

Company Registration No. 04508763 (England and Wales)

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

COMPANY INFORMATION

Directors	Mr B Dean Mr N Crowther Mr M Fry	(Appointed 23 January 2017) (Appointed 18 April 2018)
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Secretary	HCP Social Infrastructure (UK) Limited
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Company number	04508763
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Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
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Auditors	KPMG LLP 66 Queen Square Bristol BS1 4BE
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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Fair review of the business

The principal activity of the company is to design, build, finance and operate the new Coventry and Rugby University Hospital with the University Hospitals Coventry and Warwickshire NHS Trust and the Coventry and Warwickshire Partnership Trust (together the "Trusts").

The contract negotiations were successfully completed in December 2002 and construction commenced immediately. The concession period is for 40 years. The project has been fully operational since 2006.

The hospital is fully operational with no major issues to report, despite certain construction defects that have been identified, for which a programme of works has been agreed with the Trust and is underway.

Principal risks and uncertainties

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

Major maintenance

The principal risk borne by the company is that maintenance costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by regular management review of actual expenditure against budget and periodic technical evaluations of the physical condition of the facilities.

Availability

Investment in the project is funded primarily by the bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to the company to meet its liabilities under the bonds will be unitary charge received from the Trusts under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast unitary charge receipts and this may adversely affect the company's ability to make payments to bondholders. Deductions incurred in the year were, where possible, recovered from the service provider.

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 Trusts having the right to terminate the Project Agreement. The levels of deductions levied in the year were mainly due to certain construction defects in the project. The deductions related to final settlement of these issues and therefore 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Development and performance

Financial performance

Turnover in the year reduced to £70,559,000 (2016: £72,551,000) mainly due to increased deductions in the year resulting from construction defects that were settled in the year. These were passed through to the service providers, in turn resulting in lower operating costs. Operating costs however, have not reduced by the same extent as turnover as compared to the previous year. This is due to the recovery of deductions of £1,327,000 recognised in turnover in 2016, therefore increasing turnover in that year. These deductions were made in 2015 and related to construction defects, recovery of these deductions were not made until 2016. This has led to a lower net operating profit in the current year.

Interest receivable increased to £23,019,000 (2016: £16,363,00) due to an increase in indexation, however bond interest payable, which is also index-linked, has increased to a greater extent to £28,603,000 (2016: £19,559,000), due to the higher balance of the bonds relative to the finance debtor on which interest is earned. This has led to a net interest cost of £11,608,000 (2016: £9,002,000)

The impact of these movements has resulted in a loss of £4,651,000 (2016: loss of £714,000) for the year on a turnover of £70,559,000 (2016: £72,551,000).

Financial covenants have been met during the year and having considered the anticipated future performance and position of the company, the directors are of the opinion that the covenants will continue to be met in the future.

Financial position

At 31 December 2017 the company had net liabilities of £48,601,000 (2016: net liabilities of £43,950,000).

During the year, the company has repaid £14,461,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). In the previous financial year, the company repaid a total of £6,983,000. Scheduled loan repayment dates are 30 June and 31 December each year. As 31 December 2016 fell on a non-working day, payment of £6,739,000 was made on 3rd January 2017, this was in line with the terms and conditions of the bond. However, as 31 December 2017 also fell on a non-working day, payment of £7,590,000 was made on 2nd January 2018 and therefore three repayments will be made in the 2018 financial year.

The company has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2042.

The finance debtor amortisation during the year was £5,427,000 (2016: £5,115,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £319,915,000 (2016: £325,342,000). The directors believe the finance debtor to be recoverable over the term of the Project Agreement.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

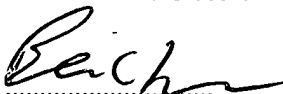
Key performance indicators

Financial penalties are levied by the Trusts 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 £3,958,000 (2016: £193,000) were levied by the Trusts and passed onto the service providers. This deduction amounts to 6.56% (2016: 0.34%) of the service revenue earned from the Trusts in the year. The higher level of deductions this year resulted from certain construction defects in the project. A plan for rectification works to resolve the issues identified has been agreed with the Trusts and is underway.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession and this has shown the project to be profitable and cash generative. The directors monitor actual performance against this anticipated performance. As discussed above the company's performance as at 31 December 2017 against this measure was considered satisfactory.

The company is providing a full range of facilities management services as required under the Project Agreement at a satisfactory level. The company has met all of the obligations contained within the Collateral Deed and there have been no events of default, potential events of default or Trigger events with regards to the Collateral Deed in the year ended 31 December 2017.

On behalf of the board



Mr B Dean

Director

25 April 2018

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Directors

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

Mrs J Acred* (Non-Executive director)	(Appointed 18th April 2017) (Resigned 1st October 2017)
Mrs G Birley-Smith	(Resigned 23rd January 2017)
Mr B Dean*	
Mr N Crowther	(Appointed 23rd January 2017)
Mr M Fry* (Non-Executive director)	(Appointed 18th April 2018)
* Members of the Audit Committee	

Results and dividends

The results for the year are set out on page 12.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Supplier payment policy

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Trade creditors of the company at the year end were equivalent to 17 (2016: 28) days purchases, based on the average daily amount invoiced by suppliers during the year.

Political donations

The company made no political donations during the year (2016: £nil).

Financial instruments

Treasury operations and financial instruments

The company's financial instruments result in the company's exposure to liquidity, credit rate and interest rate risks. Further information on the financial instruments employed by the company can be seen in the notes to these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the company.

Interest rate risk

The company is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured bonds and the unsecured subordinated loan notes both have fixed rates until 2040 and 2042 respectively, thus there is no interest rate risk associated with these financial liabilities.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trusts are the only clients of the company. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trusts will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trusts' obligations. The carrying value of the finance debtor of £319,915,000 (2016: £325,342,000) is the maximum credit exposure.

Financial risk management policies and objectives

The company has constituted an Audit Committee, comprising of an independent chairman (non- executive director) and a further director who is assessed to have the relevant competence in accounting. The Audit Committee is responsible for satisfying itself that the financial affairs of the company are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the company and to review significant judgments contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the company.

The company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the Board members of the company. HCP reports regularly to the Board of the company. The Board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company operates. The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Auditor

In accordance with the company's articles, a resolution proposing that KPMG LLP be reappointed as auditor of the company 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 company's auditor 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 company's auditor is aware of that information.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to credit, liquidity and interest rate risk are described above.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Significant shareholdings and special rights

The company is 99.998% owned by The Coventry and Rugby Hospital Company (Holdings) Limited and 0.002% owned by The Coventry and Rugby Hospital Company Nominee Limited (which is in turn 100% owned by The Coventry and Rugby Hospital Company (Holdings) Limited). The Coventry and Rugby Hospital Company (Holdings) Limited is 100% owned by Innisfree PFI Continuation Fund, through its nominee Innisfree Nominees Limited. Each of the shareholders holds its shareholdings as a long term investment.

None of the company's ordinary shares carry any special rights with regard to the control of the company. There are no known arrangements under which financial rights are held by a person other than the beneficial owner of the shares and no known agreements on restrictions on share transfers (other than pre-emption rights between existing shareholders) or on voting rights.

Directors appointment and replacement, allotments of shares and control provisions

The rules about the appointment and replacement of directors are contained in the company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time. The powers of the directors and authority to issue and allot ordinary shares are determined by UK legislation and the Memorandum and Articles of Association of the company in force from time to time. Subject to UK legislation the directors are empowered by the Articles to authorise the company to purchase its own shares.

The company does not have agreements with any director that would provide compensation for loss of office or employment following a takeover.

The directors confirm that:

- (a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- (b) the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

On behalf of the board



Mr B Dean

Director

25 April 2018

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 financial statements in accordance with UK accounting standards and applicable law (UK 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 company and of its 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 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 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls 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 company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

Mr B Dean
Director



THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

1 Our opinion is unmodified

We have audited the financial statements of The Coventry and Rugby Hospital Company Plc (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, 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 company's affairs as at 31 December 2017 and of its loss 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the year ended 31 December 2003. The period of total uninterrupted engagement is for the 15 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Service revenue recognition

(£56.3 million; 2016: £57.5 million)

Refer to page 16 (accounting policy) and page 17 (financial disclosures).

The risk

The amount of service revenue recognised is calculated via a mark-up being applied to costs incurred during the year. The mark-up is determined from a long term financial model which acts as a long term forecast of the revenues and costs to be incurred on the project. A significant portion of the service provision and the associated performance risk, are outsourced to subcontractors with costs contractually agreed over the life of the contract. Lifecycle replacement risk remains with the Company and is a significant estimate.

A fraud risk exists as management could manipulate the amount of revenue recognised either through amending the future forecast assumptions, particularly through the lifecycle costs which are a key estimate (see note 2 for details) and hence change the mark-up applied to the costs on which revenue is recognised or by applying the mark-up to costs which are not related to the provision of the services under the concession contract.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

Our response

Our procedures included:

- **Service revenue recalculation:** We recalculated service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- **Comparing forecasts:** We challenged the appropriateness of cost estimates and assessed whether or not estimates showed any evidence of management bias. Our challenge was based upon our assessment of historical accuracy of the Company's forecasts through comparison of current year actual costs versus prior year forecast, comparison of forecast cost estimates in current year versus the prior year and expectations based on our knowledge of the Company and experience of the industry in which it operates.

Our results

The results of our testing were satisfactory and we considered the amount of revenue recognised to be acceptable. (2016: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4.2m, determined with reference to a benchmark of total assets of £424m, of which it represents 1% (2016: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve month from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the strategic report and the 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 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 those reports;
- in our opinion the information given in the Strategic Report and the Directors' Report 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.

We have nothing to report on the 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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

7 Respective responsibilities

Responsibilities of directors

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements including 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 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 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 other irregularities (see below), or error, and to issue our opinion in the audit 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, other irregularities 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 these financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence. We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items. In addition we considered the impact of laws and regulations in the specific areas of health and safety and anti-bribery recognising the nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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 Square
Bristol
BS1 4BE

27/4/2018

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	70,559	72,551
Operating Costs		(63,889)	(64,031)
Operating profit		6,670	8,520
Interest receivable and similar income	7	23,019	16,363
Interest payable and similar expenses	8	(34,628)	(25,365)
Loss before taxation		(4,939)	(482)
Taxation	9	288	(232)
Loss for the financial year		(4,651)	(714)
Other comprehensive income		-	-
Total comprehensive loss for the year		(4,651)	(714)

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

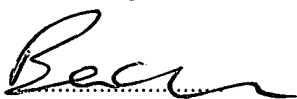
THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Debtors falling due after more than one year	11	323,447	328,917
Debtors falling due within one year	11	27,249	25,529
Cash at bank and in hand		73,163	72,920
		<u>423,859</u>	<u>427,366</u>
Creditors: amounts falling due within one year	12	<u>(39,004)</u>	<u>(32,008)</u>
Net current assets		384,855	395,358
Creditors: amounts falling due after more than one year	13	(433,056)	(436,605)
Provisions for liabilities	15	(400)	(2,703)
Net liabilities		<u>(48,601)</u>	<u>(43,950)</u>
Capital and reserves			
Called up share capital	17	50	50
Profit and loss reserves		(48,651)	(44,000)
Total equity		<u>(48,601)</u>	<u>(43,950)</u>

The financial statements were approved by the board of directors and authorised for issue on 25 April 2018 and are signed on its behalf by:



Mr B Dean
Director

Company Registration No. 04508763

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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	50	(43,286)	(43,236)
Year ended 31 December 2016:			
Loss and total comprehensive income for the year	-	(714)	(714)
Balance at 31 December 2016	50	(44,000)	(43,950)
Year ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(4,651)	(4,651)
Balance at 31 December 2017	50	(48,651)	(48,601)

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

The Coventry and Rugby Hospital Company Plc is a public company incorporated by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

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 presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The financial statements have been prepared under the historical cost convention. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company's parent undertaking, The Coventry and Rugby Hospital Company (Holdings) Limited, includes the company in its consolidated financial statements. The consolidated financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

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

- Reconciliation of number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

As the company is a wholly owned subsidiary of The Coventry and Rugby Hospital Company (Holdings) Limited, the company has taken advantage of the exemption in section 33 of FRS 102 to not disclose transactions entered into between itself and the other members of the group.

1.2 Going concern

Notwithstanding the net liabilities of the company, the directors, having reviewed a cash flow forecast covering the remainder of the company's contract period and taking into account reasonably possible risks in operations and the fact the obligations of the company's customers are underwritten by the Secretary of State for Health, believe that the company will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

1.3 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 is recognised when the services are performed.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.4 Financial instruments

The company 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 company's balance sheet when the company becomes party to the contractual provisions of the instrument.

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

Basic financial assets

Basic financial assets, which include trade and other 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.

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Restricted cash

The company is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £63,533,000 at the year end (2016: £67,638,000).

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. The impairment loss 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 company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

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 company after deducting all of its liabilities.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, bonds and subordinated loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derecognition of financial liabilities

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

1.5 Equity instruments

Equity instruments issued by the company 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 company.

1.6 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 company'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 when the company has 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.7 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company 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 it arises.

1.8 Finance debtor and service income

The company is an operator of a Public Finance Initiative ("PFI") contract. As the company entered into the contract prior to the date of transition to FRS102, the company 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, as the underlying asset is not deemed to be an asset of the company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Trusts.

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 company recognises income in respect of the services provided, including major maintenance costs, 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.

1.9 Interest receivable and payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may 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 if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements

Certain critical accounting judgements in applying the company's accounting policies are described below:

Service concession accounting

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 PFI contract. Lifecycle costs are a significant proportion of future expenditure and they can be volatile in nature. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis.

Debtors

The recoverability of the company's debtors has been assessed by the directors and, where any uncertainty has been identified, impairment losses have been recognised to reflect this uncertainty. Impairment losses are recognised to the extent that the future cash flows are considered to be affected.

Provisions

The provision requires an estimate of the construction and ancillary costs required to correct certain defects in the project. The estimate is based on the experience of costs incurred and the agreed nature and timescales of the programme of works agreed with the Trust.

3 Turnover and other revenue

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

	2017 £'000	2016 £'000
Turnover		
Services income	56,339	57,465
Pass through income	10,494	11,958
Other income	3,726	3,128
	<u>70,559</u>	<u>72,551</u>

4 Auditor's remuneration

	2017 £'000	2016 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the company's financial statements	<u>22</u>	<u>18</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Employees

The company had no employees during the year (2016: nil).

6 Directors' remuneration

	2017 £'000	2016 £'000
Sums paid to related parties for directors' services	41	40

Directors' emoluments were paid by the shareholders of the parent undertaking. The company does not operate a pension scheme for its Directors.

7 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	330	468
Interest on finance debtor	22,689	15,895
Total interest income	23,019	16,363

8 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds	28,603	19,559
Interest on subordinated loans	5,157	4,932
Amortisation of finance arrangement costs	868	874
	34,628	25,365

9 Taxation

	2017 £'000	2016 £'000
Deferred tax		
Group tax relief	87	173
Changes in tax rates	575	122
Adjustment in respect of prior periods	-	33
Tax losses carried forward	(950)	96
Total deferred tax	(288)	232
Total tax charge/(credit)	(288)	232

All tax has been charged to the Profit and Loss Account with none charged through other comprehensive income.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9 Taxation

(Continued)

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

	2017 £'000	2016 £'000
Loss before taxation	(4,939)	(482)
Expected tax charge based on a corporation tax rate of 19.25% (2016 - 20.00%)	(950)	(96)
Effect of change in corporation tax rate	575	122
Group relief	-	173
Deferred tax adjustments in respect of prior years	87	33
Total tax charge/(credit) for the year	(288)	232

The company has tax losses of £54,132,000 (2016: £49,676,000) which have been carried forward and will be offset against future trading profits. A deferred tax asset in respect of tax losses has been recognised as the directors consider the balance to be recoverable over the life of the PFI contract.

Reductions in the UK corporation tax rate from 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

10 Financial instruments

	2017 £'000	2016 £'000
Carrying amount of financial assets		
Debt instruments measured at amortised cost	322,639	329,663
Carrying amount of financial liabilities		
Measured at amortised cost	470,564	467,478

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 Debtors

		2017 £'000	2016 £'000
Amounts falling due within one year:	Notes		
Trade debtors		1,735	2,026
Corporation tax receivable		-	18
Amount due from parent undertaking		83	-
Other debtors		905	2,295
Finance debtor		5,758	5,426
Prepayments and accrued income		18,768	15,764
		<u>27,249</u>	<u>25,529</u>
Amounts falling due after one year:			
Finance debtor		314,158	319,916
Deferred tax asset (note 16)	16	9,289	9,001
		<u>323,447</u>	<u>328,917</u>
Total debtors		<u>350,696</u>	<u>354,446</u>

All financial assets included above are held at amortised cost.

12 Creditors: amounts falling due within one year

		2017 £'000	2016 £'000
	Notes		
Bank loans and overdrafts	14	16,031	10,164
Trade creditors		3,054	4,879
Other taxation and social security		1,496	1,135
Other creditors		730	110
Accruals and deferred income		17,693	15,720
		<u>39,004</u>	<u>32,008</u>

13 Creditors: amounts falling due after more than one year

		2017 £'000	2016 £'000
	Notes		
Bank loans and overdrafts	14	433,056	436,605

All financial liabilities included above are held at amortised cost.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14 Loans and overdrafts

	2017 £'000	2016 £'000
Bonds	411,461	410,399
Subordinated Loans	37,626	36,370
	<u>449,087</u>	<u>446,769</u>
Payable within one year	16,031	10,164
Payable after one year	<u>433,056</u>	<u>436,605</u>

Amounts included above which fall due after five years:

Payable by instalments	392,846	389,657
Payable other than by instalments	-	-
	<u>392,846</u>	<u>389,657</u>

The bond is secured by an irrevocable financial guarantee policy issued by MBIA Assurance S.A (succeeded by Assured Guaranty (London) Limited), in favour of Maurant & Co. Capital Trustees Limited (subsequently replaced by Link Asset Services) as security trustee over all of the undertakings and assets of the company. The bond is repayable in bi-annual instalments ending in 2040 and is subject to an interest rate of 3.246% index linked.

The shareholders' subordinated debt from the parent undertaking is unsecured and repayable in 2042 subsequent to the repayment of the bond. Interest is payable bi-annually at a rate of 14.52% per annum.

15 Provisions for liabilities

	2017 £'000	2016 £'000
Remediation costs	<u>400</u>	<u>2,703</u>

Movements on provisions:

	Remediation costs £'000
At 1 January 2016	2,703
Additional provisions in the year	400
Reversal of provision	(1,000)
Utilisation of provision	(1,703)
At 31 December 2017	<u>400</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Provisions for liabilities

(Continued)

The provision brought forward related to the directors' best estimate of the construction and ancillary costs required to correct certain defects in the project. During the year further costs totalling £1,703,000 have been recognised in relation to this work, utilising this provision.

16 Deferred taxation

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

	Assets 2017 £'000	Assets 2016 £'000
Balances:		
Tax losses	9,289	9,001
	<u>9,289</u>	<u>9,001</u>
Movements in the year:		2017 £'000
Liability/(Asset) at 1 January 2017		(9,001)
Credit to profit or loss		(950)
Effect of change in tax rate - profit or loss		575
Group Relief		87
Liability/(Asset) at 31 December 2017		<u>(9,289)</u>

17 Share capital

	2017 £'000	2016 £'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

18 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel wholly relates to directors' services payable to Innisfree Limited. These are as follows:

	2017 £'000	2016 £'000
Aggregate compensation	41	40

Transactions with related parties

	Management Services	
	2017 £'000	2016 £'000
HCP Social Infrastructure (UK) Limited	747	722

In December 2002, the company entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited the parent company of HCP Social Infrastructure (UK) Limited, is invested with funds under the management of Innisfree Limited, who also manage funds invested in the company.

The following amounts were outstanding at the reporting end date:

	2017 £'000	2016 £'000
Amounts owed to related parties		
Key management personnel	18	-

No guarantees have been given or received.

19 Financial commitments, guarantees and contingent liabilities

As stated above a provision has been recorded relating to construction and ancillary costs to correct certain defects in the project. Rectification works are still ongoing. It is therefore possible that further costs are incurred in relation to these works. However, the directors consider that the risk of a net outflow to the company is not probable under the relevant contractual agreements in place.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20 Controlling party

The company is a wholly owned subsidiary undertaking of The Coventry and Rugby Hospital Company (Holdings) Limited, which is incorporated in the United Kingdom, registered at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The ultimate controlling party is Innisfree PFI Continuation Fund, registered at 1st Floor Boundary House, 91 - 93 Charter House Street, London, EC1M 6HR.

The largest and smallest group in which the results of the company are consolidated is that headed by The Coventry and Rugby Hospital Company (Holdings) Limited. The consolidated accounts of this group are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.