

# **HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**



**Registered Number 4420880**

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## HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

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### DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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**DIRECTORS AND ADVISORS**

**Directors**

I Hudson (Resigned 20th January 2012)  
J Graham  
J M Linney  
M Lewis  
R J Marsden  
R Sheehan (Appointed 29th May 2012)  
S M Jones

**Company secretary and registered office**

R K Miller  
Allington House  
150 Victoria Street  
London  
SW1E 5LB

**Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London

**Principal bankers**

Lloyds Bank  
BO BOX 72  
Bailey Drive  
Gillingham Business Park  
Gillingham  
Kent  
ME8 0LS

## **DIRECTORS' REPORT**

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2011

The company is owned and jointly controlled by Equion Health (Newcastle) Limited and Interserve PFI 2003 Limited

## **BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

The principal activity of the Company is to act as the holding company of Healthcare Support (Newcastle) Limited and Healthcare Support (Newcastle) Finance plc

The principal activity of the Healthcare Support (Newcastle) Limited is to design, finance, build and operate a PFI hospital construction project on behalf of Newcastle Healthcare National Health Trust

In March 2010 the Company drew down £24,607,000 subordinated debt from the Shareholders

## **GOING CONCERN**

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate. In reaching this conclusion, the Directors have specifically considered the Company's relationships with its immediate parent company. More information is provided in note 1 to the financial statements

## **FUTURE DEVELOPMENTS**

The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease

## **KEY PERFORMANCE INDICATORS**

The Company has met all contractual obligations pertaining to the financing of the project throughout the year under review

## **RESULTS AND DIVIDENDS**

The profit for the year before taxation amounted to £2,728,286 (2010 - £1,551,525 loss). After taxation of £1,140,985 (2010 - £472,355 taxation credit) the profit for the year was £1,587,301 (2010 - £1,124,170 loss)

During the year the Company paid a dividend of £1,298,561 (2010 - £3,455,997)

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The risk of certain types of asset renewal expenditure is dealt with and mitigated by Healthcare Support (Newcastle) Limited by passing the cost onto the facilities management subcontractor for a fixed annual sum

## **FINANCIAL RISK MANAGEMENT**

Healthcare Support (Newcastle) Limited has an indexed linked inter-company loan with Healthcare Support (Newcastle) Finance plc, who raised an index linked public bond and bank loan. The Group is therefore exposed to an RPI risk, which it mitigates with an indexed linked unitary contract with Newcastle Healthcare National Health Service Trust, therefore all inflationary risk is transferred outside the Group

**DIRECTORS' REPORT (continued)**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who is a Director at the date of approval of this report confirms that

- as far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006

**DIRECTORS**

The Directors who served throughout the year, except as noted, are shown on page 1

**EMPLOYEES**

Details of the number of employees and related costs can be found in note 6 to the financial statements on page 10

**AUDITOR**

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

On behalf of the Board

  
J M Linney  
Director  
28 June 2012

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

We have audited the financial statements of Healthcare Support (Newcastle) Holdings Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated and Company balance sheet, consolidated cashflow statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies in the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jacqueline Holden FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

28 June 2012

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £	2010 £
Turnover	3	<b>18,263,246</b>	32,282,686
Cost of sales		<b>(16,040,512)</b>	<b>(29,204,737)</b>
<b>Operating profit</b>	4	<b>2,222,734</b>	3,077,949
Net interest receivable / (payable)	7	<b>505,552</b>	(4,629,474)
<b>Profit / (loss) on ordinary activities before taxation</b>		<b>2,728,286</b>	(1,551,525)
Tax on profit / (loss) on ordinary activities	8	<b>(1,140,985)</b>	427,355
<b>Profit / (loss) for the financial year</b>	15	<b>1,587,301</b>	<b>(1,124,170)</b>

A reconciliation of movements in shareholder's funds is given in note 16

All items in the profit and loss account relate to continuing operations

There is no material difference between the results stated in the consolidated profit and loss account and their historical cost equivalents

All gains and losses are recognised in the profit and loss account in both the current and preceding year, and therefore no separate statement of total recognised gains and losses has been presented



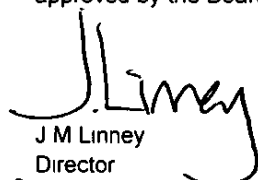
**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011**

	Notes	2011 £	2010 £
<b>Current assets</b>			
Debtors		<b>414,045,775</b>	410,353,421
- due within one year	11	<b>95,560,867</b>	41,864,416
- due after more than one year	11	<b>318,484,908</b>	368,489,005
Cash at bank and in hand		<b>7,092,805</b>	9,614,153
		<b>421,138,580</b>	419,967,574
<b>Current liabilities</b>			
<b>Creditors</b> amounts falling due within one year	12	<b>(17,935,960)</b>	(24,080,977)
<b>Net current assets</b>		<b>403,202,620</b>	395,886,597
<b>Total assets less current liabilities</b>		<b>403,202,620</b>	395,886,597
<b>Creditors</b> amounts falling due after more than one year	12	<b>(399,970,766)</b>	(392,943,483)
<b>Net assets</b>		<b>3,231,854</b>	2,943,114
<b>Capital and reserves</b>			
Called up share capital	14	<b>51,000</b>	51,000
Profit and loss account	15	<b>3,180,854</b>	2,892,114
<b>Shareholder's funds</b>	16	<b>3,231,854</b>	2,943,114

The presentation of certain cash balances have been reclassified to financial assets Please refer to Note 11

The consolidated financial statements of Healthcare Support (Newcastle) Holdings Limited, registered number 4420880, were approved by the Board of Directors and authorised for issue on 28 June 2012. They were signed on its behalf by

  
 J M Linney  
 Director  
 28 June 2012

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**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

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**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2011**

	Notes	2011 £	2010 £
<b>Fixed assets</b>			
Investments	10	51,000	51,000
<b>Net assets</b>		<u>51,000</u>	<u>51,000</u>
<b>Capital and reserves</b>			
Called up share capital	16	51,000	51,000
<b>Shareholder's funds</b>	16	<u>51,000</u>	<u>51,000</u>

The financial statements of Healthcare Support (Newcastle) Holdings Limited, registered number 4420880, were approved by the Board of Directors and authorised for issue on 28 June 2012. They were signed on its behalf by

  
J M Linney  
Director  
28 June 2012

**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £	2010 £
<b>Net cash inflow / (outflow) from operating activities</b>	18	<b>20,209,022</b>	<b>(55,262,222)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		384,630	229,982
Interest and other financing costs paid		(11,346,444)	(760,510)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(10,961,814)</b>	<b>(530,528)</b>
Taxation		450,504	(2,040,641)
Equity dividends paid		(1,298,561)	(3,455,997)
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>		<b>8,399,151</b>	<b>(61,289,388)</b>
<b>Financing</b>			
Secured loan raised		-	24,607,000
Secured loan repaid		(10,920,499)	(5,125,948)
<b>Net cash (outflow)/inflow from financing</b>		<b>(10,920,499)</b>	<b>19,481,052</b>
<b>Decrease in cash in the year</b>	19	<b>(2,521,348)</b>	<b>(41,808,336)</b>
<b>Reconciliation to net debt</b>			
Net debt at 1 January		(369,529,196)	(297,560,940)
Decrease in cash in the year		(2,521,348)	(41,808,336)
Movement in borrowings		(7,551,644)	(29,666,347)
Other non-cash changes		(492,782)	(493,573)
<b>Net debt at 31 December</b>	19	<b>(380,094,970)</b>	<b>(369,529,196)</b>

## Notes to the financial statements for the year ended 31 December 2011

## 1 ACCOUNTING POLICIES

a) Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently throughout the current and preceding year, is shown below.

**Company**

The Company exists to hold investments in its subsidiary that provides services under certain private finance agreements. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made. Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Group**

The current economic conditions create some uncertainty, including with respect to

- (a) the ability of key sub-contractors to continue to meet contractual commitments,
- (b) the ability of the debt provider to continue to meet its contractual commitments.

The Directors have also considered the ability of government authorities to continue to pay unitary fees due to the Company and do not consider this to be a material risk.

The Group's forecasts and projections, taking account of reasonably possible changes in counterparty performance, show that the Company expects to be able to continue to operate.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or the date on which control passed. Acquisitions are accounted for under the acquisition method. The Group made a profit before tax of £1,991,525 (2010 - £1,124,170 loss) for the financial year. As permitted by s408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. A reconciliation of movements in equity shareholders' funds is given in note 16.

b) FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement and FRS 29 Financial Instruments: Disclosure Requirements

In the prior year, the Group has voluntarily adopted FRS 25 Financial Instruments: Disclosures and Presentation, FRS 26 Financial Instruments: Measurement and FRS 29 Financial Instruments: Disclosures. The impact of adoption of FRS 29 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital. The parent company has not applied FRS 29 as they have taken advantage of the exemptions permitted by FRS 29.

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

**Financial assets**

Financial assets have been classified into the 'loans and receivables' category, which include cash and cash equivalents, based on the nature and purpose of the financial assets.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments, that are readily convertible into cash and are subject to an insignificant risk of change in value.

Financial assets are impaired where there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. The carrying amount of a financial asset is reduced by the impairment directly with the exception of trade receivables which would be reduced through the use of an allowance account, unless it is considered that it is uncollectible.

The Group derecognises a financial asset only when the contractual rights to receive the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 1 ACCOUNTING POLICIES (continued)

**Financial liabilities**

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. Financial liabilities, including borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The Group de-recognises its financial liabilities when the Groups obligations are discharged, cancelled or they expire.

The effective interest rate method is a method of calculating amortised costs of the financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability.

Investments in subsidiary undertakings are stated at cost less provision for impairment. The carrying values of these investments are reviewed annually by the Directors to determine whether there has been any impairment to their values. Current asset investments are stated at amortised cost with interest receivable being recognised at a constant rate over the life of the investment.

c) **Turnover**

All Turnover is derived entirely in the United Kingdom and is net of VAT.

d) **Finance debtor**

The Group is an operator under a PFI contract. Under the terms of the contract, substantially all the risks and rewards of ownership of the property asset remain with Somerset County Council. The underlying asset is therefore not a fixed asset of the Group under FRS5 Application Note F and SSAP 21.

e) **Finance debtor and income recognition**

During the construction phase of the project, all attributable expenditure including finance costs are included in amounts recoverable on contracts and turnover. Upon the asset becoming operational, the costs are transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and turnover using a constant operating margin on costs. The remainder of the PFI income will be allocated to the finance debtor.

f) **Operating costs**

Operating costs are added to amounts recoverable on contract during the construction period. Following commissioning, regular operating costs will be expensed to the profit and loss account as incurred.

g) **Interest payable**

Interest costs on borrowings are added to amounts recoverable on contract during the construction phase of the contract, and then written off to the profit and loss account over the period of concession.

h) **Taxation**

Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

In accordance with FRS19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are not discounted.

i) **Capitalised interest**

Interest costs on borrowings used to fund the construction of the hospital are added to the amount recoverable on contract during the construction period. This treatment ceases on commissioning.

j) **Debt**

The Group secured bond debt with Royal Bank of Canada and a loan with European Investment Bank "EIB". Both the loan and the bond are indexed link and subject to calculations based on RPI (all items) tables published by the Office of National Statistics. Interest is payable bi-annually at an interest rate stated in note 13 on an accruals basis.

Secured subordinated debt is initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

k) **Debtors**

Debtors are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

l) **Cash**

Cash comprise cash at bank and in hand and short term deposits with original maturity of less than three months.

## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 2 FINANCIAL INSTRUMENTS

The Group's financial instruments are shown in the table below. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments be undertaken. The Group has not entered into derivatives transactions. The main risks arising from the company's financial instruments are credit risk, interest rate risk, liquidity risk and inflation risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year. The Group has no significant foreign currency transactions. All the Group's borrowings are denominated in sterling.

## Categories of financial instruments

	2011		Fair Value
	Book Value	Financial liabilities at	
	Loans and receivables at amortised cost including cash and short-term deposits	amortised cost	
	£	£	£
<b>Financial assets</b>			
Loan receivable			
Trade and other receivables	557,009	-	557,009
Cash and short-term deposits	33,989,514	-	33,989,514
FRS 5 finance debtor	320,447,513	-	334,398,235
	<u>354,994,036</u>	<u>-</u>	<u>368,944,758</u>
<b>Interest income in the year</b>	31,002,347		
<b>Financial liabilities</b>			
Index-linked secured bonds		373,116,219	413,903,730
Secured subordinated loan stock - commitment and letter of credit fees	-	24,337,179	32,880,003
Trade and other payables	-	6,099,566	6,099,566
	-	<u>403,552,964</u>	<u>452,883,299</u>
<b>Interest expense in the year</b>	27,319,018		
<b>Fee expense in the year</b>	488,400		
	2010		Fair Value
	Book Value	Financial liabilities at	
	Loans and receivables at amortised cost including cash and short-term deposits	amortised cost	
	£	£	£
<b>Financial assets</b>			
Loan receivable			
Trade and other receivables	429,284	-	429,284
Cash and short-term deposits	46,179,690	-	46,179,690
FRS 5 finance debtor	323,885,128	-	339,486,924
	<u>370,494,102</u>	<u>-</u>	<u>386,095,898</u>
<b>Interest income in the year</b>	24,367,982		
<b>Financial liabilities</b>			
Index-linked secured bonds	-	357,307,979	363,805,111
Secured subordinated loan stock - commitment and letter of credit fees	-	24,522,247	32,401,640
Trade and other payables	-	9,930,919	9,930,919
	-	<u>391,761,145</u>	<u>406,137,670</u>
<b>Interest expense in the year</b>	26,563,632		
<b>Fee expense in the year</b>	493,573		

## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 2 FINANCIAL INSTRUMENTS (continued)

**Fair values**

As the index linked bonds are not traded, the fair value of the index linked bond has been calculated by discounting the expected future cash flows at prevailing interest rates. Expected future cash flows have been calculated assuming that future increases in the Retail Price Index are constant at 2.5% (2010 - 2.5%). The UK gilt yield curve and an assumed credit spread consistent with that of the index linked bond have been used in calculating an appropriate discount rate.

In the opinion of the Directors the fair values of the trade and other receivables, trade and other payables and cash and short-term deposits each equal their respective book values.

**Credit Risk**

The Group's principal financial assets are cash and short-term deposits, trade and other receivables and investments. The Group's credit risk is primarily attributable to its current asset investments for which only independently rated counterparties with a minimum long-term senior debt rating of at least AA- from Standard & Poor's and Aa3 from Moody's are acceptable.

For cash and short-term deposits only independently rated counterparties with a minimum medium-term senior debt rating of at least A from Standard & Poor's and A1 from Moody's are accepted.

Should the ratings of existing counterparties fall below these levels the Company and its senior lenders each have the right to require that an acceptable replacement counterparty be appointed.

The receivables arise from the Group's client, Newcastle Upon Tyne NHS Trust. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

The maximum exposure to credit risk is the carrying value of the financial assets in the table above.

**Interest rate risk/inflation risk**

All borrowings are at fixed rates other than index-linking and therefore no interest rate risk arises on them. Interest rate risk arises on the Group's cash and short-term deposits.

The majority of the Group's borrowings comprise an index linked secured bond. Repayment of these bonds and meeting operational expenditure commitments will be made from income which is itself subject to indexation. The Group thereby mitigates any exposure to movements in the retail price index.

A 1% increase in the annual rate of inflation would increase interest attributable to the index linked secured bond. There would have been £3,809,613 (2010 - £4,425,281) increase in the interest expense for the year.

A 1% increase in the annual rate of inflation would also increase income for the year by £289,519 (2010 - £275,565).

**Liquidity risk**

The Group's policy has throughout the period been that to ensure continuity of funding the majority of its borrowings should mature in more than five years.

**Financial liabilities gross maturity**

The following table details the Group's remaining contractual maturities for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The gross maturity profile of the Group's non-derivative financial liabilities at 31 December was as follows:

2011				
Borrowings	Other financial liabilities	Total non-derivative financial liabilities	Carrying value	
£	£	£	£	£
Due on demand or within one year	14,643,790	17,666,319	17,666,319	17,666,319
Due within one to two years	11,805,744	11,805,744	11,805,744	11,805,744
Due within two to five years	38,451,333	38,451,333	38,451,333	38,451,333
Due after more than five years	335,359,259	335,359,259	335,359,259	335,359,259
	<b>400,160,126</b>	<b>403,282,655</b>	<b>403,282,655</b>	<b>403,282,655</b>
2010				
Borrowings	Other financial liabilities	Total non-derivative financial liabilities	Carrying value	
£	£	£	£	£
Due on demand or within one year	13,717,162	23,648,081	23,648,081	23,648,081
Due within one to two years	11,535,140	11,535,140	11,535,140	11,535,140
Due within two to five years	35,618,899	35,618,899	35,618,899	35,618,899
Due after more than five years	331,717,430	331,717,430	331,717,430	331,717,430
	<b>392,588,631</b>	<b>402,519,550</b>	<b>402,519,550</b>	<b>402,519,550</b>

**Capital risk management**

The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings as disclosed in Notes 14 and 15 and cash and cash equivalents and borrowings as disclosed in Note 17. In March 2010 Equion Health (Newcastle) Limited and Interserve PFI 2003 Limited injected £19,685,600 and £4,921,400 of subordinated debt respectively.

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 3 TURNOVER

	Group 2011 £	Group 2010 £
Turnover in the year is analysed as follows		
Construction revenue	7,086,764	22,168,999
Concession unitary income	7,178,347	7,408,488
Other revenue	3,998,135	2,705,199
	<u>18,263,246</u>	<u>32,282,686</u>

### 4 OPERATING PROFIT

	Group 2011 £	Group 2010 £
Operating profit is stated after charging		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	12,753	12,268
Fees payable to the Company's auditor for the audit of Healthcare Support (Newcastle) Finance plc's annual accounts	3,297	3,171
Fees payable to the Company's auditor for the audit of Equion Health (Newcastle) Limited's annual accounts	2,574	2,476
Construction costs	7,086,764	22,168,999
Operating and maintenance costs	8,904,516	6,983,723
Other overhead costs (excl audit), eg administrative	<u>30,559</u>	<u>34,099</u>

### 5 DIRECTORS' REMUNERATION

No Directors received any remuneration for services to the Company during the current or prior year. The Company is managed by secondees from the shareholders under a management services contract.

### 6 STAFF NUMBERS

The Company had no employees during the year (2010 - nil)

### 7 NET INTEREST RECEIVABLE / (PAYABLE)

	Group 2011 £	Group 2010 £
<b>Interest receivable and similar income</b>		
Interest receivable on bank deposits	491,222	241,314
Interest receivable on finance debtor	30,519,579	24,126,668
Interest receivable capitalised	(4,274)	(17,199)
	<u>31,006,527</u>	<u>24,350,783</u>
<b>Interest payable and similar charges</b>		
Interest payable on bank loans and overdrafts	(27,319,018)	(26,563,632)
Interest payable to parent undertakings	(2,930,880)	(2,436,180)
Amortised debt issue costs	(488,400)	(493,573)
Capitalised interest	237,323	513,128
	<u>(30,500,975)</u>	<u>(28,980,257)</u>
Net interest receivable / (payable)	<u>505,552</u>	<u>(4,629,474)</u>



## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 8 TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

	Group 2011 £	Group 2010 £
<u>Analysis of tax (charge) / credit for the year</u>		
<b>Current tax</b>		
UK corporation tax	(722,996)	-
Group relief receivable	-	11,336
Adjustments in respect of previous periods	(9,042)	(18,408)
<b>Total current tax</b>	<b>(732,038)</b>	<b>(7,072)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	434,427
B/f tax losses from 2010	(408,947)	-
<b>Total deferred tax</b>	<b>(408,947)</b>	<b>434,427</b>
<b>Total tax (charge) / credit on profit / (loss) on ordinary activities</b>	<b>(1,140,985)</b>	<b>427,355</b>

*Factors affecting tax charge/ (credit) for the current year*

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows

	Group 2011 £	Group 2010 £
Profit / (loss) on ordinary activities before taxation	<b>2,728,286</b>	(1,551,525)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	<b>722,996</b>	434,427
<b>Effects of:</b>		
Origination and reversal of timing differences	-	(434,427)
Adjustments in respect of previous years	9,042	(18,408)
Group relief receivable	-	11,336
<b>Total current tax charge / (credit) for the year</b>	<b>732,038</b>	<b>(7,072)</b>

## 9 DIVIDENDS

	Group 2011 £	Group 2010 £
Equity shares		
Total dividends paid of £25.46p (2010 - £67.76p) per share	<b>1,298,561</b>	3,455,997

## 10 INVESTMENTS

	Shares in group undertaking £
<b>Cost</b>	
At 1 January 2011	51,000
At 31 December 2011	<b>51,000</b>
<b>Net book value</b>	
At 31 December 2011	<b>51,000</b>
At 31 December 2010	51,000

The Company's principal subsidiary undertakings are listed on page 21

In the opinion of the Directors the aggregate value of the investment is not less than the amount stated in the balance sheet

**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**Notes to the financial statements for the year ended 31 December 2011 (continued)**

**11 DEBTORS**

	<b>Group</b>		<b>Company</b>	
	2011	2010	2011	2010
	£	£	£	£
<b>Due within one year</b>				
Finance debtor	26,151,653	2,555,099	-	-
Trade debtors	557,009	429,284	-	-
Amounts recoverable on contracts	29,846,121	-	-	-
Amounts owed by Parent undertaking	207,943	898,458	-	-
Corporation tax	-	855,549	-	-
Deferred tax asset	-	408,947	-	-
Financial assets	26,896,709	36,565,537	-	-
Prepayments and accrued income	11,901,432	151,542	-	-
	<u>95,560,867</u>	<u>41,864,416</u>	<u>-</u>	<u>-</u>
<b>Due after more than one year</b>				
Finance debtor	294,295,860	321,330,029	-	-
Amounts recoverable on contracts	59,812	22,819,169	-	-
Prepayments and accrued income	-	2,628	-	-
Amounts owed by Parent undertaking	24,129,236	24,337,179	-	-
	<u>318,484,908</u>	<u>368,489,005</u>	<u>-</u>	<u>-</u>

Financial assets include amounts held within deposit accounts with a maturity of not less than 3 months from the initial deposit. These amounts have been reclassified from cash in the prior year and the comparatives restated accordingly.

The amounts recoverable on contracts includes cumulative net interest capitalised of £237,323 (2010 - £68,983). Finance debtor includes cumulative net interest capitalised of £7,860,057 (2010 - £7,860,057).

**12 CREDITORS**

	<b>Group</b>		<b>Company</b>	
	2011	2010	2011	2010
	£	£	£	£
<b>Amounts falling due within one year</b>				
Bank loans (note 13)	11,629,120	10,845,217	-	-
Less unamortised debt issue costs	(490,718)	(493,240)	-	-
Amounts owed to parent undertaking	207,943	898,458	-	-
Amounts owed to group undertakings	207,943	898,458	-	-
Trade creditors	837,713	2,099,901	-	-
Interest payable	2,914,670	2,686,877	-	-
Corporation tax	282,107	-	-	-
Other taxation and social security	270,309	27,678	-	-
Contractor retentions	789,192	3,883,570	-	-
Accruals and deferred income	1,287,681	3,234,058	-	-
	<u>17,935,960</u>	<u>24,080,977</u>	<u>-</u>	<u>-</u>
<b>Amounts falling due after more than one year</b>				
Bank loans (note 13)	361,487,099	354,534,290	-	-
Less unamortised debt issue costs	(9,774,805)	(10,265,165)	-	-
Amounts owed to parent undertaking	24,129,236	24,337,179	-	-
Amounts owed to group undertakings	24,129,236	24,337,179	-	-
	<u>399,970,766</u>	<u>392,943,483</u>	<u>-</u>	<u>-</u>
<b>Analysis of debt</b>				
Debt can be analysed as falling due				
In one year or less	11,837,062	11,030,285	-	-
Between one and two years	11,805,744	11,535,140	-	-
Between two and five years	38,451,333	35,618,899	-	-
In five years or more	335,359,259	331,717,430	-	-
	<u>397,453,398</u>	<u>389,901,754</u>	<u>-</u>	<u>-</u>
Less unamortised debt issue costs	(10,265,523)	(10,758,405)	-	-
	<u>387,187,875</u>	<u>379,143,349</u>	<u>-</u>	<u>-</u>

The bank loan is secured by a charge over the shares of the Company.

Notes to the financial statements for the year ended 31 December 2011 (continued)

## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 13 LOANS

The Group has a publicly offered bond from Royal Bank of Canada for £197.8 million and a loan with European Investment Bank of £115 million. The surety bond was repaid at the end of construction of Phase 7 (RVI Clinical) in March 2010, the other debt is repayable in installments based on an agreed percentage amount of the total facilities per annum over the next 31 years. The loans are secured under the security document by a charge over all the assets of the Company.

Interest on the public bond is fixed at 2%, interest on the EIB loan is fixed at 2%. Both the public bond and EIB loan are index-linked.

Subordinated debt of £24,607,000 was injected by the Shareholders in March 2010 with a coupon rate of 12%.

## 14 CALLED UP SHARE CAPITAL

	<b>Group / Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Allotted, called up and fully paid</b>		
51,000 ordinary shares of £1 each	<b>51,000</b>	<b>51,000</b>

## 15 MOVEMENT IN RESERVES

	<b>Group Profit and loss account £</b>
<b>At 1 January 2011</b>	<b>2,892,114</b>
Profit for the financial year	<b>1,587,301</b>
Dividends paid on equity shares (note 9)	<b>(1,298,561)</b>
<b>At 31 December 2011</b>	<b>3,180,854</b>

## 16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Profit / (loss) for the financial year	<b>1,587,301</b>	(1,124,170)	<b>1,298,561</b>	3,455,997
Dividends paid on equity shares (note 9)	<b>(1,298,561)</b>	(3,455,997)	<b>(1,298,561)</b>	(3,455,997)
Net addition to shareholder's funds	<b>288,740</b>	(4,580,167)	-	-
Opening shareholder's funds	<b>2,943,114</b>	7,523,281	-	-
<b>Closing shareholder's funds</b>	<b>3,231,854</b>	<b>2,943,114</b>	-	-

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 17 TRANSACTIONS WITH RELATED PARTIES

There were related party transactions between the Group and the following parties

	2011 £	2009 £
Details of payments made to John Laing plc and subsidiaries are as follows		
Laing Investments Management Services Limited - management fees	890,100	1,035,056
John Laing Social Infrastructure Limited - letter of credit charges	-	435,457
John Laing Social Infrastructure Limited - subordinated debt	-	(3,691,050)
John Laing Social Infrastructure Limited - subordinated debt principal repayment	27,760	12,713
John Laing Social Infrastructure Limited - subordinated debt interest	551,582	366,398
John Laing Social Infrastructure Limited - dividends	194,784	518,399
	<u>1,664,226</u>	<u>(1,323,027)</u>

Details of payments made to Interserve Investments Limited and subsidiaries are as follows

Facilities and lifecycle management fees	4,244,164	5,016,336
Interserve Investments Limited - letter of credit charges	-	104,969
Interserve Investments Limited - subordinated debt	-	(4,923,400)
Interserve Investments Limited - subordinated debt principal repayment	37,014	16,951
Interserve Investments Limited - subordinated debt interest	735,443	482,058
Interserve Investments Limited - dividends	259,712	691,199
	<u>5,276,333</u>	<u>1,388,113</u>

Details of payments made to Innisfree Secondary Fund LP and subsidiaries are as follows

Innisfree Secondary Fund LP - letter of credit charges	-	1,883,496
Innisfree Secondary Fund LP - subordinated debt	-	(15,994,550)
Innisfree Secondary Fund LP - subordinated debt principal repayment	148,054	55,090
Innisfree Secondary Fund LP - subordinated debt interest	2,390,189	1,587,724
Innisfree Secondary Fund LP - dividends	844,064	2,246,398
	<u>3,382,307</u>	<u>(10,221,842)</u>

<b>Total Costs</b>	<b><u>10,322,866</u></b>	<b><u>(10,156,756)</u></b>
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Balance payable at 31 December

Laing Investments Management Services Limited	149,229	164,697
John Laing Social Infrastructure Limited	110,228	3,678,337
Interserve Investments Limited	146,971	4,904,449
Interserve FM Limited	118,993	406,940
Innisfree Secondary Fund LP	477,655	15,939,460

Innisfree Secondary Fund LP, Interserve Investments Plc and Henderson Infrastructure Holdco (Jersey) Limited are the ultimate shareholders of Healthcare Support (Newcastle) Holdings Limited. John Laing Social Infrastructure Limited and Laing Investment Management Services Limited are subsidiaries of Henderson Infrastructure Holdco (Jersey) Limited.

### 18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 £	2010 £
Operating profit	2,222,734	3,077,949
Decrease/(Increase) in debtors	5,152,754	(66,571,266)
Increase in creditors	12,833,534	8,231,095
Net cash inflow / (outflow) from operating activities	<u>20,209,022</u>	<u>(55,262,222)</u>

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

## 19 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2011 £	Cash flow £	Other non- cash changes £	At 31 December 2011 £
Cash in hand and at bank	9,614,153	(2,521,348)	-	7,092,805
Debt due within one year	(10,537,045)	(93,388)	(2,522)	(10,632,955)
Debt due after one year	(368,606,304)	(7,458,156)	(490,360)	(376,554,820)
Net debt	<u>(369,529,196)</u>	<u>(10,072,892)</u>	<u>(492,882)</u>	<u>(380,094,970)</u>

## 20 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2011 £
Cash in hand and at bank	(2,521,348)
Cash outflow from increase in debt	(7,551,644)
Other non cash movements	<u>(492,782)</u>
Increase in net debt	(10,565,774)
Net debt at 1 January	(369,529,196)
Net debt at 31 December	<u>(380,094,970)</u>

## 21 ULTIMATE PARENT UNDERTAKING

The Company is a joint venture between Equion Health (Newcastle) Limited (80%) and Interserve Investments Limited (20%) Both of these companies are incorporated in Great Britain and registered in England and Wales

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**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

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**PRINCIPAL SUBSIDIARIES**

<b>Company name</b>	<b>Class and percentage of shares held</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
Healthcare Support (Newcastle) Finance plc	100% of ordinary shares	To issue the bonds and loan stock, borrow the EIB loan and lend on the proceeds thereof to the Project Company	Great Britain
Healthcare Support (Newcastle) Limited	100% of ordinary shares	The construction of RVI and Freeman hospitals for Newcastle Healthcare National Health Service Trust	Great Britain