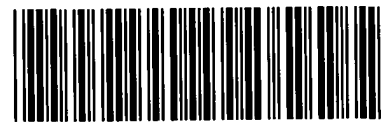


Company Registration No. 04420880 (England and Wales)

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

WEDNESDAY



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HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY INFORMATION

| | | |
|--------------------------|-----------------------------------------------------------------------|----------------------------------------------------------|
| Directors | R Marsden A Watson H O'Gorman G Birley-Smith D R Bradbury | (Appointed 19 January 2017) (Appointed 30 April 2018) |
| Secretary | HCP Social Infrastructure (UK) Limited | |
| Company number | 04420880 | |
| Registered office | 8 White Oak Square London Road Swanley Kent BR8 7AG | |
| Auditor | KPMG LLP 66 Queen Square Bristol BS1 4BE | |
| Solicitors | Michelmores Woodwater House Pynes Hill Exeter EX2 5WR | |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

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HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present the strategic report for the year ended 31 December 2017.

Business Review

The company has 100% shareholdings in Healthcare Support (Newcastle) Limited and Healthcare Support (Newcastle) Finance Plc, together the "group". The principal activity of the group is to design, develop and finance the construction of new extensions to the Royal Victoria Infirmary and Freeman Hospital, together with providing the ongoing maintenance and lifecycle services to these extensions, on behalf of the Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust"). Financial close was achieved on 4 May 2005. The concession period is 38 years.

John Laing Investments Limited (since transferred to John Laing Infrastructure Fund Limited), Interserve PFI 2003 Limited and Innisfree Nominees Limited invested £1,000 share capital in the company. John Laing Investments Limited (since transferred to John Laing Infrastructure Fund Limited) and Innisfree Nominees Ltd acting in its capacity as nominee on behalf of Innisfree PFI Secondary Fund invested subordinated loan stock 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.

As discussed in more detail in Note 1, during 2017, the level of service provided by the principal subcontractor of Healthcare Support (Newcastle) Limited to the Trust was below that required and as a result the group notified its lenders (the "Lenders") on 27 November 2017 that sufficient Service Failure Points ("SFP"s) had been awarded against Healthcare Support (Newcastle) Limited that Events of Default had occurred under the terms of the group's finance documents which govern the lending arrangement in respect of the group's bond and bank loan (the "Finance Documents").

The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full. The Directors have discussed the current levels of service with the Lenders and received assurances that the Lenders do not currently intend to exercise their rights following an Event of Default to require repayment of the outstanding borrowings immediately.

As at the balance sheet date these Events of Default had not been waived or formally deemed remedied by the Lenders. Consequently, the group's bond and bank loans have been classified as due within 1 year in the balance sheet. In addition, under the terms of the shareholder loan agreement, as a result of the Event of Default, the loan notes also become repayable on demand and hence this balance has been classified as current at 31 December 2017.

The Directors have sought legal advice and prepared, with the support of external specialists, a plan of remedial actions (the "Plan") which they would undertake in order to improve service levels and to reduce the levels of SFPs so that further Events of Default would not occur. The Plan was presented to the Lenders on 29 January 2018 and accepted by them. Since this time the levels of service have improved and stabilised and the level of SFPs reduced. The Directors have modelled the forecast financial performance of the group, and taking into consideration reasonably possible changes to operations including the potential consequences of revenue deductions for service delivery failures and also associated costs for further remedial activity, they consider that the group will remain in operational existence for the foreseeable future and will be able to make repayments of the group's financing obligations which would be due in the event that the Lenders do not accelerate the repayments of principal as set out above.

The Directors have therefore concluded that until the Events of Default have been waived or deemed remedied by the Lenders these issues represent a material uncertainty that cast significant doubt on the group's ability to continue as a going concern and that therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the uncertainties described above, the Directors have a reasonable expectation that the group will continue in operational existence for the foreseeable future. For these reasons, the Directors consider that it is appropriate to prepare the accounts on a going concern basis.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Principal Risks and Uncertainties

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group's performance. The directors have policies for managing each of these risks and they are summarised below:

Lifecycle

A risk borne by the group is that lifecycle costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset by asset basis and by the periodic technical evaluations of the physical condition of the facilities. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

Availability

Investment in the project is funded primarily by the bank loan, bond and shareholder subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the bank loan and bond will be unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the group's ability to make payments to the lenders. Deductions of £490,000 (2016: (£47,000)) were incurred in the year, these were recovered from the service provider, resulting in a net credit of £21,000 (2016: credit £65,000).

Service performance

Performance risk under the Project Agreement and related contracts are substantially passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees. Ultimately, poor performance may result in the Trust having the right to terminate the Project Agreement. As noted in the discussion of the company's KPIs, the levels of deductions levied in the year are not considered to pose a risk to the project.

Service provider failure

The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk as being low. However, as continuity of service delivery is of paramount importance, the company has a Business Continuity Plan which details how the company would deal with a service provider failure. This includes directly employing staff and sub-contractors until a replacement sub-contractor is in place.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Development and performance

Turnover in the year increased to £16,710,000 (2016: £15,078,000) largely due to an increase in costs attracting margin in the period and increased income in relation to variations and pass through costs. Pass through costs are incurred by service providers and paid for by the Trust through the company; the company does not apply a mark up to these costs. The prior year included one off costs relating to a settlement agreement which did not attract margin and which have not been repeated this year. It is for these reasons that gross profit improved to £5,563,000 (2016: £2,255,000).

Interest receivable and similar income, which is largely the interest earned on the finance debtor balance, increased to £23,196,000 (2016: £16,478,000) due to an increase in indexation.

Loan and bond interest payable, which is also index-linked, has increased to £20,844,000 (2016: £13,443,000) due to the increase in indexation. Interest payable on the shareholder loan has however decreased to £2,959,000 (2016: £4,372,000). Previously unpaid interest had been added to the outstanding balance, therefore increasing the interest payable in previous years. The bulk of this unpaid interest was paid in 2016 therefore reducing the interest payable in 2017.

The impact of these movements has resulted in a profit before taxation of £4,956,000 (2016: £918,000).

At the 31 December 2017 the group had net assets of £4,060,000 (2016: £3,852,000).

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £323,608,000 (2016: £328,952,000). The Finance Debtor amortisation during the year was £5,344,000 (2016: £5,037,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

As explained above, the bond and bank loan and the shareholder loan have been classified in the current period as due within one year. As a result, £331,773,000 of bond and bank loan, and £24,337,000 of shareholder loan, which would otherwise be classified as Creditors: Amounts due after more than one year have been included in Creditors: Amounts due within one year.

During the year, the group has repaid £4,976,000 of the loan and £8,178,000 of the Secured Guaranteed Bonds; a total of £13,154,000. Scheduled loan repayment dates are 31 March and 30 September each year. In the previous financial year, the group repaid a total of £12,696,000.

During the year the group has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2043.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Key Performance Indicators

Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £490,000 (2016: credit £47,000) were levied by the Trust and £510,000 (2016: £18,000) was passed onto the service provider. This deduction amounts to 10.87% (2016: 0.38%) of the total fees charged by the service provider.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As a result the directors deem that the group's performance as at 31 December 2017 against this measure was considered satisfactory.

The group is providing a full range of facilities management services as required under the Project Agreement.

On behalf of the board



A Watson
Director

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their annual report and audited financial statements for the year ended 31 December 2017.

Principal activities

The principal activity of the group is to design, develop and fund the construction of new extensions to the Royal Victoria Infirmary and Freeman Hospital, together with the ongoing delivery of maintenance and lifecycle services to these extensions, on behalf of the Newcastle Upon Tyne Hospitals NHS Foundation Trust.

Directors

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

| | |
|----------------|-----------------------------|
| R Marsden | |
| N Crowther | (Resigned 19 January 2017) |
| A Watson | |
| H O'Gorman | |
| G Birley-Smith | (Appointed 19 January 2017) |
| J Heath | (Resigned 30 April 2018) |
| D R Bradbury | (Appointed 30 April 2018) |

Results and dividends

The results for the year are set out on page 10.

Ordinary dividends were paid amounting to £3,799,000 (2016: £nil). The Directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The group has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Financial risk management objectives and policies

Liquidity Risk

The group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the group negotiated debt facilities with an external party to ensure that the group has sufficient funds over the life of the PFI concession.

Credit Risk

The group's principal financial assets are cash, financial assets and trade and other receivables. The group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of Directors this risk is limited as the receivables are with Newcastle Upon Tyne Hospitals NHS Foundation Trust and guaranteed by the Department of Health.

Interest Rate Risk

The group has external loan and bond debt which is index linked to RPI (all items). The group mitigates this RPI risk by having an index linked unitary contract with the Newcastle Upon Tyne Hospitals NHS Foundation Trust, thereby mitigating inflationary risk.

Future developments

Details of future developments and events that have occurred after the balance sheet date can be found in the strategic report on page 1 and form part of this report by cross-reference.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Auditor

KPMG LLP were appointed as auditor to the group and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

On behalf of the board



A Watson
Director

Date: 29 June 2018

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors are responsible for preparing the Strategic Report, the Directors' 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 group and parent company financial statements in accordance with United Kingdom accounting standards and applicable law (United Kingdom generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 group and parent company, and of their profit or loss for that period. 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Healthcare Support (Newcastle) Holdings Limited ("the company") for the year ended 31 December 2017 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We draw attention to note 1.2 to the financial statements which indicates that there is a material uncertainty relating to the group and parent company's ability to continue as a going concern. Under the group and parent company's financing agreements an event of default occurred prior to the balance sheet date which has not been waived or deemed remedied. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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's 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.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen's Square
Bristol
BS1 4BE

29 June 2018

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 £000 | 2016 £000 |
|----------------------------------------|-------|--------------|--------------|
| Turnover | 3 | 16,710 | 15,078 |
| Cost of sales | | (11,147) | (12,823) |
| Gross profit | | 5,563 | 2,255 |
| Interest receivable and similar income | 7 | 23,196 | 16,478 |
| Interest payable and similar expenses | 8 | (23,803) | (17,815) |
| Profit before taxation | | 4,956 | 918 |
| Taxation (charge)/credit | 9 | (949) | (214) |
| Profit for the financial year | | 4,007 | 704 |

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2017

| | Notes | 2017 | | 2016 | |
|----------------------------------------------------------------|-----------|------------------|------------------|-----------------|------------------|
| | | £000 | £000 | £000 | £000 |
| Non-current assets | 14 | | 317,939 | | 323,609 |
| Current assets | | | | | |
| Debtors | 14 | 50,230 | | 42,179 | |
| Cash at bank and in hand | | 12,842 | | 18,775 | |
| | | 63,072 | | 60,954 | |
| Creditors: amounts falling due within one year | 15 | (376,951) | | (23,662) | |
| Net current (liabilities)/assets | | | (313,879) | | 37,292 |
| Creditors: amounts falling due after more than one year | 16 | | - | | (356,871) |
| Provisions for liabilities | 18 | | - | | (178) |
| Net assets | | | 4,060 | | 3,852 |
| Capital and reserves | | | | | |
| Called up share capital | 20 | | 51 | | 51 |
| Profit and loss reserves | 20 | | 4,009 | | 3,801 |
| Total equity | | | 4,060 | | 3,852 |

The financial statements were approved by the board of directors and authorised for issue on 29 June 2018 and are signed on its behalf by:



A Watson
Director

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2017

| | Notes | 2017 £000 | 2016 £000 |
|----------------------------------------------------------------|-------|--------------|--------------|
| Non-current assets | | | |
| Investments | 10 | 51 | 51 |
| Debtors falling due after one year | 14 | 24,337 | 24,337 |
| | | | 24,388 |
| Current assets | | | |
| Debtors falling due within one year | 14 | 2,267 | 5,553 |
| Creditors: amounts falling due within one year | 15 | (26,604) | (5,553) |
| Net current (liabilities)/assets | | (24,337) | - |
| Total assets less current liabilities | | 51 | 24,388 |
| Creditors: amounts falling due after more than one year | 16 | - | (24,337) |
| Net assets | | 51 | 51 |
| Capital and reserves | | | |
| Called up share capital | 20 | 51 | 51 |
| Total equity | | 51 | 51 |

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £3,799,000 (2016: £Nil).

The financial statements were approved by the board of directors and authorised for issue on 29 June 2018 and are signed on its behalf by:



A Watson
Director

Company Registration No. 04420880

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital | Profit and loss reserves | Total |
|----------------------------------------------------|------------------|--------------------------------|---------|
| | £000 | £000 | £000 |
| Balance at 1 January 2016 | 51 | 3,097 | 3,148 |
| Year ended 31 December 2016: | | | |
| Profit and total comprehensive income for the year | - | 704 | 704 |
| Balance at 31 December 2016 | 51 | 3,801 | 3,852 |
| Year ended 31 December 2017: | | | |
| Profit and total comprehensive income for the year | - | 4,007 | 4,007 |
| Dividends | 10 | (3,799) | (3,799) |
| Balance at 31 December 2017 | 51 | 4,009 | 4,060 |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital | Profit and loss reserves | Total |
|----------------------------------------------------|------------------|--------------------------------|---------|
| | £000 | £000 | £000 |
| Balance at 1 January 2016 | 51 | - | 51 |
| | <hr/> | <hr/> | <hr/> |
| Year ended 31 December 2016: | | | |
| Profit and total comprehensive income for the year | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2016 | 51 | - | 51 |
| | <hr/> | <hr/> | <hr/> |
| Year ended 31 December 2017: | | | |
| Profit and total comprehensive income for the year | - | 3,799 | 3,799 |
| Dividends | - | (3,799) | (3,799) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2017 | 51 | - | 51 |
| | <hr/> | <hr/> | <hr/> |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 £000 | 2016 £000 |
|---------------------------------------------------------------|-------|--------------|--------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 23 | 28,663 | 26,455 |
| Income taxes paid | | (367) | (10) |
| Net cash inflow from operating activities | | 28,296 | 26,445 |
| Investing activities | | | |
| Interest received | | 114 | 188 |
| Movement in other financial assets | | (809) | 1,347 |
| Net cash (used in)/generated from investing activities | | (695) | 1,535 |
| Financing activities | | | |
| Interest paid | | (16,581) | (21,880) |
| Repayment of bank loans | 16 | (13,154) | (12,696) |
| Dividends paid to equity shareholders | | (3,799) | - |
| Net cash used in financing activities | | (33,534) | (34,576) |
| Net decrease in cash and cash equivalents | | (5,933) | (6,596) |
| Cash and cash equivalents at beginning of year | | 18,775 | 25,371 |
| Cash and cash equivalents at end of year | | 12,842 | 18,775 |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

Healthcare Support (Newcastle) Holdings Limited is a private company limited by shares domiciled in the United Kingdom, incorporated in Great Britain and registered in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The group consists of Healthcare Support (Newcastle) Holdings Limited and all of its subsidiaries (see note 11).

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in pounds sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been applied consistently in the current and prior year.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £3,799,000 (2016: £Nil).

In these financial statements, the company is considered a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under the FRS 102 in respect of the following disclosures:

- Cash flow statement and related notes.

1.2 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.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

1.3 Going concern

During the year ended 31 December 2017, the level of service provided by Interserve (Facilities Management) Limited (the "Subcontractor"), who are the principal subcontractor of the group, was below that required under the agreements between the SPV and The Newcastle upon Tyne NHS Foundation Trust (the "Trust") and also the finance documents governing the lending arrangement in respect of the company's bond and bank loan (the "Finance Documents").

The impact of the service level breach on the agreement with the Trust (the "Project Agreement") is that financial penalties of £490,000 were incurred as a deduction from the revenues due under the Project Agreement in the year ended 31 December 2017. These were passed on in full to the Subcontractor. In addition, deductions of £100,000 have been incurred in 2018 to date, of which £100,000 have been passed on to the Subcontractor.

In addition, there were under the terms of the Project Agreement service failure points ("SFPs") awarded against the group. Under the terms of the Finance Documents, the level of points awarded was sufficient to trigger Events of Default as defined in the Finance Documents. This was notified to the group's lenders (the "Lenders") on 27 November 2017. The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring the amounts owing under the Finance Documents to be immediately repaid in full.

These Events of Default have not been waived or deemed remedied by the Lenders.

The impact of this on the balance sheet at 31 December 2017 is to classify the outstanding amounts of the bond and the bank loan and associated amounts of interest payable as a current liability as the group does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £338,290,000 of bond and bank loan which would otherwise be classified as Creditors: Amounts due after more than one year have been included in Creditors: Amounts due within one year.

In addition, under the terms of the shareholder loan agreement, as a result of the Event of Default, the subordinated loan stock also becomes repayable on demand and hence this balance has been classified as current at 31 December 2017.

As a result of the Events of Default, the Directors have sought legal advice and prepared, with the support of an external specialist, a plan of remedial actions (the "Plan") which they would undertake along with the Subcontractor in order to improve service levels and to reduce the levels of SFPs so that further Events of Default would not occur. The Plan was presented to the Lenders on 29 January 2018 and accepted by them. The Lenders have appointed a third party to monitor the implementation of the Plan and to report the level of SFPs arising. Since the implementation of the Plan, the level of SFPs has reduced and the levels of service have improved and stabilised such that the SPV is not incurring SFPs at a rate which would lead to further Events of Default. The Directors expect that as a result of this the Lenders will formally confirm that the Events of Default are deemed remedied in the third quarter of 2018 however, there can be no certainty of this.

The Directors have discussed the current levels of service with the Lenders and received assurances that the Lenders do not currently intend to exercise their rights following an Event of Default to require repayment of the outstanding borrowings immediately.

In addition, there are contained within the Finance Documents covenants with regard to financial performance. The Directors have modelled the forecast financial performance of the group, and taking into consideration reasonably possible changes to operations including the potential consequences of revenue deductions for service delivery failures and also associated costs for further remedial activity, they consider that the group and parent company will remain in operational existence for the foreseeable future and will be able to pay the interest on their borrowings and the principal amounts of bond and bank loans which would be due in the event that the Lenders do not accelerate the repayments of principal as set out above.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

The Directors have therefore concluded that until the Events of Default have been waived or deemed remedied by the Lenders these issues represent a material uncertainty that cast significant doubt on the group and parent company's ability to continue as a going concern and that therefore the group and parent company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after considering the uncertainties described above, the Directors have a reasonable expectation that the group and parent company will continue in operational existence for the foreseeable future. For these reasons, the Directors consider that it is appropriate to prepare the group and parent company accounts on a going concern basis.

1.4 Turnover

Turnover in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue and variation income is recognised when the services are performed.

1.5 Fixed asset investments

In the parent company financial statements, investments in subsidiaries, are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

1.6 Cash at bank and in hand

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

The group is obligated to keep separate cash reserves in respect of requirements in the group's funding agreements. This restricted cash balance amounts to £23,820,000 at the year end (2016: £23,547,000). The restricted balances within the "cash at bank and in hand" balance are £281,000 (2016: £817,000) and within debtors as "other financial assets" are £23,539,000 (2016: £22,730,000).

1.7 Financial Instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

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

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Basic financial liabilities, including creditors, bank loans and loans from fellow group companies are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

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

Other financial liabilities

Debt Instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

1.8 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.10 Provisions

Provisions are recognised when the group has a legal or constructive present obligation as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

1.11 Service Concession Accounting

The group is an operator of a Public Finance Initiative ("PFI") contract. As the group entered into the contract prior to the date of transition to FRS102, the group has taken advantage of the exemption in section 35.10 (i) of FRS102 which permit it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the group under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Trust.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The group recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements

The Directors consider there to be no critical judgements, apart from those involving estimations which are dealt with separately below.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Service concession agreement

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the company's concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

Contingent liability

As part of the Settlement Agreement mentioned in the Strategic Review, Healthcare Support (Newcastle) Holdings Limited's subsidiary company Healthcare Support (Newcastle) Limited will potentially have to make a contribution towards the rectification of the chilled water pipes within the facility. At the time of signing the accounts the Board have concluded that the maximum possible contribution is £500,000, but the requirement to make this payment is considered possible rather than probable and so it has not been provided for.

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

| | 2017 £000 | 2016 £000 |
|---------------------|---------------|---------------|
| Turnover | | |
| Service Fee Income | 13,121 | 11,949 |
| Pass-through Income | 3,018 | 2,782 |
| Variation Income | 338 | 122 |
| Rental Income | 232 | 225 |
| | <u>16,710</u> | <u>15,078</u> |

Turnover analysed by geographical market

| | 2017 £000 | 2016 £000 |
|----------------|---------------|---------------|
| United Kingdom | <u>16,710</u> | <u>15,078</u> |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

4 Auditor's remuneration

| | 2017 £000 | 2016 £000 |
|------------------------------------------------------------|--------------|--------------|
| Fees payable to the company's auditor and associates: | | |
| For audit services | | |
| Audit of the financial statements of the group and company | 26 | 26 |

The fees payable of £26,000 (2016: £26,000) to the group's auditor, KPMG LLP (2016: Deloitte LLP), for the audit of the company and the group's financial statements is borne by Healthcare Support (Newcastle) Limited, who will not seek reimbursement.

5 Employees

The group had no employees during the current or prior year.

6 Directors' remuneration

| | 2017 £000 | 2016 £000 |
|----------------------------------------------------|--------------|--------------|
| Sums paid to third parties for directors' services | 207 | 227 |
| | <u>207</u> | <u>227</u> |

7 Interest receivable and similar income

| | 2017 £000 | 2016 £000 |
|---------------------------|---------------|---------------|
| Interest income | | |
| Interest on bank deposits | 113 | 178 |
| Finance debtor interest | 23,083 | 16,300 |
| Total interest income | <u>23,196</u> | <u>16,478</u> |

8 Interest payable and similar expenses

| | 2017 £000 | 2016 £000 |
|----------------------------------------------------------------------|---------------|---------------|
| Interest on financial liabilities measured at amortised cost: | | |
| Interest on bond and loans | 20,844 | 13,443 |
| Subordinated debt interest payable | 2,959 | 4,372 |
| Total interest expense | <u>23,803</u> | <u>17,815</u> |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9 Taxation

| | 2017 £000 | 2016 £000 |
|----------------------------------------------------|----------------------|----------------------|
| Current tax | | |
| UK corporation tax on profits for the current year | 476 | 89 |
| Adjustments in respect of prior periods | (3) | (61) |
| Group tax relief | - | (8) |
| Total current tax | 473 | 20 |
| | 2017 £000 | 2016 £000 |
| Deferred tax | | |
| Adjustment in respect of prior period | - | 71 |
| Changes in tax rates | (2) | 20 |
| Tax losses utilised/(carried forward) | 478 | 103 |
| Total deferred tax | 476 | 194 |
| Total taxation for the year | 949 | 214 |

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

| | 2017 £000 | 2016 £000 |
|----------------------------------------------------------------------------------------|--------------|--------------|
| Profit before taxation | 4,956 | 918 |
| Expected tax charge based on a corporation tax rate in the UK of 19.25% (2016: 20.00%) | 954 | 184 |
| Effect of change in corporation tax rate | (2) | 20 |
| Prior Year adjustment - current tax | (3) | (61) |
| Prior year adjustment - deferred tax | - | 71 |
| Taxation for the year | 949 | 214 |

For the year ended 31 December 2017, the UK rate of 19.25% (2016: 20.00%) is applied.

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective 1 April 2017 and to 18% effective 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provided a further reduction in the main rate of corporation tax to 17% effective 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

10 Dividends

| | 2017 £000 | 2016 £000 |
|--------------|--------------|--------------|
| Interim paid | <u>3,799</u> | <u>-</u> |

11 Fixed asset investments

| | Notes | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|-----------------------------|-------|-----------------------|--------------|-------------------------|--------------|
| Investments in subsidiaries | 12 | <u>-</u> | <u>-</u> | <u>51</u> | <u>51</u> |

12 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 are as follows:

| Name of undertaking | Registered office | Class of shares held | % Held Direct |
|--------------------------------------------|----------------------|-------------------------|------------------|
| Healthcare Support (Newcastle) Finance plc | UK* | Ordinary shares | 100 |
| Healthcare Support (Newcastle) Limited | UK* | Ordinary shares | 100 |

* The full registered office is the same as that disclosed in the company information.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Financial Instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies.

The carrying values of the group and company's financial assets and liabilities are summarised by category below:

| | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|---------------------------------------------------------------|-----------------------|----------------|-------------------------|---------------|
| Financial assets | | | | |
| Debt instruments measured at amortised cost (note 14) | 323,608 | 340,403 | 24,337 | 24,337 |
| Equity instruments measured at cost less impairment (note 10) | - | - | 51 | 51 |
| Measured at amortised cost: | - | - | - | - |
| - Trade and other debtors (note 14) | 21,022 | 1,126 | 2,267 | 5,553 |
| - Other financial assets | 23,539 | 22,730 | - | - |
| - Cash at bank and in hand | 12,842 | 18,775 | - | - |
| | <u>381,011</u> | <u>383,034</u> | <u>26,655</u> | <u>29,941</u> |
| Financial liabilities | | | | |
| Loans measured at amortised cost | 368,834 | 369,403 | 24,337 | 24,337 |
| Measured at amortised cost: | | | | |
| - Trade and other creditors (note 15) | 8,117 | 11,129 | 26,604 | 5,553 |
| | <u>376,951</u> | <u>380,532</u> | <u>50,941</u> | <u>29,890</u> |

The group and company's total interest income and total interest expense in relation to financial assets and financial liabilities held at amortised cost are disclosed in notes 7 and 8.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14 Debtors

| | Group | | Company | |
|------------------------------------------------------|----------------|----------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | - | 487 | - | - |
| Amounts owed by group undertakings | - | - | 2,267 | 5,553 |
| Finance debtor | 5,669 | 5,343 | - | - |
| Other financial assets | 23,539 | 22,730 | - | - |
| Other debtors | 962 | 1,061 | - | - |
| Prepayments and accrued income | 20,060 | 12,082 | - | - |
| | <u>50,230</u> | <u>41,703</u> | <u>2,267</u> | <u>5,553</u> |
| Deferred tax asset (note 19) | - | 476 | - | - |
| | <u>50,230</u> | <u>42,179</u> | <u>2,267</u> | <u>5,553</u> |
| Amounts falling due after more than one year: | | | | |
| Amounts owed by group undertakings | - | - | 24,337 | 24,337 |
| Finance debtor | 317,939 | 323,609 | - | - |
| | <u>317,939</u> | <u>323,609</u> | <u>24,337</u> | <u>24,337</u> |
| Total debtors | <u>368,169</u> | <u>365,788</u> | <u>26,604</u> | <u>29,890</u> |

Other financial assets include amounts held within deposit accounts with a maturity of not less than 3 months from the initial deposit.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Creditors: amounts falling due within one year

| | Notes | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|--------------------------------|-------|-----------------------|---------------|-------------------------|--------------|
| Bank loans and bonds | 17 | 344,497 | 12,532 | - | - |
| Trade creditors | | 176 | 1,003 | - | - |
| Amounts due to shareholders | 17 | 26,604 | 5,553 | 26,604 | 5,553 |
| Corporation tax payable | | 127 | 8 | - | - |
| Other creditors | | 843 | 1,018 | - | - |
| Bond and loan accrued interest | | 2,072 | 2,076 | - | - |
| Accruals and deferred income | | 2,632 | 1,472 | - | - |
| | | <u>376,951</u> | <u>23,662</u> | <u>26,604</u> | <u>5,553</u> |

As at the balance sheet date there were Events of Default subsisting pursuant to the group's finance documents and the group's lenders had not formally waived or deemed remedied those Events of Default. Consequently, the group's bank loan and bond and amounts due to shareholders loan are classified as due within one year in the balance sheet. Upon remediation of the Events of Default and receipt of a waiver from the group's lenders amounts falling due within one year of £331,773,000 and £24,337,000 respectively would be transferred to Creditors: amounts falling due after more than one year.

16 Creditors: amounts falling due after more than one year

| | Notes | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|-----------------------------|-------|-----------------------|----------------|-------------------------|---------------|
| Bank loans and bonds | 17 | - | 332,534 | - | - |
| Amounts due to shareholders | 17 | - | 24,337 | - | 24,337 |
| | | <u>-</u> | <u>356,871</u> | <u>-</u> | <u>24,337</u> |

Amounts included above which fall due after five years are as follows:

| | | | | |
|-----------------------------------|----------|----------------|----------|---------------|
| Payable by instalments | - | 281,287 | - | - |
| Payable other than by instalments | - | 24,337 | - | 24,337 |
| | <u>-</u> | <u>305,624</u> | <u>-</u> | <u>24,337</u> |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17 Loans and overdrafts

| | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|-------------------------|-----------------------|----------------|-------------------------|---------------|
| Bank loans and bonds | 344,497 | 345,066 | - | - |
| Loans from shareholders | 24,337 | 24,337 | 24,337 | 24,337 |
| | <u>368,834</u> | <u>369,403</u> | <u>24,337</u> | <u>24,337</u> |
| Payable within one year | 368,834 | 12,532 | 24,337 | - |
| Payable after one year | - | 356,871 | - | 24,337 |

The group originally had a publicly offered bond from Royal Bank of Canada for £197.8 million and a loan with European Investment Bank (EIB) of £115 million. 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. The 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.

In addition, the group was provided with a credit facility of £24,658,000 from its shareholders, drawn down in March 2010. This facility accrues interest at an agreed rate of 12% per annum.

18 Provisions for liabilities

| | Group 2017 £000 | 2016 £000 | Company 2017 £000 | 2016 £000 |
|-----------------------|-----------------------|--------------|-------------------------|--------------|
| Settlement of Phase 8 | - | 178 | - | - |

Movements on provisions:

| Group | Settlement of Phase 8 £000 |
|--------------------------|----------------------------------|
| At 1 January 2017 | 178 |
| Utilisation of provision | (178) |
| At 31 December 2017 | - |

The provision for £0.2 million represented Healthcare Support (Newcastle) Limited's contribution to Newcastle Upon Tyne Hospitals NHS Foundation Trust to the settlement of all disputes. The sum was paid in full on 3 January 2017.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | Assets 2017 £000 | Assets 2016 £000 |
|------------|------------------------|------------------------|
| Group | | |
| Tax losses | - | 476 |

The company has no deferred tax assets or liabilities.

| | Group 2017 £000 | Company 2017 £000 |
|-----------------------------------------------|-----------------------|-------------------------|
| Movements in the year: | | |
| Asset at 1 January 2017 | (476) | - |
| Charge to profit or loss | 478 | - |
| Effect of change in tax rate - profit or loss | (2) | - |
| Asset at 31 December 2017 | - | - |

20 Share capital

| | Group 2017 £000 | Group 2016 £000 |
|--------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Ordinary share capital Issued and fully paid 51,000 Ordinary shares of £1 each | 51 | 51 |

Other Reserves

The group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

| | 2017 £000 | 2016 £000 |
|------------------------|--------------|--------------|
| Aggregate compensation | 207 | 227 |

Transactions with related parties

During the year the group entered into the following transactions with related parties:

| | 2017 £000 | 2016 £000 |
|-------------------------------------------------|--------------|--------------|
| Group | | |
| Equilon Health (Newcastle) Limited | | |
| Sub-ordinated debt interest | 2,367 | 10,762 |
| Interserve PFI 2005 Limited | | |
| Sub-ordinated debt interest | 592 | 2,738 |
| Interserve Facilities Management Limited | | |
| Facilities and lifecycle management fees | 4,695 | 5,232 |

The following amounts were (paid)/received during the year to Interserve Facilities Management Limited (IFM) in relation to the Settlement Agreement signed in 2016:

| | 2017 £000 | 2016 £000 |
|---------------------------------------------------------------|--------------|--------------|
| Received from IFM | | |
| Sum in respect of historical service failure deductions | - | 112 |
| Paid to IFM | | |
| Lifecycle amounts | - | (300) |
| Compensation for descope of phase 8 & 9 from service contract | - | (1,000) |
| | - | (1,188) |

Amounts owed to related parties

The following amounts were outstanding at the reporting end date:

| | 2017 £000 | 2016 £000 |
|------------------------------|--------------|--------------|
| Group | | |
| Pallio (No 15) Limited | 3,991 | 4,484 |
| Interserve FM Limited | 103 | 9 |
| Interserve PFI 2005 Limited | 5,320 | 5,978 |
| Innisfree PFI Secondary Fund | 17,293 | 19,428 |
| | 26,707 | 29,899 |

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21 Related party transactions

No guarantees have been given or received.

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.

22 Controlling party

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

23 Cash generated from group operations

| | 2017 £000 | 2016 £000 |
|---------------------------------------|---------------|---------------|
| Profit for the year after tax | 4,007 | 704 |
| Adjustments for: | | |
| Taxation charged | 949 | 214 |
| Finance costs | 23,803 | 17,815 |
| Investment income | (23,196) | (16,478) |
| (Decrease)/Increase in provisions | (178) | 792 |
| Movements in working capital: | | |
| Decrease in debtors | 21,040 | 28,030 |
| Increase/(decrease) in creditors | 2,238 | (4,622) |
| Cash generated from operations | 28,663 | 26,455 |