

Derby Healthcare Plc

Directors' report and financial statements

For the year ended 31 December 2004

Registered number 04668140



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Company information

Directors

G.N.V. Green
T.R. Pearson
A.R. Gillman
J.E. Gemmell

Secretary

R.S. West

Registered office

3 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal Activities

The principal activity of the Company is the finance, design and construction and partial operation of the new Derby City General Hospital under the Government's Private Finance Initiative. The company also provides non-clinical services at the current Derby City General Hospital and the Derby Royal Infirmary.

Business Review

The Company has entered into a Project Agreement with the Southern Derbyshire Acute Hospitals NHS Trust, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements.

The Company's Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-clinical services within the new Derby City General Hospital for a primary term of forty years from the date of signing the Project Agreement.

The Company is also providing non-clinical services at the current Derby City General Hospital and the Derby Royal Infirmary under the terms of a Mobilisation Services Agreement.

The construction works are progressing satisfactorily. The new hospital is due to be fully commissioned in December 2008.

Comparative information

The company was incorporated on 17 February 2003. As such the comparative information covered by the financial statements covers the financial period 17 February 2003 to 31 December 2003.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The following persons were directors of the company during the year: -

G.N.V. Green
T.R. Pearson
A.R. Gillman
J.E. Gemmell

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the group companies.

Since the year end the following changes have occurred: G.N.V. Green resigned on 10 May 2005, and N.J.E. Crowther was appointed on 10 May 2005.

Directors' report (cont).

Policy on payment of creditors

It is the Company's policy to comply with the payment terms agreed with suppliers. Where payment terms are not negotiated the Company endeavours to adhere with suppliers' standard terms. The Company had £13,111,838 (2003: £11,426,270) of trade creditors at 31 December 2004 and an average payment period of 27 days (2003: 39 days).

Auditors

KPMG Audit Plc are auditors of the Company. In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the next Annual General Meeting.

By order of the board



R S West
Company Secretary

3 White Oak Square
London Road
Swanley
Kent
BR8 7AG

10 May 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

kpmg

KPMG Audit Plc

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London EC4Y 8BB
United Kingdom

Independent auditors report to the members of Derby Healthcare Plc

We have audited the financial statements on pages 6 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.


Basis of audit opinion

We have conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 for and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
10 May 2005

Profit and loss account
for the period ended 31 December 2004

	Note	2004 £	17 Feb to 31 Dec 2003 £
Turnover		100,509,446	80,602,267
Net operating costs	3	(100,509,446)	(80,602,267)
Operating profit		-	-
Interest payable and similar charges	5	(23,833,401)	(7,293,639)
Other interest receivable and similar income	6	12,704,691	4,471,413
Loss on ordinary activities before taxation		(11,128,710)	(2,822,226)
Taxation on loss on ordinary activities	7	4,168,310	-
Loss for financial year		(6,960,400)	(2,822,226)
Retained loss brought forward		(2,822,226)	-
Retained loss at end of year		(9,782,626)	(2,822,226)

There were no other recognised gains and losses for the period other than the loss stated above.

There is no difference between the historical cost loss and the loss stated above. All of the results relate to continuing activities.

Movements on reserves are shown in note 14.

The notes on pages 8 to 15 form part of these financial statements.

Balance sheet
at 31 December 2004

	Note	2004 £	2003 £
Current assets			
Debtors: amounts falling due within one year	8	9,754,979	8,612,157
Debtors: amounts falling due in more than one year	9	156,209,033	74,637,793
		165,964,012	83,249,950
Cash at bank and in hand	10	226,950,774	313,960,909
		392,914,786	397,210,859
 Creditors : amounts falling due within one year	 11	 (14,877,171)	 (13,051,376)
Net current assets		378,037,615	384,159,483
 Total assets less current liabilities		 378,037,615	 384,159,483
 Creditors : amounts falling due after more than one year	 12	 (387,770,241)	 (386,931,709)
Net liabilities		(9,732,626)	(2,772,226)
 Capital and reserves			
Called up share capital	13	50,000	50,000
Profit and loss account	14	(9,782,626)	(2,822,226)
Deficit on equity shareholders' funds	15	(9,732,626)	(2,772,226)

The notes on pages 8 to 15 form part of these financial statements.

These financial statements were approved by the board of directors on 10 May 2005
and signed on its behalf by:



Director

Notes (forming part of the financial statements)

1 Basis of preparation of the accounts

The financial statements have been prepared in accordance with applicable accounting standards and under historical accounting rules.

The shareholders' funds for the period ending 31 December 2004 show a deficit of £9,732,626. This is a result of the timing of cashflows and is not considered permanent. This has not resulted in breach of the covenant terms relating to the bond.

The directors have reviewed the forecast cashflows and believe that the net assets deficit will reverse in the future and therefore consider that, given the continuing access to funds, it is appropriate to prepare these financial statements on the going concern basis.

The company was incorporated on 17 February 2003. As such the comparative information covered by the financial statements covers the financial period 17 February 2003 to 31 December 2003.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(i) *Turnover*

Turnover represents value of work done entirely in the UK and excludes value added tax.

(ii) *Contract receivable*

Increases in the contract receivable represent the costs arising on the construction of the new Derby City General Hospital. Cost is stated at prime cost plus contracting overheads.

(iii) *Finance debtor*

In accordance with Financial Reporting Standard (FRS) 5 Application Note F the costs incurred in building the new Derby City General Hospital have been treated as a contract receivable. On completion of each phase of the contract the contract receivable is converted to a finance debtor, receipt of which is dependent upon satisfactory performance by the Company of its obligations under its Concession Agreement, and is accounted for in accordance with FRS5.

(iv) *Debt Issue costs*

Costs arising in connection with the arrangement of the bond finance have been offset against the carrying value of the bond and will be amortised through the profit and loss account on a systematic basis over the life of the bond.

Costs arising in connection with the arrangement of the loan note finance have been shown as prepayments and will be offset against the carrying value of the loan notes on issue. These costs will then be amortised through the profit and loss account on a systematic basis over the life of the loan notes.

(v) *Taxation*

The charge to taxation takes into account taxation deferred because of timing differences in the treatment of certain items for taxation and accounting purposes. Deferred taxation is not recognised unless there is reasonable evidence that it will reverse in the foreseeable future.

(vi) *Cash flow statement*

A cashflow statement is not presented since Derby Healthcare (Holdings) Limited, the ultimate parent company has prepared a consolidated cash flow statement, including the cash flows of this company for the year ended 31 December 2004 in accordance with Financial Reporting Standard No.1 (revised 1996).

Notes (continued)

3 Net operating costs

	2004	17 Feb to 31 Dec 2003
	£	£
Materials, site and production costs	83,126,383	68,653,900
Services costs	17,339,371	11,911,421
Auditor's remuneration - audit fees	15,000	15,000
- other	8,300	6,700
Directors' Fees	20,392	15,246
	<u>100,509,446</u>	<u>80,602,267</u>

4 Directors and staff costs

There were no employees during the period. Directors' emoluments were paid to the shareholders of the parent undertaking.

5 Interest payable and similar charges

	2004	17 Feb to 31 Dec 2003
	£	£
Amounts payable on bonds	(22,994,869)	(7,034,039)
Amortisation of finance arrangement costs	(838,532)	(259,600)
	<u>(23,833,401)</u>	<u>(7,293,639)</u>

6 Other interest receivable and similar income

	2004	17 Feb to Dec 2003
	£	£
Interest receivable on bank deposits	<u>12,704,691</u>	<u>4,471,413</u>

Notes (continued)

7 Taxation

(a) Analysis of the charge in the year

	2004 £	17 Feb to 31 Dec 2003 £
<i>Current Tax:</i>		
UK Corporation tax on income for the period	-	-
Total current tax	-	-
<i>Deferred Tax:</i>		
Tax on loss on ordinary activities	3,338,613	
Recognition of prior period tax losses not previously brought to account	829,697	
Total deferred tax (note 18)	4,168,310	
Tax on loss on ordinary activities	4,168,310	

Tax losses have been recognised for the first time as the directors consider the balance to be recoverable over the life of the PFI contract with Derby Hospitals NHS Foundation Trust.

(b) Factors affecting the tax charge for the current period

The constituent elements of the tax charge for the period are set out below:-

	2004 £	17 Feb to 31 Dec 2003 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(11,128,710)	(2,822,266)
Current tax at 30% (2003: 30%)	(3,338,613)	(846,668)
<i>Effects of:</i>		
Disallowed expenditure	-	16,971
Tax losses carried forward	3,338,613	829,697
	-	-

Notes (continued)

8 Debtors: amounts falling due within one year

	2004 £	2003 £
Trade debtors	238,080	2,783,857
Prepayments and accrued income	3,269,042	3,078,436
Deferred tax asset (note 18)	4,168,310	-
Other debtors	2,079,547	2,749,864
	<u>9,754,979</u>	<u>8,612,157</u>

9 Debtors: amounts falling due after more than one year

	2004 £	2003 £
Contract receivable	151,860,921	68,690,846
Prepayments and accrued income	4,348,112	5,946,947
	<u>156,209,033</u>	<u>74,637,793</u>

10 Cash at bank and in hand

	2004 £	2003 £
Fixed Rate Guaranteed Investment Contract	219,668,203	307,951,598
RPI Linked Guaranteed Investment Contract	1,779,854	3,375,608
Other bank balances	5,502,717	2,633,703
	<u>226,950,774</u>	<u>313,960,909</u>

£221,448,057 of the above is cash is blocked and comprises balances held in a fixed interest guaranteed income contract and an index lined guaranteed income contract. Cash will be released from these contracts over the period of construction of the hospital so as to match the forecast profile of construction and debt service costs.

11 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	13,111,838	11,426,270
Accruals	1,765,333	1,625,106
	<u>14,877,171</u>	<u>13,051,376</u>

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Guaranteed Secured 5.564% Bonds 2041:	411,588,000	411,588,000
Unsecured Unsubordinated 13.465% Loan Notes 2041:	2,014	2,014
Total borrowings	<u>411,590,014</u>	<u>411,590,014</u>
Finance arrangement costs capitalised	(24,917,905)	(24,917,905)
Less : amortisation of finance arrangement costs capitalised	<u>1,098,132</u>	<u>259,600</u>
	<u><u>387,770,241</u></u>	<u><u>386,931,709</u></u>
Borrowings are repayable as follows:		
Instalments due within 1 year	-	-
1-2 years	-	-
2-5 years	290,282	-
Over 5 years	<u>411,299,732</u>	<u>411,590,014</u>
	<u><u>411,590,014</u></u>	<u><u>411,590,014</u></u>

Guaranteed Secured Bonds 2041

The Company has created £446.588m 5.564% Guaranteed Secured Bonds 2041 pursuant to a Trust Deed and Collateral Deed dated 9 September 2003 of which £411.588m were issued for cash on 9 September 2003 at an issue price of 99.993%.

The bonds bear interest at 5.564% which is payable semi - annually in arrears on 30 June and 31 December each year. The bonds are repayable in instalments which commence in June 2009 and end in June 2041.

The Company retained £35m of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund variations to the project.

The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by MBIA Assurance S.A. in favour of BNP Paribas Trust Corporation UK Limited as security trustee over all of the undertaking and assets of the company.

Notes (continued)

12 Creditors falling due after more than one year (continued)

Unsecured Subordinated 13.465% Loan Notes 2041

The Company is a wholly owned subsidiary of Derby Healthcare (Holdings) Limited. Together Skanska BOT Investment UK Limited is legal and beneficial owner, and Innisfree Nominees Limited acting on behalf of Innisfree PFI Fund II and III is legal owner, of the entire issued share capital of Derby Healthcare (Holdings) Limited.

Under the terms of Deed Polls made on 9 September 2003 both Derby Healthcare (Holdings) Limited and Derby Healthcare Plc authorised and approved the issue of up to £39.07m Unsecured Subordinated Loan Notes 2041 on like terms. Under the terms of an Equity Subscription Agreement dated 9 September 2003 Skanska BOT Investment UK Limited and Innisfree Nominees Limited each agreed to subscribe in instalments between December 2003 and December 2008 for £39.07m of the Loan Notes in Derby Healthcare (Holdings) Limited, which in turn agreed to subscribe for the £39.07m Loan Notes in its subsidiary Derby Healthcare Plc.

On 31 December 2003 Derby Healthcare (Holdings) limited and Derby Healthcare Plc each issued £2,014 of Loan Notes at par for cash. The loan notes do not bear interest until December 2008, from December 2008 the Loan Notes bear interest at 13.465% which is payable semi-annually on 30 June and 31 December each year. The Loan Notes are repayable in instalments on 30 June and 31 December 2041, save that they may be redeemed early with the consent of MBIA Assurance S.A.

13 Called up share capital

	2004 £	2003 £
<i>Equity</i>		
<i>Authorised</i>		
50,000 ordinary shares of £1	<u>50,000</u>	<u>50,000</u>
<i>Called up and fully paid</i>		
50,000 ordinary shares of £1	<u>50,000</u>	<u>50,000</u>

14 Reserves

	2004 £	17 Feb to 31 Dec 2003 £
At the beginning of the year	(2,822,226)	-
Share capital subscribed	-	50,000
Retained loss for the year	(6,960,400)	(2,822,226)
	<u> </u>	<u> </u>
At the end of the year	<u>(9,782,626)</u>	<u>(2,772,226)</u>

Notes (continued)

15 Reconciliation of movements in equity shareholders' funds

	2004 £	17 Feb to 31 Dec 2003 £
Opening equity shareholders' funds	(2,772,226)	-
Issue of share capital	-	50,000
Loss for the year	(6,960,400)	(2,822,226)
	<hr/>	<hr/>
Closing equity shareholders' funds	(9,732,626)	(2,772,226)
	<hr/>	<hr/>

16 Contingent liabilities

There are no contingent liabilities.

17 Capital commitments

	2004 £	2003 £
Amounts contracted for but not provided in the financial statements	195,424,115	279,659,211
	<hr/>	<hr/>

18 Deferred Tax Asset

A deferred tax asset has been recognised in the current year as it is felt that this amount will be recoverable from future profits.

The elements of deferred taxation are as follows:

	2004 £	2003 £
Tax losses for the current year	3,338,613	-
Tax losses for the previous period	829,697	-
	<hr/>	<hr/>
Total deferred tax	4,168,310	-
	<hr/>	<hr/>

Notes (continued)

19 Related party transactions

The Company's parent company is Derby Healthcare (Holdings) Limited which is jointly owned by Skanska BOT Investment UK Limited and Innisfree Nominees Limited acting in its capacity as manager of the Innisfree PFI Funds II and III. The Skanska and Innisfree group of companies have interests in contracts placed by the Company for the financing, construction and management of the project.

On 9 September 2003 the Company entered into a £334,686,667 fixed price design and build contract with Skanska Construction Limited and Skanska Rashleigh Weatherfoil Limited (the Skanska Derby Joint Venture) for the construction of the Derby City General Hospital. The value of work completed under this contract during the year was £80,235,096 (2003: £59,027,456). As at 31 December 2004 trade creditors and accruals includes £8,015,930 (2003: £5,341,207) due to the Skanska Derby Joint Venture.

On 28 March 2003 the Company entered into a mobilisation services contract with Skanska Rashleigh Weatherfoil Limited for the provision of Estates and Waste services for the Derby City General Hospital and the Derby Royal Infirmary. The value of work completed under the contract during the period was £4,457,089 (2003: £2,924,433). As at 31 December 2004 trade creditors and accruals include £682,127 (2003: £615,072) due to Skanska Rashleigh Weatherfoil Limited.

Under the terms of Shareholder, Technical Services and Management Agreements the Skanska and Innisfree groups provide the Company with its directors, staff and technical support services. The value of work undertaken in the year was £712,199 (2003: £7,482,443). As at 31 December 2004 trade creditors and accruals includes £40,747 (2003: £11,435) due to the Skanska and Innisfree groups under these agreements.

Skanska and Innisfree are parties to an Equity Subscription Agreement details of which are given in note 12 to the accounts.

20 Parent Undertaking

The Company's immediate parent undertaking is Derby Healthcare (Holdings) Limited, a company registered and incorporated in England and Wales. The results of the company are consolidated into the accounts of Derby Healthcare (Holdings) Limited which are available to the public.