

Registration number: 3722614

Baglan Moor Healthcare Plc

Annual Report and Financial Statements

for the Year Ended 31 March 2018



Baglan Moor Healthcare Plc

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Baglan Moor Healthcare Plc

Company Information

Directors	R Little A Kershaw H Pownall
Company secretary	Semperian Secretariat Services Limited
Registered office	Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

Baglan Moor Healthcare Plc

Strategic Report for the Year Ended 31 March 2018

The directors present their strategic report for the year ended 31 March 2018.

Principal activity

The principal activity of the company is the design, construction, financing, commissioning and maintenance of a new acute general hospital and the provision of non-clinical services for an overall period of thirty years from 12 May 2000, pursuant to, and in accordance with, the terms of a Concession Agreement ("the PFI contract") with Abertawe Bro Morgannwg University Health Board (formerly Bro Morgannwg NHS Trust). This agreement, together with a collateral deed, a construction contract, a facilities management contract and other related contracts were signed on 12 May 2000. On the same date, the Company issued a £65,950,000 3.920% Guaranteed Secured Index-Linked Bond due 2029 to fund the project.

Construction of the hospital was completed on 4 November 2002, with operational activities commencing immediately and the building being fully occupied on 30 November 2002. The company continues to manage the facilities management and maintenance of the PFI contract through its subcontractors.

Results and review of business

The loss for the year is set out in the profit and loss account on page 12. The directors consider the performance of the company during the year and the financial position at the end of the year, to be in line with the long term expected performance of the project.


Principal risks and uncertainties

The company has taken on the activity, as detailed above, and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations. The Board monitors the financial stability of its subcontractor and has contingency plans in place to ensure the continuity of service provision to its client, should the subcontractor become unable to perform its obligations. The financial risks and the measures taken to mitigate them are as detailed in the Directors' report.

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities as managed by the sub-contractor. For this reason, the company's directors believe that further operational key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business. In addition the directors monitor compliance with debt covenant ratios as specified in the senior loan agreement, in particular the Debt Service Cover Ratio, and no non-compliance has been noted.

Approved by the Board on **25 JUL 2018** and signed on its behalf by:


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Semperian Secretariat Services Limited
Company secretary

Baglan Moor Healthcare Plc

Directors' Report for the Year Ended 31 March 2018

Registration number: 3722614

The directors present their report and the audited financial statements for the year ended 31 March 2018.

Future developments

No significant changes are expected to the company's activities, as set out in the Strategic Report, in the foreseeable future.

Dividends

No dividend was paid during the year (2017: £nil).

Financial risk management

The Company's principal financial instruments comprise short term cash and deposits, finance debtor, listed index-linked Bonds and subordinated loan notes. The main purpose of these financial instruments is to fund the design, construction, commissioning and maintenance of the acute general hospital and the provision of non-clinical services for an overall period of thirty years from 12 May 2000. The terms of the financial instruments also ensure that the profile of the debt service costs is tailored to match expected revenues arising from the agreement between the Company and Abertawe Bro Morgannwg University Health Board. The Company does not undertake financial instrument transactions which are speculative or unrelated to the trading activities. The directors have policies for managing each of these risks and they are summarised below:

Interest rate risk

The bond interest rate is 3.92% per annum plus inflation. The subordinated debt interest has been fixed through the use of a fixed funding rate, as set out in note 12.

Inflation risk

The funding to the Company was agreed as part of the overall PFI contracts with lenders, clients and shareholders. The Company's bonds are RPI linked as set out in the notes to the financial statements. The Company's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation over its life.

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Credit risk

The company receives the majority of its revenue from Abertawe Bro Morgannwg University Health Board and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Major maintenance replacement risk

The company is responsible for managing the ongoing major maintenance replacement of the building and relevant equipment, but the risks associated with this activity are largely borne by the subcontractor.

Corporate Governance

The board are appointed by the shareholders and review the financial and operational performance of the company. The company is a special purpose company established to engage in a PFI project as noted in its principal activities in the Strategic Report. The company's business is confined to that project and its activities are clearly defined and restricted by the contracts which it has entered into. The board has an experienced operational management and finance team who monitor the company's and its subcontractors' compliance with those contracts as well as reporting financial and operational performance to the board. Internal audit and risk management processes and systems are also in place to monitor, report and address any significant issues identified.

Baglan Moor Healthcare Plc

Directors' Report for the Year Ended 31 March 2018 (continued)

Other required disclosures

For the year ended 31 March 2018, the Company did not have securities carrying voting rights admitted to trading on a regulated market and therefore disclosures required by paragraph 13 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) are not applicable.

Going concern

Based on Management's operating projections and cash flow forecasts, the Directors believe that the company will generate sufficient cash and have access to working capital facilities to enable it to meet its funding requirements for at least the next 12 months and will continue to comply with its covenants. Accordingly, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Directors of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

R Little

A Kershaw

G Hutt (resigned 7 November 2017 and appointed 11 May 2017)

G Brown (resigned 11 May 2017 and appointed 7 November 2017)

The following director was appointed after the year end:

H Pownall (appointed 10 May 2018)

The following director resigned after the year end:

G Brown (resigned 10 May 2018)

Baglan Moor Healthcare Plc

Directors' Report for the Year Ended 31 March 2018 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 period. In preparing the 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 applicable United Kingdom Accounting Standards, comprising FRS 102, 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.

The directors 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.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

The independent auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, have signified their willingness to continue in office.

Approved by the Board on **25 JUL 2018** and signed on its behalf by:



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Semperian Secretariat Services Limited
Company secretary

Baglan Moor Healthcare Plc

Independent Auditors' Report to the members of Baglan Moor Healthcare Plc

Report on the audit of the financial statements

Opinion

In our opinion, Baglan Moor Healthcare Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2018; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview

Materiality

- Overall materiality: £55,100, based on 1% of Turnover.

Audit scope

- We have performed a full scope audit of Baglan Moor Healthcare Plc.

Key audit matter

- The key audit matter is considered to be around the treatment of the finance debtor and lifecycle provisions.

Baglan Moor Healthcare Plc

Independent Auditors' Report to the members of Baglan Moor Healthcare Plc (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Baglan Moor Healthcare Plc

Independent Auditors' Report to the members of Baglan Moor Healthcare Plc (continued)

Key audit matter

Treatment of finance debtor and lifecycle provisions

The company is in a PFI ('Private Finance Initiative') contract with the Abertawe Bro Morgannwg University Health Board (the "Health Board") for the design, construction, financing, commissioning and maintenance of an acute general hospital and provision of non-clinical services to the Health Board for a period of 30 years from 12 May 2000.

The company recognises amounts due to recompense it for the design, construction and financing element of the hospital (including interest) in its balance sheet as a "finance debtor". Each year, the debtor reduces to reflect payment via unitary charge funding, to part repay design and construction costs and financing expense. The intention being that by the end of the arrangement, the finance debtor is settled in full.

The determination of the amounts to allocate from the unitary charge payment to the imputed interest receivable includes some judgement. Given the estimations and the size of the balances involved, this is an area of focus.

In addition, each year, amounts are allocated from the unitary charge account to lifecycle provisions to meet future costs. This is reflected within "accruals and deferred income" in the Balance Sheet.

This also involves judgement and accordingly is also an area of focus.

How our audit addressed the key audit matter

Our audit addressed the key audit matter as follows:

- We tested the allocations from the unitary charge, to repayment of the finance debtor, imputed interest receivable on the finance debtor and to lifecycle provisions/deferred income balances and checked that the allocated amounts were recognised consistently across the impacted accounts and consistent with Management's financial forecast model. We found the allocations to be accurate.
- We recalculated the imputed interest receivable on the finance debtor. We found the calculations to be accurate.
- We tested the lifecycle deferral calculations applied and validated that they were consistent with Management's financial forecast model.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company is a 'Special purpose vehicle' for a PFI project. The company carries on the business of design, construction, financing, commissioning and maintenance of a new acute general hospital and provision of non-clinical services to Abertawe Bro Morgannwg University Health Board (formerly Bro Morgannwg NHS Trust). We audited the complete financial information of the company, including all material account balances, classes of transactions and financial statement disclosures.

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Independent Auditors' Report to the members of Baglan Moor Healthcare Plc (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£55,100.
How we determined it	1% of Turnover.
Rationale for benchmark applied	We use turnover as a benchmark to determine materiality as given the nature of the company's business, this provides the best insight into the funding levels to meet operational costs, a key focus point for the business.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £2,700 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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Independent Auditors' Report to the members of Baglan Moor Healthcare Plc (continued)

Reporting on other information (continued)

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Baglan Moor Healthcare Plc

Independent Auditors' Report to the members of Baglan Moor Healthcare Plc (continued)

Other required reporting

Companies Act 2006 exception reporting

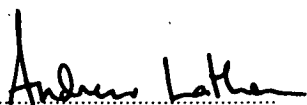
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 31 December 2004 to audit the financial statements for the year ended 31 December 2004 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the year ended 31 December 2004 to the year ended 31 March 2018.



Andrew Latham (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date: 25th July 2018

Baglan Moor Healthcare Plc

Profit and Loss Account for the Year Ended 31 March 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	5,513	5,725
Cost of sales		<u>(4,128)</u>	<u>(3,442)</u>
Gross profit		1,385	2,283
Administrative expenses		<u>(529)</u>	<u>(512)</u>
Operating profit	5	856	1,771
Interest receivable and similar income	6	5,261	4,154
Interest payable and similar charges	7	<u>(6,023)</u>	<u>(4,984)</u>
Profit on ordinary activities before taxation		94	941
Tax on profit on ordinary activities	8	<u>(120)</u>	<u>(169)</u>
(Loss)/profit for the financial year		<u><u>(26)</u></u>	<u><u>772</u></u>

The above results were derived from continuing operations.

The company has no other Comprehensive Income for the year other than the (loss)/profit for the financial year stated above.

The notes on pages 15 to 26 form an integral part of these financial statements.

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Balance Sheet as at 31 March 2018

	Note	2018 £ 000	2017 £ 000
Current assets			
Debtors: Amounts falling due after more than one year	9	64,451	65,810
Debtors: Amounts falling due within one year	10	3,311	3,857
Cash at bank and in hand		<u>15,685</u>	<u>12,818</u>
		83,447	82,485
Creditors: Amounts falling due within one year	11	<u>(7,503)</u>	<u>(8,091)</u>
Total assets less current liabilities		75,944	74,394
Creditors: Amounts falling due after more than one year	11	(69,103)	(67,647)
Provisions for liabilities	13	<u>(2,759)</u>	<u>(2,639)</u>
Net assets		<u>4,082</u>	<u>4,108</u>
Capital and reserves			
Called up share capital	14	50	50
Profit and loss account		<u>4,032</u>	<u>4,058</u>
Total equity		<u>4,082</u>	<u>4,108</u>

Approved and authorised by the Board on **25 JUL 2018** and signed on its behalf by:



A Kershaw
Director

The notes on pages 15 to 26 form an integral part of these financial statements.

Baglan Moor Healthcare Plc

Statement of Changes in Equity for the Year Ended 31 March 2018

	Called up Share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 April 2016	50	3,286	3,336
Profit for the financial year	-	772	772
Total comprehensive income	-	772	772
At 31 March 2017	50	4,058	4,108

	Called up Share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 April 2017	50	4,058	4,108
Loss for the financial year	-	(26)	(26)
Total comprehensive income	-	(26)	(26)
At 31 March 2018	50	4,032	4,082

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The notes on pages 15 to 26 form an integral part of these financial statements.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018

1 General information

The principal activity of the company is the design, construction, financing, commissioning and maintenance of a new acute general hospital and the provision of non-clinical services for an overall period of thirty years from 12 May 2000, pursuant to, and in accordance with, the terms of a Concession Agreement ("the PFI contract") with Abertawe Bro Morgannwg University Health Board (formerly Bro Morgannwg NHS Trust). This agreement, together with a collateral deed, a construction contract, a facilities management contract and other related contracts were signed on 12 May 2000. On the same date, the Company issued a £65,950,000 3.920% Guaranteed Secured Index-Linked Bond due 2029 to fund the project.

Construction of the hospital was completed on 4 November 2002, with operational activities commencing immediately and the building being fully occupied on 30 November 2002. The company continues to manage the facilities management and maintenance of the PFI contract through its subcontractors.

The company is a private company limited by shares and is incorporated and domiciled in England.

The address of its registered office is:

Third Floor
Broad Quay House
Prince Street
Bristol
BS1 4DJ

The company's functional and presentation currency is the pound sterling.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises income when it has fully fulfilled its contractual obligations. The company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and cost of sales.

Where appropriate, income received under the PFI contract in respect of services provided during the operational phase of the contract is deferred to future periods in order to match those elements of income with the costs to which they relate. The turnover and cost of sales are recorded in the profit and loss account in the period in which the relevant costs are incurred.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

Finance debtor and interest receivable

The company has elected to take the exemption under FRS 102 paragraph 35.10 (i) to continue to apply its previous accounting treatment in respect of Service Concession Arrangements entered into prior to the date of transition to FRS 102. The costs incurred in constructing the assets have been treated as a finance debtor. This treatment arose from applying the guidance within previous UK GAAP which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

The finance debtor represents the costs arising on the construction of the assets including initial tender costs. During asset construction, finance debtor interest income is recognised on an accruals basis and is capitalised within the finance debtor receivable. Once the project reached its operational phase and was accepted by the customer a constant proportion of the planned net revenue arising from the project was allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

Tax

The tax expense for the period comprises deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax 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.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Cash balances are held in bank accounts which are subject to controls, exercised by the providers of the company's long term debt facilities, under the terms of its facility agreements.

Financial Instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, finance debtors, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Interest accrues on the index-linked bond on a daily basis, at the coupon rate. Indexation on the interest costs and the principal value is applied semi-annually, with reference to the Retail Price Index.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

2 Accounting policies (continued)

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Capital management

The capital structure of the Company consists of borrowings and equity attributable to members of the Company, comprising issued share capital and retained earnings. The Board's policy when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, debt holders and to sustain the future development of the business. The Company may issue new shares or raise medium/long term third party debt. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Called up share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Final dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. Interim dividends are recognised when paid. These amounts are recognised in the statement of changes in equity.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The exemptions which the company has taken are:

- (i) the requirement to prepare a statement of cash flows;
- (ii) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (iii) the requirement to disclose related party transactions, with the members of the same group, that are wholly owned.

3 Critical accounting judgements and estimation uncertainty

Judgements, estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may subsequently differ from these estimates.

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Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

3 Critical accounting judgements and estimation uncertainty (continued)

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates made are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting estimates and judgements, adopted by management, in applying the company's accounting policies are described below:

Estimates

Finance Debtor

The company has elected to continue to apply its previous accounting treatment in respect of service concession arrangements entered into prior to the date of transition to FRS 102. This has resulted in the measurement of the finance debtor being different from that which would have resulted had the requirements of FRS 102 Section 34 been fully adopted. The accounting for service concession contracts and finance debtors requires estimation of service margins, finance debtors interest rates and associated amortisation profile which are based on the forecast results of the PFI contracts over the respective concession length. See notes 9 and 10 for the carrying value of the finance debtor.

Impairment of debtors

Management makes an estimate of the likely recoverable value of trade and other debtors by considering factors including the current credit rating, the ageing profile and the historic experience of the respective debtor. See notes 9 and 10 for the carrying value of the debtors.

Judgements

Taxation

The assessment of the tax charge may include uncertain tax positions where the tax treatment has not yet been agreed with the taxation authorities. Management make an estimate of the taxation charge for the period and the value of balances, with reference to legislation, discussions with taxation authorities, advice from taxation advisors, and the determination of similar taxation cases.

Deferred tax is recognised at tax rates that are expected to be applicable when the timing differences reverse, to the extent that such rates have been substantially enacted. Given the phased reduction in future tax rates in the UK, the deferred tax asset or liability recognised is therefore dependent upon an estimate of the timing of such reversals.

4 Turnover

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

5 Operating profit

The company had no employees, other than the directors, during the year (2017: none). The emoluments of the directors are paid by the controlling parties. The directors' services to this company and to a number of fellow group companies are primarily of a non executive nature and their emoluments are deemed to be wholly attributable to the controlling parties. The controlling parties charged £140,834 (2017: £136,345) to the company in respect of these services.

The audit fee in respect of the company was £8,534 for the year (2017: £6,829). The company also bore the audit fees of its immediate parent undertaking of £9,740 during the year (2017: £9,456).

6 Interest receivable and similar income

	2018 £ 000	2017 £ 000
Imputed interest receivable on finance debtor	5,251	4,118
Interest income on bank deposits	10	36
	<u>5,261</u>	<u>4,154</u>

7 Interest payable and similar charges

	2018 £ 000	2017 £ 000
Interest payable on indexed linked bond	2,372	2,461
Indexation charge on index linked bond	2,104	979
Interest payable on loans from group undertakings	1,547	1,544
	<u>6,023</u>	<u>4,984</u>

8 Tax on profit on ordinary activities

(a) Tax expense included in profit or loss

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	-	-
Deferred taxation		
Arising from origination and reversal of timing differences	120	306
Arising from changes in tax rates and laws	-	(137)
Total deferred taxation	<u>120</u>	<u>169</u>
Tax on profit on ordinary activities	<u>120</u>	<u>169</u>

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

8 Tax on profit on ordinary activities (continued)

(b) Reconciliation of tax charge

The tax on profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK (2017: lower than the standard rate of corporation tax in the UK) of 19% (2017: 20%).

The differences are reconciled below:

	2018	2017
	£ 000	£ 000
Profit on ordinary activities before taxation	<u>94</u>	<u>941</u>
Corporation tax at standard rate	18	188
Expenses not deductible for tax purposes	116	171
Re-measurement of deferred tax - change in UK tax rates	<u>(14)</u>	<u>(190)</u>
Total tax charge	<u>120</u>	<u>169</u>

(c) Tax rate changes

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. From 1 April 2017, changes to the legislation in respect of the utilisation of carried forward tax losses and the restriction of interest deductions have come into force. Changes to the rules governing the treatment of hybrids were also adopted from 1 January 2017. We have therefore reviewed the impact of these changes, with the encompassed figures reflecting their implementation.

9 Debtors: Amounts falling due after more than one year

	2018	2017
	£ 000	£ 000
Finance debtor	<u>64,451</u>	<u>65,810</u>

10 Debtors: Amounts falling due within one year

	2018	2017
	£ 000	£ 000
Trade debtors	63	17
Finance debtor	2,164	2,638
Other debtors	-	1
Prepayments and accrued income	<u>1,084</u>	<u>1,201</u>
	<u>3,311</u>	<u>3,857</u>

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

11 Creditors

	Note	2018 £ 000	2017 £ 000
Amounts falling due within one year			
Senior debt	12	2,272	2,775
Trade creditors		659	321
Amounts owed to group undertakings		2,706	1,533
Other creditors including taxation and social security		461	193
Accruals and deferred income		1,405	3,269
		<u>7,503</u>	<u>8,091</u>
Amounts falling due after more than one year			
Senior debt	12	52,214	53,368
Subordinated debt	12	10,668	10,668
Accruals and deferred income		6,221	3,611
		<u>69,103</u>	<u>67,647</u>

Amounts owed to group undertakings includes subordinated debt interest of £2,515,872 (2017: £1,529,051), fees for directors' services of £166,597 (2017: £nil), professional fees of £21,057 (2017: £1,500) and the balance of the bank account of Baglan Moor Healthcare Holdings Limited of £2,076 (2017: £2,076). These amounts are repayable on demand and are unsecured.

12 Loans and borrowings

	2018 £ 000	2017 £ 000
Loans and borrowings falling due within one year		
Senior debt	<u>2,272</u>	<u>2,775</u>
Loans and borrowings falling due between one and five years		
Senior debt	<u>12,891</u>	<u>12,092</u>

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

12 Loans and borrowings (continued)

	2018 £ 000	2017 £ 000
Loans and borrowings falling due after more than five years		
Senior debt	39,323	41,276
Subordinated debt	10,668	10,668
	<u>49,991</u>	<u>51,944</u>

The subordinated loan notes are unsecured, attract a fixed interest rate of 14.5% and are repayable in full in 2029. The subordinated loan notes are held by Baglan Moor Healthcare Holdings Limited, the Company's immediate holding company.

The carrying value of the bonds includes indexation to date totalling £18,778,284 (2017: £16,674,719). At 31 March 2018, 71 percent (2017: 73 percent) of the remaining principal of these bonds, exclusive of future indexation, were due for repayment in more than 5 years. The secured index-linked bonds were created on 9 May 2000 and £65,950,000 was issued on 12 May 2000 at 99.684% of their nominal value. The bonds bear interest at 3.92% per annum payable in six monthly intervals which, together with their principal repayment, is subject to indexation in accordance with the Bond Trust Deed. The bonds are repayable in instalments which commenced in April 2004 and end in April 2029. The bonds are listed on the London Stock Exchange.

The carrying value of the bond is shown net of unamortised debt issue costs totalling £1,135,842 (2017: £1,301,732).

The bonds are secured by first fixed and floating charges over all of the Company's and its holding company's respective assets. The Company has no exposure to interest rate changes as all borrowings have fixed interest rates.

The maturity of the gross contractual liabilities under the bonds, due as at year end, is as follows:

	2018 £ 000	2017 £ 000
Less than one year	6,347	6,112
Between one and two years	6,506	6,187
Between two and five years	20,529	19,255
In more than five years	50,331	54,054
	<u>83,713</u>	<u>85,608</u>

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

13 Provisions for liabilities

	Deferred tax £ 000
At 1 April 2017	2,639
Additions dealt with in profit or loss	<u>120</u>
At 31 March 2018	<u><u>2,759</u></u>

The provision for deferred tax consists of the following deferred tax liabilities/(assets):

	2018 £ 000	2017 £ 000
Accelerated capital allowances	3,333	3,594
Other timing differences	2,129	2,162
Tax losses recognised	<u>(2,703)</u>	<u>(3,117)</u>
	<u><u>2,759</u></u>	<u><u>2,639</u></u>

14 Called up share capital

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

15 Related party transactions

As a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited, the company has taken advantage of the exemption under FRS 102 - paragraph 33.1A of the requirement to disclose transactions between it and other group companies.

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

16 Financial instruments

An explanation of the Company's objectives, policies and strategies for the role of financial instruments in creating and changing the risks of the Company in its activities can be found on page 3.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Company at 31 March 2018 was as follows:

	Interest rate profile	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Carrying amount (before unamortised issue costs) £'000
Secured 3.92% Index-Linked Bonds 2029	Fixed subject to indexation	3.92%*	13	55,621
Subordinated loan notes	Fixed	14.5%	7	10,668
At 31 March 2018				66,289

* Interest rate of 3.92% is fixed but is subject to twice annual indexation increases calculated from an agreed formula based on the Retail Price Index.

The fair value of the subordinated loan stock is based on cash flows discounted using the coupon rate of 14.5% (2017: 14.5%). The subordinated debt is issued by the company's immediate parent undertaking. In the directors' opinion, the prevailing market rates for similarly structured projects are within the range of 12% to 16% and therefore the coupon rate applied is comparable with the prevailing market rates. As at 31 March 2018, the Company had £nil (31 March 2017: £nil) of uncommitted facilities.

Credit risk profile of financial assets

Trade debtors, finance debtor and cash and short term deposits that are neither past due nor impaired are shown by their credit risk below.

	2018 £'000	2017 £'000
Counterparties with external credit rating		
A-1 rating - cash and short term deposits	15,685	12,818
Counterparties with no external credit rating		
Trade debtors	63	17
Finance debtor	66,615	68,448
Total neither past due or impaired	<u>82,363</u>	<u>81,283</u>

Baglan Moor Healthcare Plc

Notes to the Financial Statements for the Year Ended 31 March 2018 (continued)

16 Financial instruments (continued)

Fair value of financial liabilities

The comparison by category of the book values and fair values of the company's financial liabilities as at 31 March 2018 and 31 March 2017 is set out below:

	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities - Index linked	55,621	69,820	57,445	76,553
Guaranteed Secured Bonds				

The fair value of the guaranteed accrued index linked bond is their quoted price.

17 Parent and ultimate parent undertaking

The company's immediate parent is Baglan Moor Healthcare Holdings Limited, incorporated in England and Wales.

The ultimate parent and controlling party is Semperian PPP Investment Partners Holdings Limited, incorporated in Jersey. The smallest group and largest group to consolidate these financial statements is Semperian PPP Investment Partners Holdings Limited. These financial statements are available upon request from the Company Secretary at Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.