

APPENDIX 8: FINANCIAL STANDING REPORT

In this Appendix, we review the financial strength and fund-raising capability of BAM PPP, which describes itself as “the specialist PPP/PFI investment arm of the Royal BAM Group”, which is listed on Amsterdam Stock Exchange and has an annual turnover of just over £5 billion. Its UK arm grew out of the former GA Group. GA was a Glasgow-based construction company, which was taken over by HBG, a Dutch construction company which in its turn was acquired by the Royal BAM Group.

BAM / HBG propose to deliver both the construction and FM services required to deliver the West Dunbartonshire schools directly from within the organisation. The Group currently has a portfolio of 17 PPP projects in the UK, of which seven are in the education sector, providing 21,700 pupil places in 26 separate schools with a combined capital value of £310 million – implying that the average capital cost of BAM's educational projects is approximately £45 million. Of the Group's 17 projects, 14 are fully operational, two partially operational, and one is under construction. The fact that BAM have only one project under construction suggests that they have the resources to commit to another project.

The key parties within the BAM Group are as follows:

- BAM PPP Investments UK bv: the sole equity provider to the Project Company, West Dunbartonshire Schools Ltd. The equity bridge of £10 million to the Project Co will be fully underwritten by the Royal Dutch BAM Group;
- BAM PPP UK Ltd, which will provide management services to the Project Co;
- HBG Construction Ltd: the design and build contractor;
- HBG (Facilities Management) Ltd: who will be responsible for the FM elements of the project.

Overall, both the Group itself and their advisory team have a strong and credible PPP track record. However, they have not yet taken on a project of the scale of the West Dunbartonshire Schools Partnership.

BAM PPP Investments UK bv will be responsible for providing all the risk capital funding in the form of either equity or subordinated debt.

The design and construction services will be provided by HBG Construction Limited and their obligations will be subject to a parent company guarantee from HBG UK Limited. HBG Construction Ltd had a turnover of £790.4 million for the year to December 31st 2006. In that year, the company posted a pre-tax profit of £19.2 million and had total assets of £294.8 million. Its net shareholder funds were £40.7 million as at December 31st 2006.

Facilities management services will be provided by HBG (Facilities Management) Limited again subject to a parent company guarantee from HBG UK Limited. HBG (Facilities Management) Limited reported a turnover of £13.8 million and a pre-tax loss of just under £1 million for the year to December 31st 2006.

The solvency and financial strength of the BAM group was assessed on the basis of HBG UK Limited as guaranteeing the performance of the construction and FM services and BAM PPP Limited as the equity provider.

The Table below summarises the financial performance of HBG UK Ltd in the five financial years to December 31st 2006.

**Appendix 8, Table 1:
Summary Accounts for HBG UK Ltd, 2002-2006 (£m)**

Year Ending 31 December	2002	2003	2004	2005	2006
<i>Summary Profit & Loss Account</i>					
Turnover	651.8	632.6	786.8	772.9	882.3
Operating costs	<u>-635.5</u>	<u>-612.9</u>	<u>-758.7</u>	<u>-750.3</u>	<u>-856.6</u>
Operating profit	16.3	19.7	28.1	22.6	25.7
Net finance income (costs)	<u>-1.5</u>	<u>-1.0</u>	<u>-7.2</u>	<u>1.7</u>	<u>16.3</u>
Profit before tax	14.8	18.7	20.9	24.3	42.0
Corporation tax charge	<u>-2.7</u>	<u>-5.6</u>	<u>-7.0</u>	<u>-5.1</u>	<u>-10.4</u>
Profit after tax	12.1	13.1	13.9	19.2	31.6
<i>Summary Balance Sheet</i>					
Tangible assets	7.2	65.5	66.5	70.4	8.6
Investments	0.2	0.7	1.1	0.5	0.0
Net current assets	<u>79.8</u>	<u>67.5</u>	<u>105.3</u>	<u>131.4</u>	<u>186.6</u>
<i>Total assets</i>	<i>87.2</i>	<i>133.7</i>	<i>172.9</i>	<i>202.3</i>	<i>195.2</i>
Long-term creditors & provisions	<u>-21.3</u>	<u>-63.4</u>	<u>-110.8</u>	<u>-134.4</u>	<u>-95.1</u>
<i>Net assets</i>	<i>65.9</i>	<i>70.3</i>	<i>62.1</i>	<i>67.9</i>	<i>100.1</i>
<i>Financed by:</i>					
Called up share capital	40.0	40.0	40.0	40.0	40.0
Profit and loss account	<u>25.9</u>	<u>30.3</u>	<u>22.1</u>	<u>27.9</u>	<u>60.1</u>
<i>Total shareholders' funds</i>	<i>65.9</i>	<i>70.3</i>	<i>62.1</i>	<i>67.9</i>	<i>100.1</i>
Turnover / shareholders' funds	9.9	9.0	12.7	11.4	8.8

As shown in the Table, HBG UK Ltd reported a turnover rising from £770 million to £880 million in the 2005 and 2006 financial years, generating an operating profit of £23 million in 2005 and £26 million in 2006. Its net assets and shareholders' funds at the end of 2006 stood at just over £100 million. Overall, HBG UK's net assets are less than the total cost of the West Dunbartonshire schools project and it has a comparatively low operating margin –

which could reflect keen pricing for the contracts on which it is currently retained. However, one key solvency indicator is the ratio of turnover to shareholders' funds, shown in the final row of the Table. HBG UK's accounts show this has been stable at around 10-12 over the four years to December 31st 2005, and fell to 8.8 in the financial year ending December 31st 2006. From our analysis of this ratio, a turnover to shareholders fund ratio of 16 or below is associated with financially stable construction companies.

Overall, therefore, there is a reasonable expectation that HBG UK is of sufficient scale and strength to successfully deliver the West Dunbartonshire Schools Project, although it should be noted that, while the group has a solid track record in UK PFI deals, the largest project on which it has been involved to date is only about half the size of the proposed WDC Schools PPP – being the Bromsgrove schools project with a total financial requirement of £65 million.