

**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2013**



**Registered Number 4420880**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

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**DIRECTORS AND ADVISORS**

**Directors**

J Graham  
J M Linney  
R J Marsden  
N Crowther

**Company secretary and registered office**

M Lewis  
1 Kingsway  
London  
WC2B 6AN

**Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London

**Principal bankers**

Lloyds Bank  
6th Floor  
102 Grey Street  
Newcastle  
NE99 1SL

**Solicitors**

DLA Piper UK LLP  
3 Noble Street  
London  
EC2V 7EE

## STRATEGIC REPORT

The Directors present the strategic report of Healthcare Support (Newcastle) Holdings Limited for the year ended 31 December 2013

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the group is to design, develop and fund the construction of the Royal Victoria Infirmary and Freeman Hospital on behalf of the Newcastle Upon Tyne Hospitals NHS Foundation Trust. Financial close was achieved on 4 May 2005. The concession period is 38 years.

Via Healthcare Support (Newcastle) Holdings Limited, John Laing Infrastructure Fund Limited, Interserve PFI 2003 Limited and Innisfree Nominees Limited invested £1,000 share capital. John Laing Infrastructure Fund Limited and Innisfree Nominees Ltd acting in its capacity as nominee on behalf of Innisfree PFI Secondary Fund invested subordinated debt of £3.7 million and £16.0 million respectively on 4 March 2010, with Interserve PFI 2003 Limited investing £4.9 million on 8 March 2010.

## RESULTS, DIVIDENDS AND FUTURE DEVELOPMENTS

The profit for the year before taxation amounted to £708,000 (2012 - £1,788,000 profit). After taxation of £153,000 (2012 - £30,000 taxation charge) the profit for the year was £555,000 (2012 - £1,759,000 profit).

During the year the Company paid a dividend of £nil (2012 - £1,254,000).

Healthcare Support Newcastle (Holding) Limited subsidiary company, Healthcare Support (Newcastle) Limited ("HSN"), has been in discussions with The Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust") and Laing O'Rourke Construction Limited ("LOR") to resolve a long standing dispute over the completion of phase 8 of the project being the penultimate phase of the construction works. Phases 1 to 7 of the project are clinical facilities which have been complete for some time. Phase 8 represents 6% of construction costs and is an administration building to house clinicians and their support staff. The parties have failed to reach a commercial settlement and as the long stop dates for completion of the construction works under the Collateral Deed and the Project Agreement are 28 July 2014 and 28 October 2014 respectively HSN is currently exploring, in consultation with the Majority Creditors, other ways of resolving this dispute. Failure to resolve the dispute could result in the Trust seeking to exercise any right it may have to terminate the Project Agreement on the longstop date. Separately LOR has commenced legal action against HSN and the Trust in relation to the disputed completion of Phase 8 which will be heard by the Court on 14 July 2014.

It is likely that no settlement will be made for some time. The Directors of HSN have sought legal advice and appointed a QC to deal with these matters. The Directors have concluded that this issue represents a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquires and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial accounts. More information is provided in note 1 to the financial statements.

## KEY PERFORMANCE INDICATORS

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

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's construction risk is fully passed down via the building contract that Healthcare Support (Newcastle) Limited entered with the building contractor.

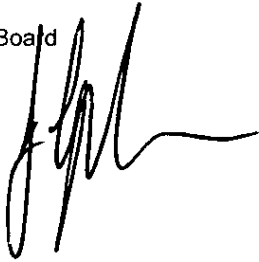
**STRATEGIC REPORT (Continued)**

**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 RPI risk, which it mitigates with an indexed linked unitary contract with the Newcastle Upon Tyne Hospitals NHS Foundation Trust, therefore all inflationary risk is transferred outside the Group.

On behalf of the Board

John Graham  
Director  
30 June 2014

A handwritten signature in black ink, appearing to be 'J. Graham', written over the printed name and date.

#### **DIRECTORS' REPORT**

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2013

The company is owned and jointly controlled by Equion Health (Newcastle) Limited and Interserve PFI 2005 Limited

#### **GOING CONCERN**

The Directors have considered the use of the going concern basis in the preparation of the financial statements and disclosures regarding our considerations are included in the Principal Activities and Business Review section of the Strategic Report

#### **DISCLOSURE OF INFORMATION TO THE AUDITOR**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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, and to the date of this report 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 17

#### **AUDITOR**

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

On behalf of the Board

John Graham  
Director  
30 June 2014

A handwritten signature in black ink, appearing to be 'John Graham', written over the printed name and date.

## **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 2013 which comprise the consolidated profit and loss account, the consolidated and company balance sheet, consolidated cash flow statement, and the related notes 1 to 22. 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 with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Emphasis of matter - Ongoing dispute with The Newcastle Upon Tyne Hospitals Foundation Trust and Going Concern

We draw your attention to note 1 of the financial statements which describes the uncertainty related to the outcome of the ongoing dispute with The Newcastle Upon Tyne Hospitals NHS Foundation Trust and that this material uncertainty may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### 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, or



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

30 June 2014

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £'000	2012 £'000
Turnover	3	14,020	13,085
Cost of sales		<u>(11,018)</u>	<u>(9,583)</u>
Operating profit on ordinary activities before interest	4	3,002	3,502
Net interest payable	7	(2,294)	(1,714)
Profit on ordinary activities before taxation		<u>708</u>	<u>1,788</u>
Tax on profit on ordinary activities	8	(153)	(30)
Profit for the financial year	15	<u>555</u>	<u>1,758</u>

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

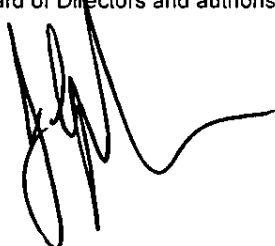
**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013**

	Notes	2013 £'000	2012 £'000
<b>Current assets</b>			
Debtors		410,925	414,306
- due within one year	11	102,272	102,891
- due after more than one year	11	308,653	311,415
Cash at bank and in hand		15,915	10,623
		<u>426,840</u>	<u>424,929</u>
<b>Current liabilities</b>			
<b>Creditors</b> amounts falling due within one year	12	(21,866)	(19,521)
<b>Net current assets</b>		<u>404,974</u>	<u>405,408</u>
<b>Total assets less current liabilities</b>		404,974	405,408
<b>Creditors</b> amounts falling due after more than one year	12	(400,683)	(401,672)
<b>Net assets</b>		<u>4,291</u>	<u>3,736</u>
<b>Capital and reserves</b>			
Called up share capital	14	51	51
Profit and loss account	15	4,240	3,685
<b>Shareholders' funds</b>	16	<u>4,291</u>	<u>3,736</u>

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 30 June 2014. They were signed on its behalf by

John Graham  
Director  
30 June 2014



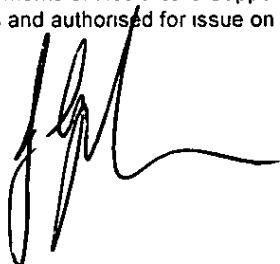
# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

## COMPANY BALANCE SHEET AS AT 31 DECEMBER 2013

	Notes	2013 £'000	2012 £'000
<b>Fixed assets</b>			
Investments	10	51	51
<b>Current assets</b>			
Debtors		29,341	26,428
- due within one year	11	5,105	2,192
- due after more than one year	11	24,236	24,236
<b>Current liabilities</b>			
<b>Creditors</b> amounts falling due within one year	12	(5,105)	(2,192)
<b>Net current assets</b>		<u>24,236</u>	<u>24,236</u>
<b>Total assets less current liabilities</b>		<u>24,287</u>	<u>24,287</u>
<b>Creditors</b> amounts falling due after more than one year	12	(24,236)	(24,236)
<b>Net assets</b>		<u>51</u>	<u>51</u>
<b>Capital and reserves</b>			
Called up share capital	14	51	51
<b>Shareholders' funds</b>	14	<u>51</u>	<u>51</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 30 June 2014. They were signed on its behalf by

John Graham  
Director  
30 June 2014



**HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £'000	2012 £'000
<b>Net cash inflow from operating activities</b>	18	<b>25,845</b>	<b>26,583</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		305	433
Interest and other financing costs paid		(9,001)	(10,071)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(8,696)</b>	<b>(9,638)</b>
Taxation		(335)	(573)
Equity dividends paid		-	(1,254)
<b>Net cash inflow before use of liquid resources and financing</b>		<b>16,814</b>	<b>15,118</b>
<b>Financing</b>			
Secured loan repaid		(11,522)	(11,587)
<b>Net cash outflow from financing</b>		<b>(11,522)</b>	<b>(11,587)</b>
<b>Increase in cash in the year</b>	19	<b>5,292</b>	<b>3,531</b>
<b>Reconciliation to net debt</b>			
Net debt at 1 January 2013		(377,951)	(381,204)
Increase in cash in the year		5,292	3,531
Movement in borrowings		13,001	(11,587)
Other non-cash changes		(12,411)	11,309
<b>Net debt at 31 December 2013</b>	19	<b>(372,069)</b>	<b>(377,951)</b>

## Notes to the financial statements for the year ended 31 December 2013

## 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, forecast receipts, and the dispute noted below, 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, and
- (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 Company'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.

Healthcare Support Newcastle (Holding) Limited subsidiary company, Healthcare Support (Newcastle) Limited ("HSN"), has been in discussions with The Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust") and Laing O'Rourke Construction Limited ("LOR") to resolve a long standing dispute over the completion of phase 8 of the project being the penultimate phase of the construction works. Phases 1 to 7 of the project are clinical facilities which have been complete for some time. Phase 8 represents 6% of construction costs and is an administration building to house clinicians and their support staff. The parties have failed to reach a commercial settlement and as the long stop dates for completion of the construction works under the Collateral Deed and the Project Agreement are 28 July 2014 and 28 October 2014 respectively HSN is currently exploring, in consultation with the Majority Creditors, other ways of resolving this dispute. Failure to resolve the dispute could result in the Trust seeking to exercise any right it may have to terminate the Project Agreement on the longstop date. Separately LOR has commenced legal action against HSN and the Trust in relation to the disputed completion of Phase 8 which will be heard by the Court on 14 July 2014.

It is likely that no settlement will be made for some time. The Directors of HSN have sought legal advice and appointed a QC to deal with these matters. The Directors have concluded that this issue represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquires and considering the uncertainties described above, the Directors have a reasonable expectation that the Group has resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial 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 Group consists of Healthcare Support (Newcastle) Holdings Limited, Healthcare Support (Newcastle) Limited and Healthcare Support (Newcastle) Finance plc. 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 £708,000 (2012 - £1,788,000 profit) for the financial year. The Company made a profit before tax of nil (2012 - £1,254,000). 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.

## Notes to the financial statements for the year ended 31 December 2013 (continued)

## 1 ACCOUNTING POLICIES (continued)

b) FRS 25 Financial Instruments

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 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 Group's 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 the Newcastle Upon Tyne Hospitals NHS Foundation Trust. 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.

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 ACCOUNTING POLICIES (continued)

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 originally secured bond debt with Royal Bank of Canada and a loan with the European Investment Bank "EIB". Both the loan and the bond are index linked 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 2013 (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

	2013		Fair Value
	Book Value	Financial liabilities at amortised cost	
	Loans and receivables at amortised cost including cash and short-term deposits		
	£	£	£
<b>Financial assets</b>			
Trade and other receivables	965	-	965
Cash and short-term deposits	38,547	-	38,547
FRS 5 finance debtor	312,978	-	346,904
	<u>352,490</u>	<u>-</u>	<u>386,416</u>
<b>Interest income in the year</b>	20,550		
<b>Financial liabilities</b>			
Index-linked secured bonds	-	373,034	339,182
Secured subordinated loan stock - commitment and letters of credit fees	-	24,236	35,176
Trade and other payables	-	10,329	10,329
	<u>-</u>	<u>407,599</u>	<u>384,687</u>
<b>Interest expense in the year</b>	22,359		
<b>Fee expense in the year</b>	485		
	2012		Fair Value
	Book Value	Financial liabilities at amortised cost	
	Loans and receivables at amortised cost including cash and short-term deposits		
	£	£	£
<b>Financial assets</b>			
Trade and other receivables	998	-	998
Cash and short-term deposits	33,779	-	33,779
FRS 5 finance debtor	316,823	-	372,742
	<u>351,600</u>	<u>-</u>	<u>407,519</u>
<b>Interest income in the year</b>	22,791		
<b>Financial liabilities</b>			
Index-linked secured bonds	-	374,113	350,902
Secured subordinated loan stock - commitment and letter of credit fees	-	24,236	32,171
Trade and other payables	-	8,383	8,383
	<u>-</u>	<u>406,732</u>	<u>391,456</u>
<b>Interest expense in the year</b>	24,019		
<b>Fee expense in the year</b>	486		

## Notes to the financial statements for the year ended 31 December 2013 (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 2.75% (2012 - 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 A from Standard & Poor's and A2 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-2 from Standard & Poor's and P-2 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. Given the current market conditions and reduction to the credit rating of Lloyds TSB plc, a waiver was obtained from the Majority Creditors to continue to use Lloyds TSB plc as Account Bank and for holding of Authorised Investments.

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

**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 RPI.

A 1% increase in the annual rate of inflation would increase interest attributable to the index linked secured bond. There would have been £3,697,655 (2012 - £3,825,522) 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 £301,313 (2012 - £307,873).

**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:

2013				
Borrowings	Other financial liabilities	Total non-derivative financial liabilities	Carrying value	
£	£	£	£	£
Due on demand or within one year	19,309	2,222	-	21,531
Due within one to two years	12,435	-	12,435	12,435
Due within two to five years	40,663	-	20,550	40,663
Due after more than five years	332,148	-	332,148	332,148
	<u>404,555</u>	<u>2,222</u>	<u>365,133</u>	<u>406,777</u>
2012				
Borrowings	Other financial liabilities	Total non-derivative financial liabilities	Carrying value	
£	£	£	£	£
Due on demand or within one year	16,001	3,261	19,262	19,262
Due within one to two years	12,526	-	12,526	12,526
Due within two to five years	39,889	-	39,889	39,889
Due after more than five years	334,309	-	334,309	334,309
	<u>402,725</u>	<u>3,261</u>	<u>405,986</u>	<u>405,986</u>

**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 19. In March 2010 Equion Health (Newcastle) Limited and Interserve PFI 2003 Limited injected £19,685,600 and £4,921,400 of subordinated debt respectively. During the year Interserve PFI 2005 Limited acquired the shareholding of Interserve PFI 2003 Limited in Healthcare Support (Newcastle) Holdings Limited.

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

## Notes to the financial statements for the year ended 31 December 2013 (continued)

### 3 TURNOVER

	Group 2013 £'000	Group 2012 £'000
Turnover in the year is analysed as follows		
Construction revenue	-	474
Concession unitary income	8,792	7,960
Other revenue	5,228	4,651
	<b>14,020</b>	<b>13,085</b>

### 4 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

	Group 2013 £'000	Group 2012 £'000
Operating profit on ordinary activities before interest is stated after charging		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	13	13
Fees payable to the Company's auditor for the audit of Healthcare Support (Newcastle) Finance plc's annual accounts	3	3
Fees payable to the Company's auditor for the audit of Equion Health (Newcastle) Limited's annual accounts	3	3
Construction costs	-	3,556
Operating and maintenance costs	10,906	9,317
Other overhead costs (excl audit)	112	248

### 5 DIRECTORS' REMUNERATION

No Directors received any remuneration for services to the Company during the current or prior year. The Company's subsidiary is managed under a Management Services Agreement by Laing Investments Management Services Limited.

### 6 STAFF NUMBERS

The Company had no employees during the year (2012 - nil)

### 7 NET INTEREST PAYABLE

	Group 2013 £'000	Group 2012 £'000
<b>Interest receivable and similar income</b>		
Interest receivable on bank deposits	227	453
Interest receivable on finance debtor	20,325	22,342
Interest receivable capitalised	(2)	(4)
	<b>20,550</b>	<b>22,791</b>
<b>Interest payable and similar charges</b>		
Interest payable on bank loans and overdrafts	(19,252)	(21,311)
Interest payable to parent undertakings	(3,303)	(2,893)
Amortised debt issue costs	(485)	(486)
Capitalised interest	196	185
	<b>(22,844)</b>	<b>(24,505)</b>
Net interest payable	<b>(2,294)</b>	<b>(1,714)</b>

## Notes to the financial statements for the year ended 31 December 2013 (continued)

## 8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group 2013 £'000	Group 2012 £'000
<u>Analysis of tax charge for the year</u>		
<b>Current tax</b>		
UK corporation tax	(165)	(438)
Adjustments in respect of previous periods	12	408
<b>Total current tax</b>	<u>(153)</u>	<u>(30)</u>
<b>Total tax charge on</b>	<u>(153)</u>	<u>(30)</u>

*Factors affecting tax charge for the current year*

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

	Group 2013 £'000	Group 2012 £'000
Profit on ordinary activities before taxation	<u>708</u>	<u>1,788</u>
multiplied by the blended rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	(165)	(438)
<b>Effects of</b>		
Adjustments in respect of previous years	<u>12</u>	<u>408</u>
<b>Total current tax charge for the year</b>	<u>(153)</u>	<u>(30)</u>

## 9 DIVIDENDS

	Group 2013 £'000	Group 2012 £'000
Equity shares		
Total dividends paid of £nil (2012 - £24.60p) per share	<u>-</u>	<u>1,254</u>

## 10 INVESTMENTS

	Shares in group undertaking £'000
<b>Cost</b>	
At 1 January 2013	51
<b>At 31 December 2013</b>	<u>51</u>
<b>Net book value</b>	
<b>At 31 December 2013</b>	<u>51</u>
At 31 December 2012	<u>51</u>

The Company's principal subsidiary undertakings are listed on page 22

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 2013 (continued)**

**11 DEBTORS**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Due within one year</b>				
Finance debtor	28,561	29,645	-	-
Trade debtors	965	998	-	-
Interest owed to Parent Undertaking	-	-	5,105	2,192
Amounts recoverable on contracts	31,910	33,490	-	-
Corporation tax	442	261	-	-
Financial assets	22,632	23,156	-	-
Prepayments and accrued income	17,762	15,341	-	-
	<b>102,272</b>	<b>102,891</b>	<b>5,105</b>	<b>2,192</b>
<b>Due after more than one year</b>				
Finance debtor	284,417	287,179	-	-
Amounts owed from Group undertakings	24,236	24,236	24,236	24,236
	<b>308,653</b>	<b>311,415</b>	<b>24,236</b>	<b>24,236</b>

The amounts recoverable on contracts includes cumulative net interest capitalised of £405,000 (2012 - £211,000) Finance debtor includes cumulative net interest capitalised of £7,860,057 (2012 - £7,860,057)

**12 CREDITORS**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>				
Bank loans (note 13)	12,024	11,625	-	-
Less unamortised debt issue costs	(487)	(487)	-	-
Trade creditors	508	1,638	-	-
Interest Payable to Parent Undertaking	5,105	2,192	5,105	2,192
Interest payable	2,180	2,184	-	-
Other taxation and social security	822	747	-	-
Contractor retentions	1,000	1,016	-	-
Accruals and deferred income	714	606	-	-
	<b>21,866</b>	<b>19,521</b>	<b>5,105</b>	<b>2,192</b>
<b>Amounts falling due after more than one year</b>				
Bank loans (note 13)	361,010	362,488	-	-
Less unamortised debt issue costs	(8,799)	(9,288)	-	-
Amounts owed to parent undertaking	24,236	24,236	24,236	24,236
Amounts owed to group undertakings	24,236	24,236	-	-
	<b>400,683</b>	<b>401,672</b>	<b>24,236</b>	<b>24,236</b>
<b>Analysis of debt</b>				
Debt can be analysed as falling due				
In one year or less	12,024	11,625	-	2,192
Between one and two years	12,435	12,526	-	468
Between two and five years	40,663	39,889	-	942
In five years or more	332,148	334,310	24,236	22,826
	<b>397,270</b>	<b>398,350</b>	<b>24,236</b>	<b>26,428</b>
Less unamortised debt issue costs	(9,286)	(9,775)	-	-
	<b>387,984</b>	<b>388,575</b>	<b>24,236</b>	<b>26,428</b>

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 2013 (continued)

## 13 LOANS

The Group originally had a publicly offered bond from Royal Bank of Canada for £197.8 million and a loan with European Investment Bank of £115 million. The other debt is repayable in instalments based on an agreed percentage amount of the total facilities per annum over the next 26 - 29 years (the EIB loan having the shorter maturity). 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 2.187% per annum and interest on the EIB loan is fixed at 2.1492% per annum (coupon of 1.9592% and margin of 0.19%). Both the public bond and EIB loan are index linked.

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

## 14 CALLED UP SHARE CAPITAL

	Group / Company	
	2013	2012
	£'000	£'000
<b>Allotted, called up and fully paid</b>		
51 ordinary shares of £1 each	<b>51</b>	<b>51</b>

## 15 MOVEMENT IN RESERVES

	Group Profit and loss account
	£'000
<b>At 1 January 2013</b>	<b>3,685</b>
Profit for the financial year	<b>555</b>
Dividends paid on equity shares (note 9)	-
<b>At 31 December 2013</b>	<b>4,240</b>

## 16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Profit for the financial year	<b>555</b>	1,758	-	1,254
Dividends paid on equity shares (note 9)	-	(1,254)	-	(1,254)
Net addition to shareholders' funds	<b>555</b>	504	-	-
Opening shareholder's funds	<b>3,736</b>	3,232	<b>51</b>	51
Closing shareholder's funds	<b>4,291</b>	3,736	<b>51</b>	51

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

## Notes to the financial statements for the year ended 31 December 2013 (continued)

### 17 TRANSACTIONS WITH RELATED PARTIES

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

	2013 £'000	2012 £'000
Details of payments made to Interserve Investments Limited and subsidiaries are as follows		
Facilities and lifecycle management fees	5,580	5,070
Interserve PFI 2005 Limited - subordinated debt principal repayment	-	20
Interserve PFI 2005 Limited - subordinated debt interest	-	293
Interserve PFI 2005 Limited - dividends	-	251
	<u>5,580</u>	<u>5,634</u>

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

Innisfree PFI Secondary Fund - subordinated debt principal repayment	-	66
Innisfree PFI Secondary Fund - subordinated debt interest	-	761
Innisfree PFI Secondary Fund - dividends	-	815
	<u>-</u>	<u>1,642</u>

#### Total Costs

	<u>5,580</u>	<u>7,276</u>
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#### Balance payable at 31 December 2013

Palio (No 15) Limited	824	329
Interserve PFI 2005 Limited	1,099	438
Interserve FM Limited	64	9
Innisfree PFI Secondary Fund	3,182	1,425

Innisfree PFI Secondary Fund, Interserve Investments Plc and John Laing Infrastructure Fund Limited are the ultimate shareholders of Healthcare Support (Newcastle) Holdings Limited. Palio (No 15) Limited is a wholly owned subsidiary of John Laing Infrastructure Fund Limited.

### 18 RECONCILIATION OF OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013 £'000	2012 £'000
Operating profit on ordinary activities before interest	3,002	3,502
Decrease in debtors	6,312	2,482
Increase in creditors	16,531	20,599
Net cash inflow from operating activities	<u>25,845</u>	<u>26,583</u>

# HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2013 (continued)

## 19 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2013 £'000	Cash flow £'000	Other non- cash changes £'000	At 31 December 2013 £'000
Cash in hand and at bank	10,623	5,292	-	15,915
Debt due within one year	(11,138)	11,522	(11,921)	(11,537)
Debt due after one year	(377,436)	1,479	(490)	(376,447)
Net debt	<u>(377,951)</u>	<u>18,293</u>	<u>(12,411)</u>	<u>(372,069)</u>

Other non-cash Changes includes the indexation impact on the RBC Bond and EIB Loan

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

	2013 £'000
Cash in hand and at bank	5,292
Cash outflow from increase in debt	13,001
Other non cash movements	<u>(12,411)</u>
Decrease in net debt	5,882
Net debt at 1 January 2013	(377,951)
Net debt at 31 December 2013	<u>(372,069)</u>

## 21 ULTIMATE PARENT UNDERTAKING

The Company is a joint venture between Equion Health (Newcastle) Limited (80%) and Interserve PFI 2005 Limited (20%) Both of these companies are incorporated in the United Kingdom and registered in England and Wales

## 22 POST BALANCE SHEET EVENT

On 7 April 2014, the Principal Paying Agency Agreement novated from the Royal Bank of Canada to the Bank of New York Mellon, London Branch

In February 2014 distributions were repaid into the company by its shareholders at the request of the Majority Creditors. The repayment was made at the request of the Majority Creditor who due to the delay in the phase 8 clinical office block believe that these distributions were made when the company had an event of default under the Collateral Deed when they were paid out in April 2012. Dividends repaid £1,254,353, subordinated debt principal £100,943 and subordinated debt interest £1,464,983

## HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

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### PRINCIPAL SUBSIDIARIES

Company name	Class and percentage of shares held	Principal activity	Country of incorporation
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 Healthcare Support (Newcastle) Limited	United Kingdom
Healthcare Support (Newcastle) Limited	100% of ordinary shares	The construction of RVI and Freeman hospitals for Newcastle Upon Tyne Hospitals NHS Foundation Trust	United Kingdom