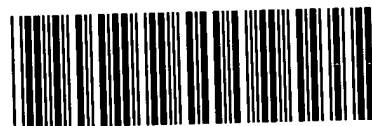


HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

**DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2014**

MONDAY



LD2 *L4AK6UKB* #208
COMPANIES HOUSE

Registered Number 4420880

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENTS	Page
Directors and advisors	1
Strategic Report	2-3
Directors' report	4
Directors' responsibilities statement	5
Independent auditor's report to the members of Healthcare Support (Newcastle) Holdings Limited	6
Consolidated profit and loss account	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Notes to the financial statements	11-21
List of principal subsidiaries	22

DIRECTORS AND ADVISORS

Directors

J Graham
J M Linney
R J Marsden
N Crowther
J D Harris (Alternate)

Company secretary and registered office

M Lewis
1 Kingsway
London
WC2B 6AN

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
EC4A 3BZ

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 2014.

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 loss for the year before taxation amounted to £1,920,000 (2013 - £708,000 profit), the loss in 2014 relates to the expensing of all costs relating to the Clinical Office Block dispute. After taxation of £413,000 (2013 - £153,000 taxation charge) the loss for the year was £1,508,000 (2013 - £555,000 profit).

On 27th and 28th February 2014 distributions were repaid into the company by its shareholders at the request of the Majority Creditors (Syncora Guarantee Inc. and the European Investment Bank). 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. The total repaid was, dividends £1,254,353, subordinated debt principal £100,943 and subordinated debt interest £1,464,983.

During the year the Company repaid a dividend of £1,254,353 (2013 - nil). This was a legal dividend under the Companies Act and was only repaid at the request of the Majority Creditor.

Healthcare Support Newcastle (Holding) Limited subsidiary company, Healthcare Support (Newcastle) Limited ("HSN" or the "Company"), 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 have now passed under the Collateral Deed (28 July 2014) and the Project Agreement (28 October 2014) HSN is exploring, in consultation with the Majority Creditors, other ways of resolving this dispute. The formal mediation process as set out in the Project Agreement commenced on 15 June 2015. Failure to resolve the dispute could result in the Trust seeking to exercise any right it may have to terminate the Project Agreement through failure to achieve completion of construction by the long stop date. It is the view of the Board that the construction completion date has not yet been determined until otherwise agreed or determined by the Courts.

Separately LOR commenced legal action against HSN and the Trust to determine the completion criteria to be applied to Phase 8 which was heard by the Court in July 2014. The Court found in favour of LOR which narrowed the completion criteria to be applied to determine completion. HSN expects the Independent Tester to issue the Phase 8 Completion Certificate by the end of July 2015.

The Directors have sought legal advice and appointed a QC to deal with these matters. The Directors have concluded the phase 8 dispute which could potentially result in the Trust seeking to exercise any right it may have to terminate the Project Agreement represents a material uncertainty that casts significant doubt upon Healthcare Support Newcastle Limited's ability to continue as a going concern and that, therefore, significant doubt about the Company's ability to continue as a going concern as the Company's only business is to act as the parent to Healthcare Support Newcastle Limited. 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.

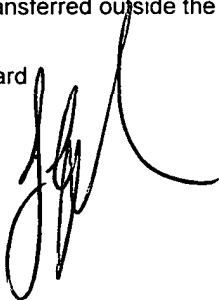
STRATEGIC REPORT (Continued)

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
29th June 2015

A handwritten signature in black ink, appearing to be 'JG', 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 2014.

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.

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 16.

AUDITOR'S STATEMENT

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

- so far as the director is aware, there is no relevant audit documentation of which the company's auditors is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

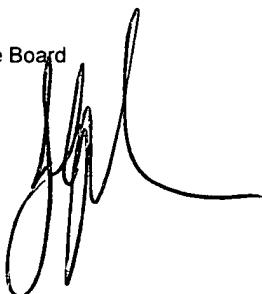
This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

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 and Annual General Meeting.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

On behalf of the Board

John Graham
Director
29th June 2015



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 2014 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, consolidated cash flow statement, and the related notes 1 to 23. 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 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 2014 and of the Group's loss 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
29th June 2015

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes -	2014 £'000	2013 £'000
Turnover	3	10,968	14,020
Cost of sales		<u>(9,912)</u>	<u>(11,018)</u>
Operating profit on ordinary activities before interest	4	1,056	3,002
Net interest payable	7	(2,977)	(2,294)
(Loss) / profit on ordinary activities before taxation		<u>(1,921)</u>	<u>708</u>
Tax on (loss) / profit on ordinary activities	8	413	(153)
(Loss) / profit for the financial year	16	<u>(1,508)</u>	<u>555</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.

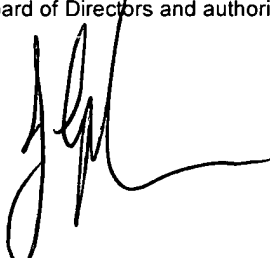
HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Current assets			
Debtors		406,769	410,925
- due within one year	11	99,213	102,272
- due after more than one year	11	307,556	308,653
Cash at bank and in hand		25,676	15,915
		432,445	426,840
Current liabilities			
Creditors: amounts falling due within one year	13	(30,454)	(21,866)
Net current assets		401,991	404,974
Total assets less current liabilities		401,991	404,974
Creditors: amounts falling due after more than one year	13	(397,954)	(400,683)
Net assets		4,037	4,291
Capital and reserves			
Called up share capital	15	51	51
Profit and loss account	16	3,986	4,240
Shareholders' funds	17	4,037	4,291

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 29th June 2015. They were signed on its behalf by:

John Graham
Director
29th June 2015



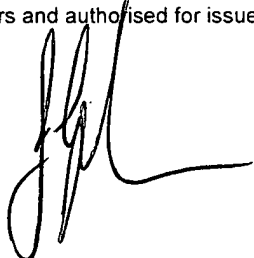
HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investments	10	51	51
Current assets			
Debtors		34,872	29,341
- due within one year	11	10,535	5,105
- due after more than one year	11	24,337	24,236
Current liabilities			
Creditors: amounts falling due within one year	13	(10,535)	(5,105)
Net current assets		<u>24,337</u>	<u>24,236</u>
Total assets less current liabilities		<u>24,388</u>	<u>24,287</u>
Creditors: amounts falling due after more than one year	13	(24,337)	(24,236)
Net assets		<u>51</u>	<u>51</u>
Capital and reserves			
Called up share capital	15	51	51
Shareholders' funds	15	<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 29th June 2015. They were signed on its behalf by:

John Graham
Director
29th June 2015



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Net cash inflow from operating activities	19	26,540	26,369
Returns on investments and servicing of finance			
Interest received		163	305
Interest and other financing costs paid		(16,097)	(9,001)
Net cash outflow from returns on investments and servicing of finance		<u>(15,934)</u>	<u>(8,696)</u>
Taxation		363	(335)
Net cash inflow before use of liquid resources and financing		<u>10,969</u>	<u>17,338</u>
Management of liquid resources			
Financial Asset		396	(524)
Financing			
Secured loan repaid		(2,959)	(11,522)
Shareholder loan injected		101	-
Net cash outflow from financing		<u>(2,858)</u>	<u>(11,522)</u>
Equity dividends repaid		1,254	-
Increase in cash in the year	20	<u>9,761</u>	<u>5,292</u>
Reconciliation to net debt			
Net debt at 1 January 2014		(349,437)	(355,843)
(Decrease)/increase in financial asset		(396)	524
Increase in cash in the year		9,761	5,292
Movement in borrowings		12,024	13,001
Other non-cash changes		<u>11,757</u>	<u>(12,411)</u>
Net debt at 31 December 2014	20	<u>(316,291)</u>	<u>(349,437)</u>

Notes to the financial statements for the year ended 31 December 2014

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.

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" or the "Company"), 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 have now passed under the Collateral Deed (28 July 2014) and the Project Agreement (28 October 2014) HSN is exploring, in consultation with the Majority Creditors (Syncora Guarantee Inc. and the European Investment Bank), other ways of resolving this dispute. The formal mediation process as set out in the Project Agreement commenced on 15 June 2015. Failure to resolve the dispute could result in the Trust seeking to exercise any right it may have to terminate the Project Agreement through failure to achieve completion of construction by the long stop date. It is the view of the Board that the construction completion date has not yet been determined until otherwise agreed or determined by the Courts.

Separately LOR commenced legal action against HSN and the Trust to determine the completion criteria to be applied to Phase 8 which was heard by the Court in July 2014. The Court found in favour of LOR which narrowed the completion criteria to be applied to determine completion. HSN expects the Independent Tester to issue the Phase 8 Completion Certificate by the end of July 2015.

The Directors 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.

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 loss before tax of £1,921,000 (2013 - £708,000 profit) for the financial year. The Company made a loss before tax of £1,254,000 (2013 - nil). 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 2014 (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 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 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 2014 (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". The Bond was novated to the Bank of New York Mellon on 7th April 2014. 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.

m) Amortisation

The senior debt arrangement fee is amortised over the life of the senior debt on the reducing balance basis, in relation to the interest payable.

Notes to the financial statements for the year ended 31 December 2014 (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

	2014		Fair Value
	Book Value	Financial	
	Loans and receivables at amortised cost including cash and short-term deposits	liabilities at amortised cost	
	£	£	£
Financial assets			
Trade and other receivables	2,272	-	2,272
Cash and short-term deposits	25,676	-	25,676
FRS 5 finance debtor	309,019	-	388,272
	<u>336,967</u>	<u>-</u>	<u>416,220</u>
Interest income in the year	19,015		
Financial liabilities			
Index-linked secured bonds	-	370,075	312,266
Secured subordinated loan stock - commitment and letters of credit fees	-	24,337	44,136
Trade and other payables	-	7,927	7,927
	<u>-</u>	<u>402,339</u>	<u>364,329</u>
Interest expense in the year	21,509		
Fee expense in the year	483		

	2013		Fair Value
	Book Value	Financial	
	Loans and receivables at amortised cost including cash and short-term deposits	liabilities at amortised cost	
	£	£	£
Financial assets			
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>
Interest income in the year	20,550		
Financial liabilities			
Index-linked secured bonds	-	373,034	339,182
Secured subordinated loan stock - commitment and letter 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>
Interest expense in the year	22,359		
Fee expense in the year	486		

Notes to the financial statements for the year ended 31 December 2014 (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% (2013 - 2.75%). 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 (Syncora Guarantee Inc and the European Investment Bank) 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 £3,799,865 (2013 - £3,697,655) 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 £322,068 (2013 - £301,313).

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:

2014				
Borrowings	Other financial liabilities	Total non-derivative financial liabilities	Carrying value	
£	£	£	£	£
Due on demand or within one year	25,170	4,897	30,067	30,067
Due within one to two years	13,069	-	13,069	13,069
Due within two to five years	42,359	-	42,359	42,359
Due after more than five years	326,509	-	326,509	326,509
	407,107	4,897	412,004	412,004
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
	404,555	2,222	365,133	406,777

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 15 and 16 and cash and cash equivalents and borrowings as disclosed in Note 20. 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 both the shareholding and subordinated debt of Interserve PFI 2003 Limited in Healthcare Support (Newcastle) Holdings Limited.

Notes to the financial statements for the year ended 31 December 2014 (continued)

3 TURNOVER

	Group 2014 £'000	Group 2013 £'000
Turnover in the year is analysed as follows:		
Concession unitary income	8,994	8,792
Other revenue	1,974	5,228
	<u>10,968</u>	<u>14,020</u>

4 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

	Group 2014 £'000	Group 2013 £'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	14	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

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 (2013 - nil).

7 NET INTEREST PAYABLE

	Group 2014 £'000	Group 2013 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	165	227
Interest receivable on finance debtor	18,850	20,325
Interest receivable capitalised	-	(2)
	<u>19,015</u>	<u>20,550</u>
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(17,744)	(19,252)
Interest payable to parent undertakings	(3,765)	(3,303)
Amortised debt issue costs	(483)	(485)
Capitalised interest	-	196
	<u>(21,992)</u>	<u>(22,844)</u>
Net interest payable	<u>(2,977)</u>	<u>(2,294)</u>

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	Group 2014 £'000	Group 2013 £'000
<u>Analysis of tax credit / (charge) for the year</u>		
Current tax		
UK corporation tax	-	(165)
Adjustments in respect of previous periods	-	12
Total current tax	-	(153)
Deferred tax		
Adjustments to estimated amounts recoverable of deferred tax assets arising in period	413	-
Total deferred tax	413	-
Total tax credit / (charge) on (loss) / profit on ordinary activities before taxation	413	(153)

Factors affecting tax for the 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 2014 £'000	Group 2013 £'000
(Loss) / profit on ordinary activities before taxation	(1,921)	708
(Loss) / profit on ordinary activities before taxation multiplied by the blended rate of corporation tax in the UK of 21.5% (2013 - 23.25%)	413	(165)
Effects of:		
Adjustments in respect of previous years	(413)	12
Total current tax charge for the year	-	(153)

For the year ended 31 December 2014, the blended UK rate of 21.5 % is applied due to the change in the UK corporation tax rate from 23% to 21% with effect 1 April 2014.

9 DIVIDENDS

	Group 2014 £'000	Group 2013 £'000
Equity shares:		
Total dividends repaid of £nil (2013 - nil) per share	1,254	-

On 27th and 28th February 2014 distributions were repaid into the company by its shareholders at the request of the Majority Creditors (Syncora Guarantee Inc. and the European Investment Bank). The repayment was made at the request of the Majority Creditors 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. The total repaid was, dividends £1,254,353, subordinated debt principal £100,943 and subordinated debt interest £1,464,983.

10 INVESTMENTS

	Shares in group undertaking £'000
Cost	
At 1 January 2014	51
At 31 December 2014	51
Net book value	
At 31 December 2014	51
At 31 December 2013	51

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 2014 (continued)

11 DEBTORS

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Due within one year				
Finance debtor	25,800	28,561	-	-
Trade debtors	2,272	965	-	-
Interest owed to Parent Undertaking	-	-	10,535	5,105
Amounts recoverable on contracts	30,312	31,910	-	-
Corporation tax	79	442	-	-
Deferred tax asset	413	-	-	-
Financial assets	22,236	22,632	-	-
Prepayments and accrued income	18,101	17,762	-	-
	99,213	102,272	10,535	5,105
Due after more than one year				
Finance debtor	283,219	284,417	-	-
Amounts owed from Group undertakings	24,337	24,236	24,337	24,236
	307,556	308,653	24,337	24,236

12 DEFERRED TAX

	2014	2013
	£'000	£'000
Deferred tax asset		
Balance as at 1 January	-	-
Credit to the Profit and Loss	413	-
Balance as at 31 December	413	-

13 CREDITORS

	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Bank loans (note 14)	12,475	12,024	-	-
Less: unamortised debt issue costs	(483)	(487)	-	-
Trade creditors	2,966	508	-	-
Interest Payable to Parent Undertaking	10,535	5,105	10,535	5,105
Interest payable	2,160	2,180	-	-
Other taxation and social security	870	822	-	-
Contractor retentions	876	1,000	-	-
Accruals and deferred income	1,055	714	-	-
	30,454	21,866	10,535	5,105
Amounts falling due after more than one year				
Bank loans (note 13)	357,600	361,010	-	-
Less: unamortised debt issue costs	(8,320)	(8,799)	-	-
Amounts owed to parent undertaking	24,337	24,236	24,337	24,236
Amounts owed to group undertakings	24,337	24,236	-	-
	397,954	400,683	24,337	24,236
Analysis of debt:				
Debt can be analysed as falling due:				
In one year or less	12,475	12,024	-	-
Between one and two years	13,069	12,435	-	-
Between two and five years	42,359	40,663	-	-
In five years or more	326,509	332,148	24,236	24,236
	394,412	397,270	24,236	24,236
Less: unamortised debt issue costs	(8,803)	(9,286)	-	-
	385,609	387,984	24,236	24,236

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 2014 (continued)

14 LOANS

The Group originally had a publicly offered bond from Royal Bank of Canada for £197.8 million which was novated to the Bank of New York Mellon on 7th April 2014 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 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.

15 CALLED UP SHARE CAPITAL

	Group / Company	
	2014	2013
	£'000	£'000
Allotted, called up and fully paid:		
51 ordinary shares of £1 each	51	51

16 MOVEMENT IN RESERVES

	Group Profit and loss account
	£'000
At 1 January 2014	4,240
Loss for the financial year	(1,508)
Dividends repaid on equity shares (note 9)	1,254
At 31 December 2014	3,986

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
(Loss) / profit for the financial year	(1,508)	555	(1,254)	-
Dividends paid on equity shares (note 9)	1,254	-	1,254	-
Net addition to shareholders' funds	(254)	555	-	-
Opening shareholders' funds	4,291	3,736	51	51
Closing shareholders' funds	4,037	4,291	51	51

Notes to the financial statements for the year ended 31 December 2014 (continued)

18 TRANSACTIONS WITH RELATED PARTIES

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

	2014 £'000	2013 £'000
Details of payments made to Palio (No 15) Limited and subsidiaries are as follows:		
Palio (No 15) Limited - subordinated debt principal repayment	(15)	-
Palio (No 15) Limited - subordinated debt interest	(220)	-
Palio (No 15) Limited - dividends	(188)	-
	<u>(423)</u>	<u>-</u>

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

Facilities and lifecycle management fees	6,207	5,580
Interserve PFI 2005 Limited - subordinated debt principal repayment	(20)	-
Interserve PFI 2005 Limited - subordinated debt interest	(293)	-
Interserve PFI 2005 Limited - dividends	(251)	-
	<u>5,643</u>	<u>5,580</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	(762)	-
Innisfree PFI Secondary Fund - dividends	(815)	-
	<u>(1,643)</u>	<u>-</u>

Total Costs

	<u>3,577</u>	<u>5,580</u>
--	--------------	--------------

Balance payable at 31 December 2014

Palio (No 15) Limited	1,580	824
Interserve PFI 2005 Limited	2,107	1,099
Interserve FM Limited	423	64
Innisfree PFI Secondary Fund	6,848	3,182

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.

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

	2014 £'000	2013 £'000
Operating profit on ordinary activities before interest	1,056	3,002
Decrease in debtors	3,590	6,836
Increase in creditors	21,894	16,531
Net cash inflow from operating activities	<u>26,540</u>	<u>26,369</u>

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2014 (continued)

20 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2014 £'000	Cash flow £'000	Other non- cash changes £'000	At 31 December 2014 £'000
Cash in hand and at bank	15,915	9,761	-	25,676
Financial Asset	22,632	(396)	-	22,236
Debt due within one year	(11,537)	12,024	(12,475)	(11,988)
Debt due after one year	(376,447)	-	24,232	(352,215)
Net debt	<u>(349,437)</u>	<u>21,389</u>	<u>11,757</u>	<u>(316,291)</u>

Other non-cash Changes includes the indexation impact on the Bank of New York Mellon Bond and EIB Loan.

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2014 £'000
Cash in hand and at bank	9,761
Decrease in financial asset	(396)
Cash outflow from increase in debt	12,024
Other non cash movements	11,757
Decrease in net debt	<u>33,146</u>
Net debt at 1 January 2014	(349,437)
Net debt at 31 December 2014	<u>(316,291)</u>

22 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.

23 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