Ltd	2	3
	16	13

The Company's immediate and ultimate parent undertaking is ADHL, which in turn is owned is owned 45% by KBR (UK) Investments Limited, 37.5% by Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, 12.5% by Infrastructure Investment Holdings Limited and 5% by InfraRed Infrastructure Yield Holdings Limited. The ultimate parent company of KBR (UK) Investments Limited and Kellogg Brown & Root Limited is KBR, Inc (also see Note 12).

4 Employees

The Company has no employees (2021: Nil).

5 Financial income

	2022 £000	2021 £000
Interest on amounts owing from ADL:		
Interest on Senior On Loan	59,926	61,731
Interest on Junior On Loan	12,045	12,475
	71,971	74,206

Notes to the financial statements *(continued)*
(forming part of the financial statements)

6 Financial expenses

	2022 £000	2021 £000
Interest payable on guaranteed secured Bonds	59,805	61,605
Interest payable on Loan Notes	12,030	12,462
	71,835	74,067

7 Taxation

	2022 £000	2021 £000
Analysis of charge in year: -		
<i>UK corporation tax</i>		
Current tax on income for the year	26	26
	26	26
Tax on profit		
	26	26

There is no unprovided deferred tax.

Factors affecting the tax charge for the current year: -

The differences between the tax charge for the year and the effective statutory rate of corporation tax for the year of 19.0% (2021: 19%) are explained below.

	2022 £000	2021 £000
<i>Current tax reconciliation</i>		
Profit before tax	136	139
	26	26
Current tax at 19.0% (2021: 19%)		
	26	26
Total tax charge	26	26

The November 2022 Autumn Budget announced that a rate of 25% would apply with effect from 1 April 2023. This will increase the company's future tax charge accordingly.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

8 Loans due from group undertakings

	2022 £000	2021 £000
Non-current assets		
Senior On-Loan	1,152,098	1,189,734
Junior On-Loan	93,451	97,711
	1,245,549	1,287,445
Current assets		
Senior On-Loan	37,991	37,240
Junior On-Loan	4,282	3,810
	42,273	41,050

There have been no impairment write-downs during the year (2021: *£nil*).

Loans due from group undertakings are advances of the net bond proceeds (the “Senior On-Loan”), the share subscription and shareholder Loan Notes proceeds (the “Junior On-Loan”) to ADL, a fellow subsidiary, for the purpose of financing the project company. The advances are made on an arm’s length basis. Interest accruing on the Senior On-Loan is payable at the bond coupon rate plus 1 basis point (4.684%) plus the reimbursement of any ongoing finance fees incurred by the company. Interest accruing on the Junior On-Loan is payable at LIBOR plus 100 bps on the share subscription proceeds of £50k (effective rate 3.68% (2021: 1.17%) during the year) and at the coupon rate plus 1 basis point on the shareholder Loan Notes (12.01%).

Payments of interest and principal are timed to coincide with the Company’s obligations at each payment date in March and September.

9 Interest bearing loans and borrowings

	2022 £000	2021 £000
Non-current liabilities		
Guaranteed secured Bonds	1,152,106	1,189,742
Loan Notes	93,469	97,732
	1,245,575	1,287,474
Current liabilities		
Guaranteed secured Bonds	37,991	37,240
Loan Notes	4,282	3,810
	42,273	41,050

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

9 Interest bearing loans and borrowings *(continued)*

On 6 April 2006, the Company issued £884m 4.674% Series A Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series A Variation Bonds), and £884m 4.674% Series B Fixed Rate Guaranteed Secured Bonds due 2040 (including £152.5m Series B Variation Bonds). The principal is repayable on a scheduled basis from 2014 to 2040 and interest is payable half yearly in March and September.

The Company retained £230m Authority Variation Bonds and £75m Rescue Variation Bonds ("the Variation Bonds") which it could have later sold to finance change and certain contingencies. The Variation Bonds were cancelled in 2014 and 2015. Accordingly, no Variation Bonds remain in issue.

The Bonds are secured by first priority charges over the whole of the Company's undertaking, property and assets, and those of its parent, ADHL, and its fellow subsidiary, ADL. In addition, the Series A Bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to a financial guarantee issued by Ambac Assurance UK Limited. Pursuant to an Extraordinary Resolution passed at a Bondholder meeting on 16 June 2023 the Series B Bonds are now unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by Assured Guaranty Municipal Corp. as to 85% and Assured Guaranty UK Limited as to 15%. Previously the Series B Bonds were unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to a financial guarantee issued by Assured Guaranty UK Limited.

On 6 April 2006 the Company entered into a Loan Note Subscription Agreement and subsequently Deeds of Accession and Adherence thereto pursuant to which the loan note holders agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. The loan note subscription obligation has now been fully satisfied. Interest is payable half yearly in March and September and capital is repayable on a scheduled basis between 2015 and 2034, subject to the achievement of certain financial tests. The Loan Notes are subordinate to the Bond financing.

Changes in liabilities resulting from financing activities

	2021	Cashflows	Non-cash movements	2022
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1 year	(41,050)	41,340	(42,563)	(42,273)
Interest bearing loans and borrowings greater than 1 year	(1,287,474)	-	41,899	(1,245,575)
Interest accrual and deferred income	(18,098)	71,706	(71,136)	(17,528)
	<u>(1,346,622)</u>	<u>113,046</u>	<u>(71,800)</u>	<u>(1,305,376)</u>
	2020	Cashflows	Non-cash movements	2021
	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings within 1 year	(39,475)	39,763	(41,338)	(41,050)
Interest bearing loans and borrowings greater than 1 year	(1,328,150)	-	40,676	(1,287,474)
Interest accrual and deferred income	(18,640)	73,913	(73,371)	(18,098)
	<u>(1,386,265)</u>	<u>113,676</u>	<u>(74,033)</u>	<u>(1,346,622)</u>

Non-cash movements represent the interest payable measured under the effective interest method and reallocation of the amounts due within one year from greater than one year for presentational purposes.

Notes to the financial statements *(continued)*
(forming part of the financial statements)

10 Share capital

	2022	2021
	£000	£000
<i>Allotted, called up and fully paid</i>		
50,000 ordinary shares of £1 each	50	50

11 Financial instruments

The Company's principal financial instruments comprise short term bank deposits, guaranteed secured Bonds, and the on-loan of the bond proceeds, junior debt and equity to the project company, ADL. The objective of the Company's financial instruments is to provide sufficient financial resources to fund the operating requirements of the project company, ADL, whilst ensuring that the Company's own cash flows are efficiently tailored to meet its debt service obligations.

Nature and extent of risks arising from financial instruments

The Company's authorised investments are defined in its collateral deed. The deed sets out for each category of permitted investment the parameters for the management of risks. Where the Company seeks to deviate from the stated parameters Board and controlling creditor approval must be obtained.

The Company's activities expose it to a variety of financial risks:

- Credit risk
- Liquidity risk
- Market risk

The Company does not undertake financial instrument transactions which 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 so to do is restricted by covenants in its existing funding agreements

Exposure to credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. The Company has an intercompany balance outstanding from fellow subsidiary, ADL. ADL's income, which is earned from the Project Agreement with the Authority has been structured to meet its repayments to the Company.

The Company has no historical experience of counterparty default.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2022	2021
	£000	£000
Cash at bank and in hand	182	187
Amounts due from fellow subsidiary undertakings	1,304,826	1,346,053
	1,305,008	1,346,240

Notes to the financial statements (*continued*)
(*forming part of the financial statements*)

11 Financial instruments (*continued*)

The ageing of financial assets at the reporting date was:

	2022 £000	2021 £000
Due within one year	59,459	58,795
Due after one year	1,245,549	1,287,445
	1,305,008	1,346,240

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company ensures that it has adequate cash resources and borrowing arrangements at all times, to have the level of funds available which are necessary for the achievement of its business. A significant proportion of the Company's financial obligations consist of the Senior and Junior borrowings.

The Directors are satisfied that the Authority will be able to fulfil its obligations under the Project Agreement to the project company, ADL. They are therefore also content that ADL will make the scheduled payments required under the senior and junior on-loan agreements so that the Company can meet its own debt service obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2022	Carrying Amount £000	Contractual Cash flows £000	Less than One year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Interest accruals	16,970	16,970	16,970	-	-	-
Series A Bonds	595,049	922,261	48,010	47,119	138,884	688,248
Series B Bonds	595,049	922,261	48,010	47,119	138,884	688,248
Loan Notes	97,751	183,043	15,905	15,906	47,731	103,501
	1,304,819	2,044,535	128,895	110,144	325,499	1,479,997
31 December 2021	Carrying Amount £000	Contractual Cash flows £000	Less than One year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Interest accruals	17,524	17,524	17,524	-	-	-
Series A Bonds	613,491	970,816	48,555	48,010	139,369	734,882
Series B Bonds	613,491	910,816	48,555	48,010	139,369	734,882
Loan Notes	101,545	198,947	15,904	15,904	47,725	119,414
	1,346,051	2,158,103	130,538	111,924	326,463	1,589,178

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

11 Financial instruments *(continued)*

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The interest rates for the Bonds, the Loan Notes and the on-loans to ADL are fixed for the terms of the loans.

At the reporting date the interest rate profile of interest bearing financial instruments was:

	2022 £000	2021 £000
Fixed rate instruments		
Financial assets	1,304,776	1,346,003
Financial liabilities	(1,304,819)	(1,346,051)
	<u>(43)</u>	<u>(48)</u>
Variable rate instruments		
Financial assets	<u>232</u>	<u>237</u>

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through the profit or loss or available for sale with fixed interest rates. The analysis is performed on the same basis for 2021.

31 December 2022	Profit or loss		Equity	
	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
Variable rate instruments	2	(2)	2	(2)
Cash flow sensitivity	<u>2</u>	<u>(2)</u>	<u>2</u>	<u>(2)</u>

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

11 Financial instruments *(continued)*

31 December 2021	Profit or loss		Equity	
	100 bp increase £000	100 bp decrease £000	100 bp increase £000	100 bp decrease £000
Variable rate instruments	2	(2)	2	(2)
Cash flow sensitivity	2	(2)	2	(2)

Price and foreign exchange risk

The Company does not invest in instruments such as equity shares and does not have financial assets or liabilities denominated in foreign currencies. Therefore, the Company has no exposure to these risks.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2022 Carrying Amount £000	2022 Fair Value £000	2021 Carrying Amount £000	2021 Fair Value £000
Cash at bank and in hand	182	182	187	187
Accrued income	17,004	17,004	17,558	17,558
Senior on-loan	1,190,089	1,104,534	1,226,973	1,629,507
Junior on-loan	97,683	97,419	101,471	121,821
Junior on-loan	50	50	50	50
Accruals	(16,974)	(16,974)	(17,524)	(17,524)
Series A Bonds	(595,049)	(522,204)	(613,491)	(810,914)
Series B Bonds	(595,049)	(584,108)	(613,491)	(817,341)
Loan Notes	(97,751)	(97,331)	(101,545)	(121,870)
	185	(1,428)	188	1,474

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

11 Financial instruments *(continued)*

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

For payables and receivables with a remaining life of one year or less and floating rate payables, the carrying amount is deemed to reflect the fair value as permitted under IFRS 7.29. The Series A and Series B fair values were measured at the reporting date using published market prices. The fair values of the on-loans and the Loan Notes are estimated using the Bond fair values as a guide to the market price.

Fair value hierarchy

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable)

31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at amortised cost				
Cash at bank	182	-		182
Amounts due from fellow subsidiaries	-	1,219,007	-	1,219,007
Total financial assets	182	1,219,007	-	1,219,189
Financial liabilities				
Interest bearing loans and borrowings	(1,106,312)	(97,331)	-	(1,203,643)
Other payables	-	(16,970)	-	(16,970)
Total financial liabilities	(1,106,312)	(114,301)	-	(1,220,613)
Total financial instruments	(1,106,130)	1,104,707	-	(1,424)

Notes to the financial statements *(continued)* *(forming part of the financial statements)*

11 Financial instruments *(continued)*

31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at amortised cost				
Cash at bank	187	-	-	187
Amounts due from fellow subsidiaries	-	1,768,936	-	1,768,936
Total financial assets	187	1,768,936	-	1,769,123
Financial liabilities				
Interest bearing loans and borrowings	(1,628,255)	(121,870)	-	(1,750,125)
Other payables	-	(17,524)	-	(17,524)
Total financial liabilities	(1,628,255)	(139,394)	-	(1,767,649)
Total financial instruments	(1,628,068)	1,629,542	-	1,474

12 Related party disclosures

The Company entered into the following material transaction with related parties (see Note 3):

On 6 April 2006 the Company entered into a Loan Note Subscription Agreement pursuant to which (as amended by subsequent Deeds of Accession and Adherence) KBR (UK) Investments Limited, InfraRed Infrastructure Yield Holdings Limited, Innisfree Nominees Limited as nominee for and on behalf of Innisfree PFI Secondary Fund, and Infrastructure Investments General Partner Limited (in its capacity as general partner of Infrastructure Investments Limited Partnership) agreed to subscribe for £119.9m 12% Loan Notes in twenty equal quarterly instalments. Proceeds from the Loan Note subscriptions were lent to Aspire Defence Ltd at a margin of 1 basis point. All subscription obligations have now been fulfilled.

The interest paid to the Loan note holders during the year and outstanding balances at the year-end were as follows:

	2022 Balance outstanding £000	2022 Accrued interest £000	2022 Interest paid £000	2021 Balance outstanding £000	2021 Accrued interest £000	2021 Interest paid £000
KBR (UK) Investments Limited	44,118	1,334	5,450	45,839	1,386	5,640
Innisfree PFI Secondary Fund	36,765	1,112	4,542	38,199	1,155	4,700
Infrastructure Investments General Partner Limited*	12,255	371	1,514	12,733	385	1,567
InfraRed Infrastructure Yield Holdings Limited	4,902	148	606	5,093	154	627
	98,040	2,965	12,112	101,864	3,080	12,534

* in its capacity as general partner of Infrastructure Investments Limited Partnership

Notes to the financial statements *(continued)*
(forming part of the financial statements)

13 Post Balance Sheet Event

There were no adjusting post balance sheet events.

14 Immediate parent undertaking

The Company's immediate and ultimate parent undertaking is Aspire Defence Holdings Limited, whose registered office is Aspire Business Centre, Ordnance Road, Tidworth, England, SP9 7QD.

The only group in which the financial statements of the Company are consolidated is that headed by Aspire Defence Holdings Limited. The consolidated financial statements of that group may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff.