



**Aspire**  
defence

## **Project Allenby/Connaught**

**£[1,468]m Fixed Rate AAA/Aaa Rated Amortising Notes, sold as:**

**Series A: £[734]m wrapped by Ambac**

**Series B: £[734]m wrapped by MBIA**

**March 2006**



## Strategic Importance to MOD

- The Project covers approximately 35% of Army UK Based Trained Manpower (20% of total manpower)
- Salisbury Plain is the principle All Arms Manoeuvre Training Area in UK
- The Project delivers two key objectives of the 1998 Strategic Defence Review:
  - Improving working and living accommodation
    - Identified as a major factor in morale, effectiveness, recruiting and retention
  - Providing accommodation for Units returning from Germany
    - 2<sup>nd</sup> Royal Tank Regiment in July 2007 is a key deliverable

# Agenda

- Introduction
- Transaction highlights
- Key parties
- Financing structure
- Summary
- Monoline information



# Introduction



# Issuance Structure

The proposed issuance for the financing of the project consists of two fixed rate, wrapped, amortising Sterling debt tranches as follows:

Debt Issuance	
<b>Total Issuance</b>	£ [1,468] Million (plus additional £305 Million of Variation Bonds) sold as: <ul style="list-style-type: none"> <li>• Series A (Ambac): £ [734] Million</li> <li>• Series B (MBIA): £ [734] Million</li> </ul>
<b>Type</b>	Fixed Rate Sterling
<b>Anticipated Wrapped Rating</b>	<ul style="list-style-type: none"> <li>• <b>S&amp;P:</b> AAA</li> <li>• <b>Moody's:</b> Aaa</li> </ul>
<b>Anticipated Underlying Rating</b>	<ul style="list-style-type: none"> <li>• <b>S&amp;P:</b> BBB-</li> <li>• <b>Moody's:</b> Baa3</li> </ul>
<b>Legal Maturity</b>	34 years (1 year tail on the Project Agreement)
<b>Grace Period</b>	8.5 years until amortisation commences
<b>Weighted Average Life</b>	25 years

## Debt Security Package

- Fixed and floating charges
- Security over project accounts and contracts
- Assignment of insurance policies
- Step-in rights

## Overview

- Project Allenby/Connaught is a 35 year PFI project providing accommodation and related services to the UK Ministry of Defence (“MOD”)
- The “estate” consists of 4 garrisons across the Salisbury Plain Area and in Aldershot
- The Project is of strategic importance to the MOD
- The Project involves:
  - A 10 year capital works programme with a value of approximately £1,250 million
  - The provision of accommodation and related services

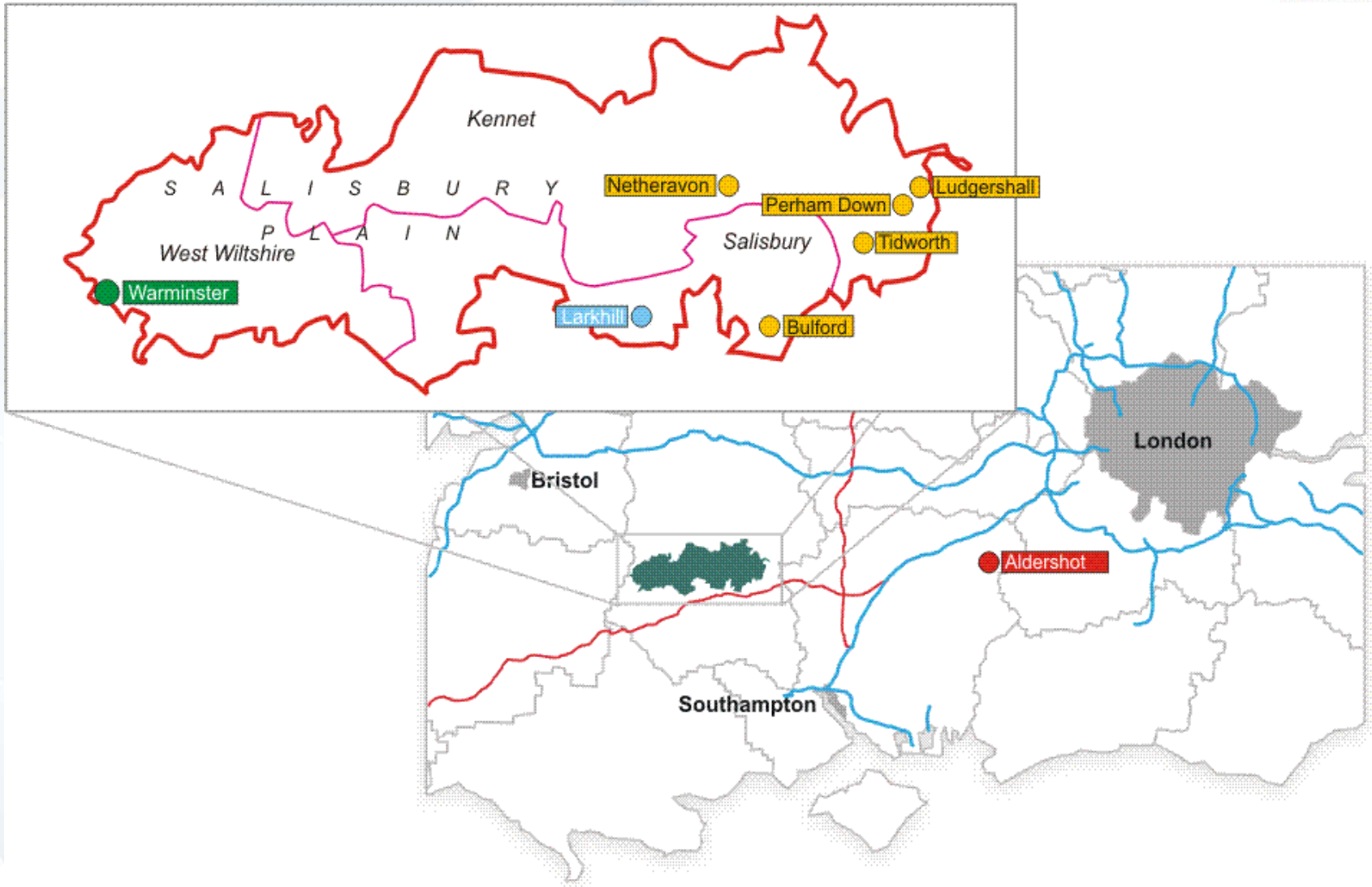


**Project Allenby/Connaught is a large accommodation PFI project of strategic importance to the MOD**





# Project Locations





## Strategic Importance to MOD

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# Transaction Highlights

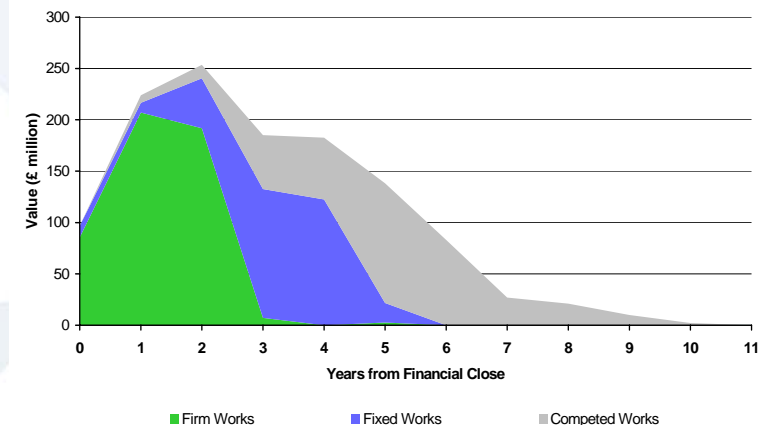


# Transaction Highlights

- 35 year project Contract with no Demand or Third Party revenue risk
- Risks not borne by the Authority are generally either capped or flowed down to sub-contractors (subject to caps)
- Aspire Defence Ltd. (ProjectCo) does hold Lifecycle risk but this is mitigated by prudent cost estimates and Risk Allowances and a Lifecycle Reserve Account (Source: EC Harris TA Report)
- Senior Debt is robust to a conservative range of downside sensitivity and breakeven analysis (Source: Rating Agency Pre-Sales Reports)
- Compensation for no-fault termination repays Senior Debt:
  - Authority Default – Spens
  - Authority Voluntary Termination – Modified Spens
  - FM, Corrupt Gifts, Security, Change in Control – Par
- ProjectCo Default:– Re-tendered Market Value or Estimated Fair Value (Investors protected by monoline wrap)

## Transaction Highlights - Works

- 10 year construction programme for a large number of small, low rise, technically simple, geographically spread accommodation and other facilities = low systemic risk (Source: TA report)
- There is an agreed Transition Plan to ensure MOD operational requirements
- At Financial Close only 39% of Work is set in nominal price terms
- Remainder is set over time to account for inflation (28%) or is subject to benchmarking or competition in the Market (33%) = Appropriate Pricing Risk (source: TA report)
- Revenue from MOD is to a fixed profile not on Acceptance into Service of assets
- Delay damages for delays to the works
- Supported by Sponsor PGC and a liquid support package





## Transaction highlights - Services

- The services to be provided include both soft facilities management (e.g. catering, transport and stores) and hard facilities management (e.g. buildings maintenance) with experienced Service Providers
  - Sodexo, Lex, EDF Energy, RWE Thames Water
- Revenue is indexed at a mix of AEI/RPIX to match cost base (Source: TA Report)
- Benchmarking/Market Testing of soft services at 10 years and every seven years thereafter
- Contractual mechanism to replace service providers in event of poor performance = appropriate protection from termination for ProjectCo (source: TA Report)
- TUPE applies to transferring staff



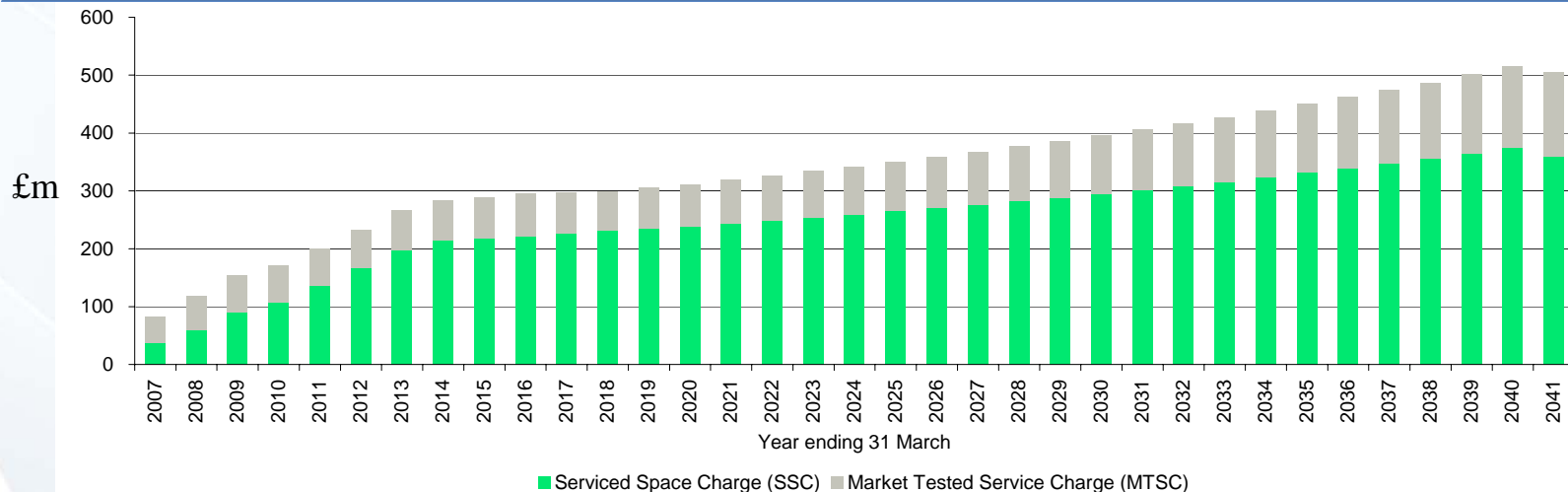


# Payment Mechanism Overview

Aspire Defence will be paid a monthly payment (the “Unitary Payment”) by the MOD of:

- Serviced Space Charge for the provision of available units of space
  - Partly subject to inflation indexation to match cost base
  - Paid according to a specified schedule not acceptance into service of assets
- Market Tested Service Charge for the provision of services
  - For the volume-related element of Soft FM costs
  - Based on a pass-through of costs for providing such services and indexed for inflation

## Revenue Profile



- Deductions may be made for unavailability and/or poor performance

# Key Parties



## Project Sponsors

### Kellogg Brown & Root Ltd

- KBR Holdings LLC (KBR) is the world's second largest global engineering and construction contractor and one of the ten largest defence contractors worldwide, based on 2004 revenues
- Kellogg Brown & Root Ltd, incorporated in UK in 1959 is a wholly owned subsidiary of KBR, and has extensive experience in large PFI and PPP projects

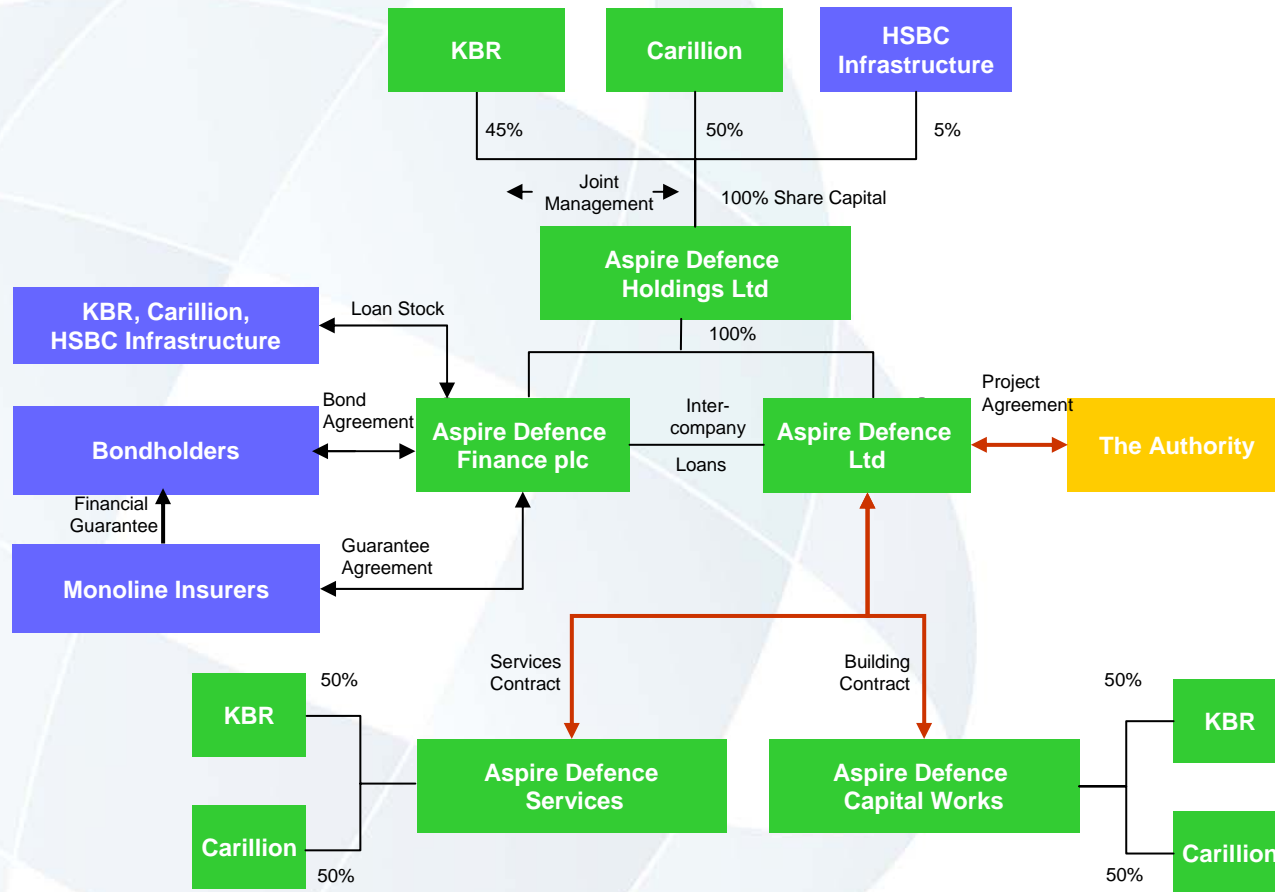
### Carillion plc ("Carillion")

- Carillion is a leading UK construction and support services company by turnover
- Carillion employs 40,000 people in the UK and overseas and has two principal UK businesses: Infrastructure Services and Business Services
- Carillion recently acquired Mowlem plc following a recommended take over





# Immediate Post FC Commercial Structure



# Financing Structure

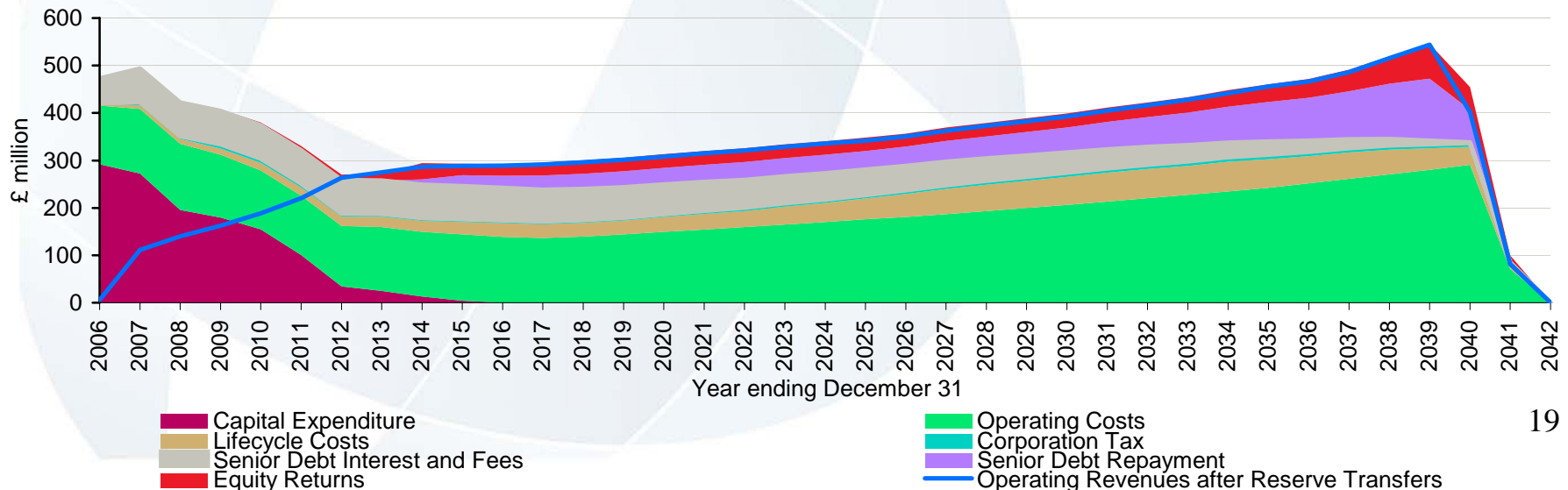




# Sources and Anticipated Uses of Funds

Uses of Funds (First 8 years)	£mn	Sources of Funds (First 8 years)	£mn	% External Funding
Capital Expenditure	1,259	Fixed Rate Guaranteed Bond	1,468	92.4%
Financing Fees and Interest	581	Shareholder Financing	120	7.6%
Loan Stock Interest	50	Net Ops. Cashflow	296	-
Cash/Reserves Movements	156	Interest Income	162	-
<b>Total</b>	<b>2,046</b>	<b>Total</b>	<b>2,046</b>	<b>100%</b>

## Annual Sources and Uses

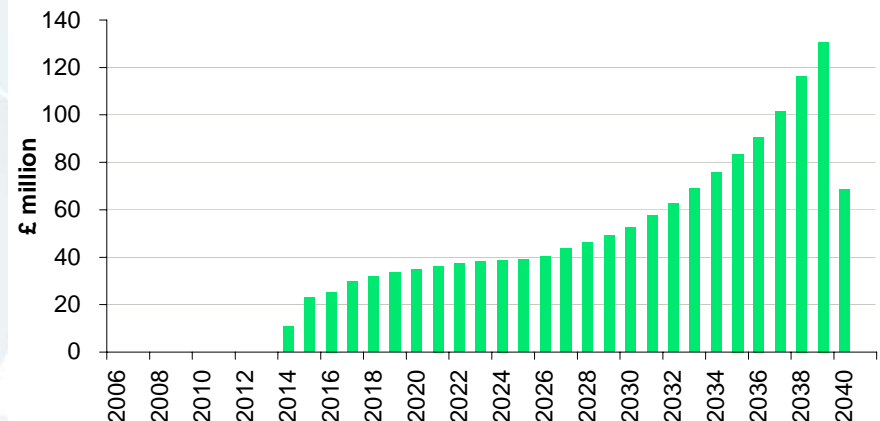
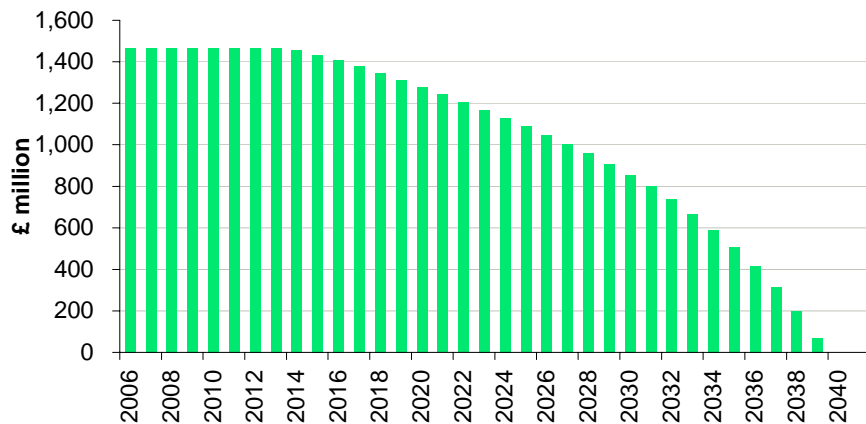


# Bond Outstanding Principal and Amortisation Profile

The outstanding principal and the amortisation profile for the combined Series A and Series B bonds over time is shown below on an annual basis. Series A and Series B are repaid pro-rata

Outstanding Principal

Amortisation Profiles

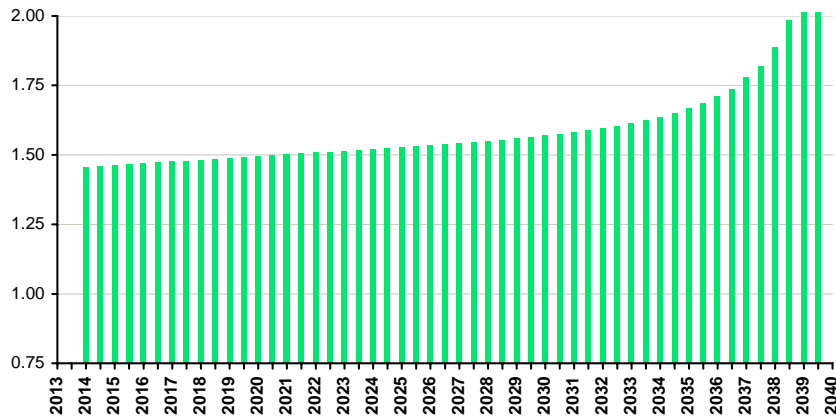




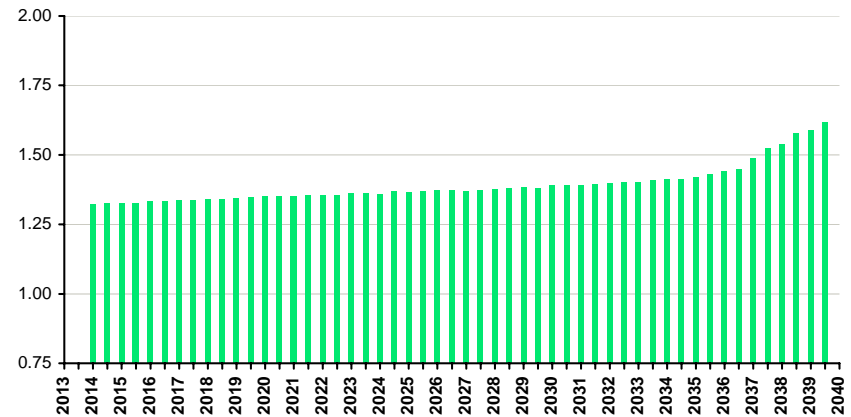
# Senior Debt Cover Ratios

- Base Case debt service cover ratios show a minimum of 1.32 with an average of 1.39
- Base case minimum bond life cover ratio is 1.46
- After the funding availability period, distribution lock-ups at historical ADSCR <1.12; BLCR <1.15; ADSCR for next 5 years <1.12

BLCR



ADSCR



## Key Protections

- Interest and principal repayments are covered by a financial guarantee from AMBAC in respect of the Series A Bonds and MBIA in respect to the Series B Bonds
- £230m Authority Variation Bonds are available for certain cost variations including MOD Change, increase in the cost of “firming” the works or revenue/operating cost indexation mismatch
- In addition to a traditional Debt Service Reserve Account a number of reserves are built to cover the lifecycle budget and cost increase risks
- £20 million Inflation Reserve Account will cover additional funding requirements which may result from a mismatch between revenues and cost indexation
- A PFI covenant package is in place
  - No change in documents or commercial arrangements
  - Use of bond proceeds to be approved by monolines
  - No additional indebtedness/negative pledge
  - Restrictions on sales of equity by Sponsors during the construction phase
  - Distribution lockups based on cover ratios and operating performance criteria

# Summary



## Summary

- Project Allenby/Connaught is a 35 year PFI project for the provision of accommodation and support services for the UK Ministry of Defence. The Project is of strategic importance to the MOD
- The Project is a typical PFI structure with subcontracting of works and services
- KBR and Carillion (the “Sponsors”), both have considerable experience in undertaking similar projects, including with the MOD. They will invest equity and be responsible for the delivery of all services and capital works
- The Payment Mechanism comprises availability-type payments directly from the MOD
- Risks are substantially either borne by the MOD under the Project Agreement or passed to sub-contractors
- Debt Issuance is £[1,468] million (plus £305 million Variation Bonds) sold as: Series A (Ambac): £[734] million, Series B (MBIA) £[734] million





## Process and Timing

- Roadshow: commencing 20 March 2006
- Book building: week commencing 27 March 2006
- Enquires relating to Aspire and the transaction structure should be addressed to either Citigroup or HSBC structuring teams. Enquiries relating to book building and pricing should be directed to the respective syndicate desks or salesperson

## Monoline Information

- Details of AMBAC can be found at [www.ambac.com](http://www.ambac.com)
- Details of MBIA can be found at [www.mbia.com](http://www.mbia.com)
- Details of HSBC can be found at [www.hsbc.com](http://www.hsbc.com)

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