Derby Healthcare Plc

Directors' Report and Financial Statements

For the year ended 31 December 2011

Registered number 04668140

Contents

Company information

Directors
G Birley-Smith
R Sheehan
J Desai
P Bannister

Secretary
M Brooks

Registered office
8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditors
KPMG Audit Plc
100 Temple Street
Bristol
BS1 6AG
United Kingdom

Registered number
04668140

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011

Principal activities and business review

The principal activity of the Company is the finance, design and construction and partial operation of the new Royal Derby Hospital under the Government's Private Finance Initiative The Company also provides non-clinical services at the Royal Derby Hospital and the London Road Community Hospital

The Company has entered into a Project Agreement (the Project) in September 2003 with the Derby Hospitals NHS Foundation Trust (The Trust), together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements under the terms of a Mobilisation Services Agreement

The Company's Project Agreement is for a primary term of forty years from the date of signing the Project Agreement

Key performance indicators (KPIs)

(a) Performance deductions under the service contract
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 2011 deductions of £14,000 *(2010 £36,000)* were levied by the Trust and passed onto the service providers This deduction relates to only 0 05% *(2010 0 12%)* of the total fees charged by the service providers This low level of deduction was considered satisfactory

(b) Financial performance
The Board has modelled the anticipated financial outcome of the Project across its full term The Board monitors actual financial performance against this anticipated performance As at 31 December 2011, the Company's performance against this measure was considered satisfactory

(c) Completion of the various sections in the building contract
Completion according to the timetable is a key indicator of satisfactory performance under the design and build contract and the unitary charge income derives from completed sections The Hospital was handed over to the Trust in 2009 and the full unitary charge commenced However some minor works remain unfinished and these are expected to be completed in 2012 The performance against this measure was considered satisfactory

Financial risk management policies and objectives

The Company's principal financial instruments comprise short term bank deposits, an index linked bond and subordinated loan stock Further details are given in note 14 to the accounts

Dividends

The Directors do not recommend the payment of a dividend *(2010 £nil)*

Historical Performance

The Company is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed with MBIA UK Insurance Limited and BNP Paribas Trust Corporation UK Limited To the best of the Directors' knowledge the Company has met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Event of Defaults or Trigger Events with regard to the Collateral Deed

Directors' report *(continued)*

Principal risks and uncertainties

The Trust is the sole client of the Company but the Directors consider that no significant risk arises from such a small client base since the Secretary of State for Health has underwritten the Trust's obligations

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees

Details relating to interest rate risk and liquidity risk are set out in note 14 to the accounts

Financial reporting, risk and internal controls

The Company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited (HCP) Authorities remain vested in the board members of 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

Directors

The following persons were Directors of the Company during the year and subsequently

G Birley-Smith
R Sheehan
J Wrinn (resigned 12 January 2011)
M Gagnon (resigned 1 June 2011)
J Desai (appointed 12 January 2011)
P Bannister (appointed 1 June 2011)

Political and charitable contributions

The Company made no political or charitable contributions during the year *(2010 £nil)*

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 £1,919,000 *(2010 £2,726,000)* of trade creditors at 31 December 2011 and an average payment period of 21 days *(2010 31 days)*

Statement as to disclosure of information to auditors

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

Directors' report *(continued)*

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board

M Brooks

M Brooks
Company Secretary

17 April 2012

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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

Independent auditor's report to the members of Derby Healthcare Plc

We have audited the financial statements of Derby Healthcare Plc for the year ended 31 December 2011 set out on pages 8 to 20 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor'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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006
- Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, 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

23 April 2012

A Moses, Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

100 Temple Street
Bristol
BS1 6AG

Profit and loss account
for the year ended 31 December 2011

	Note	**2011**	2010
		£000	£000
Turnover	**3**	**40,996**	39,210
Operating costs	**4**	**(34,044)**	(32,448)
Operating profit		**6,952**	6,762
Interest receivable and similar income	6	**21,733**	21,801
Interest payable and similar charges	7	**(28,727)**	(28,697)
Loss on ordinary activities before taxation		**(42)**	(134)
Taxation on loss on ordinary activities	**8**	**(841)**	(388)
Loss for the financial year		**(883)**	(522)

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 16

The notes on pages 11 to 20 form part of these financial statements

Balance sheet
as at 31 December 2011

	Note	2011 £000	2010 £000
Current assets			
Debtors amounts falling due within one year	9	**46,101**	42,020
Debtors amounts falling due in more than one year	10	**339,884**	343,333
		385,985	385,353
Cash at bank and in hand	11	**21,274**	22,891
		407,259	408,244
Current liabilities			
Creditors amounts falling due within one year	12	**(12,703)**	(12,971)
Net current assets		**394,556**	395,273
Creditors amounts falling due after more than one year	13	**(426,909)**	(426,743)
Net liabilities		**(32,353)**	(31,470)
Capital and reserves			
Called up share capital	15	**50**	50
Profit and loss account	16	**(32,403)**	(31,520)
Equity shareholders' deficit		**(32,353)**	(31,470)

The notes on pages 11 to 20 form part of these financial statements

These financial statements were approved by the Board of Directors on 17 April 2012 and signed its behalf by

P Bannister
Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2011

	2011 **£000**	2010 £000
Opening equity shareholders' deficit	**(31,470)**	(30,948)
Loss for the year	**(883)**	(522)
Closing equity shareholders' deficit	**(32,353)**	(31,470)

Notes
(forming part of the financial statements)

1. Basis of preparation of the financial statements

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

The shareholders' funds for the period ending 31 December 2011 show a deficit of £32,353,000 *(2010 £31,470,000)*

The Directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Company and the fact the obligations of the Company's sole customer 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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a subsidiary of Derby Healthcare (Holdings) Limited, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Derby Healthcare (Holdings) Limited, within which the Company is included, can be obtained from the address given in note 20

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

(a) Turnover

Turnover is recognised in accordance with the finance debtor and services contract accounting policy below Turnover represents value of work done entirely in the UK and excludes value added tax

(b) Finance debtor and services contract

The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be an asset of the Company under FRS 5 Application Note F 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 is included in contract receivable and turnover, except interest costs as set out below Upon becoming operational, the costs are 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 and liquidated damages are included within turnover in accordance with FRS 5 Application Note G The Company recognises income in respect of the services provided 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

Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when these services are performed

(c) Interest

Interest bearing bank loans and other borrowings are recorded at the proceeds received net of direct issue costs During the construction stage of the project interest costs were expensed to the profit and loss All other finance charges and interest costs incurred after the completion of the project, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise

Notes *(continued)*

(d) Taxation

The charge for taxation is based on the loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

(e) Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument The principal financial assets and liabilities of the Company are as follows

Trade debtors

Trade receivables are initially recognised at fair value and then are stated at amortised cost

Cash at bank

Cash at bank is carried in the balance sheet at nominal value

Trade creditors

Trade payables are initially recognised at fair value and then are stated at amortised cost

Bank and other borrowings

Interest bearing bank loans and other borrowings are recorded at the proceeds received, net of direct issue costs Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise

Finance debtor and contract receivables

Finance debtor and contract receivables are classified as loans and receivables as defined in paragraph 9 of FRS 26, which are initially recognised at fair value and then are stated at amortised cost

3. Turnover

	2011	2010
	£000	£000
Services income	**40,792**	38,559
Construction services	**85**	535
Other	**119**	116
	40,996	39,210

Services income relates to the provision of non-clinical services at the Royal Derby Hospital and London Road Community Hospital

Notes *(continued)*

4. Operating costs

		2011	2010
		£000	£000
Materials, site and production costs		**2,753**	2,205
Services costs		**31,213**	30,183
Auditor's remuneration	- audit fees	**16**	15
	- other	**10**	5
Directors' fees		**52**	40
		34,044	32,448

5. Directors and staff costs

There were no employees during the year (*2010 £nil*) Directors' emoluments were paid to the shareholders of the parent undertaking The Company does not operate a pension scheme for its Directors

6. Interest receivable and similar income

	2011	2010
	£000	£000
Interest receivable on bank deposits	**105**	-
Interest receivable on finance debtor	**21,628**	21,801
	21,733	21,801

7. Interest payable and similar charges

	2011	2010
	£000	£000
Amounts payable on bonds	**22,589**	22,560
Amounts payable on loan stock	**5,261**	5,261
Amortisation of finance arrangement costs	**877**	876
	28,727	28,697

Notes *(continued)*

8. Taxation on loss on ordinary activities

(a) Analysis of the charge in the year

	2011 £000	2010 £000
Current tax	-	-
Total current tax	-	-
Deferred tax		
Origination / reversal of timing differences	(11)	(37)
Adjustment following change in corporation tax rate	852	425
Total deferred tax (note 19)	**841**	388
Tax on loss on ordinary activities	**841**	388

Deferred tax asset in respect of tax losses have been recognised 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 year

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

	2011 £000	2010 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(42)	(134)
Current tax at 26 5% (*2010 28%*)	(11)	(37)
Effects of		
Tax losses carried forward	11	37
	-	-

(c) Factors that may affect future and total tax charges

The Company has tax losses of £42,620,000 (*2010 £42,578,000*) which have been carried forward and will be offset against future trading profits

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively

This will reduce the company's future current tax charge accordingly The deferred tax asset at 31 December 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly

Notes *(continued)*

9. Debtors: amounts falling due within one year

	2011 £000	2010 £000
Finance debtor	**3,533**	3,321
Trade debtors	**6,658**	7,335
Prepayments and accrued income	**2,203**	1,234
Deferred tax asset (note 19)	**10,655**	11,496
Other debtors	**44**	69
Unitary charge control account	**23,008**	18,565
	46,101	42,020

10. Debtors: amounts falling due after more than one year

	2011 £000	2010 £000
Finance debtor	**339,884**	343,333
	339,884	343,333

11. Cash at bank and in hand

	2011 £000	2010 £000
Cash at bank	**21,274**	22,891
	21,274	22,891

12. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**1,919**	2,726
Accruals and deferred income	**10,368**	10,179
Guaranteed secured 5 564% bonds 2041	**416**	66
	12,703	12,971

Notes *(continued)*

13. Creditors: amounts falling due after more than one year

The Company holds interest bearing loans and borrowings, which are measured at amortised cost, as follows

	2011 £000	2010 £000
Guaranteed secured 5 564% bonds 2041	**411,255**	411,321
Unsecured unsubordinated 13 465% loan notes 2041	**39,070**	39,070
Total borrowings	**450,325**	450,391
Finance arrangement costs capitalised	**(26,782)**	(26,782)
Less amounts due within one year	**(416)**	(66)
Amortisation of finance arrangement costs capitalised	**6,971**	6,094
Less adjustment on effective interest rate*	**(3,189)**	(2,894)
	426,909	426,743

* This represents the difference between the interest charged at the effective interest rate and actual interest payable based on the coupon rate

Guaranteed secured bonds 2041
The Company has created £446,588,000 5 564% guaranteed secured bonds 2041 pursuant to a Trust Deed and Collateral Deed dated 9 September 2003 of which £411,588,000 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 £35,000,000 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

Unsecured subordinated 13.465% loan notes 2041
The Company is a wholly owned subsidiary of Derby Healthcare (Holdings) Limited Together Skanska Infrastructure Investment UK Limited is legal and beneficial owner, and Innisfree Nominees Limited acting on behalf of Innisfree PFI Continuation Fund and Innisfree Fund 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 £39,070,000 unsecured subordinated loan notes 2041 on like terms Under the terms of an Equity Subscription Agreement dated 9 September 2003 Skanska Infrastructure Investment UK Limited and Innisfree Nominees Limited each agreed to subscribe in instalments between December 2003 and December 2008 for £39,070,000 of the Loan Notes in Derby Healthcare (Holdings) Limited, which in turn agreed to subscribe for the £39,070,000 Loan Notes in its subsidiary Derby Healthcare Plc

Derby Healthcare (Holdings) limited and Derby Healthcare Plc have each issued £39,070,000 of Loan Notes at par for cash 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

Notes *(continued)*

14. Financial risk management policies and objectives

The Company's principal financial instruments comprise short term bank deposits, fixed rate bonds and fixed rate subordinated loans The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Company's business

Liquidity risk
Repayment of fixed rate bonds and fixed rate subordinated loans are not required until the Hospital is operational and revenue is receivable under the terms of the Project Agreement

Credit risk
Although The Trust is the only client of the Derby Healthcare Plc, the Directors are satisfied that the Trust will be able to fulfil its collateral obligations under the PFI contract that are in turn underwritten by the Secretary of State for Health The carrying amount of financial assets represents the maximum credit exposure The maximum exposure to credit risk at 31 December 2011 was

	2011	2010
	£000	£000
Trade debtors	**6,658**	7,335
Prepayments and accrued income	**2,203**	1,234
Other debtors	**23,052**	18,634
Finance debtor	**343,417**	346,654
	375,330	373,857

Interest rate risk
In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and their maturity profile

2011	**Effective interest rate**	**Total**	**1 year or less**	**1-2 years**	**2-5 years**	**5 + years**
		£000	**£000**	**£000**	**£000**	**£000**
Guaranteed secured bonds	**6 04%**	**(411,255)**	**(416)**	**(724)**	**(4,791)**	**(405,324)**
Unsecured subordinated loan notes	**13.47%**	**(39,070)**	**-**	**-**	**-**	**(39,070)**
Finance debtor	**6.35%**	**343,417**	**3,533**	**3,757**	**12,765**	**323,362**
Bank balances*	**1.90%**	**21,274**	**21,274**	**-**	**-**	**-**
Total		**(85,634)**	**24,391**	**3,033**	**7,974**	**(121,032)**

*Floating rate

Notes *(continued)*

14. Financial risk management policies and objectives (continued)

2010	Effective interest rate	Total £000	1 year or less £000	1-2 years £000	2-5 years £000	5 + years £000
Guaranteed secured bonds	6 04%	(411,321)	(66)	(416)	(3,210)	(407,629)
Unsecured subordinated loan notes	13 47%	(39,070)	-	-	-	(39,070)
Finance debtor	6 35%	346,654	3,321	3,532	12,000	327,801
Bank balances*	0 00%	22,891	22,891	-	-	-
Total		(80,846)	26,146	3,116	8,790	(118,898)

*Floating rate

The Company is exposed to interest rate risk on those bank balances with floating interest rates However, the Directors do not consider this to be a significant risk to the Company

The guaranteed secured bonds and unsecured subordinated loan notes both have a fixed rate until 2041 Thus there is no interest rate risk associated with these financial liabilities

Fair values
The fair values together with the carrying amounts shown in the balance sheet of all financial assets and financial liabilities are as follows -

	2011		2010	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Guaranteed secured bonds	**(411,255)**	**(426,142)**	(411,321)	(389,603)
Unsecured subordinated loan notes	**(39,070)**	**(93,258)**	(39,070)	(84,879)
Finance debtor	**343,417**	**427,058**	346,654	390,624
Bank balances	**21,274**	**21,274**	22,891	22,891
Total	**(85,634)**	**(71,068)**	(80,846)	(60,967)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above

The fair value of the guaranteed secured bonds is the quoted price of the bonds

The fair value of the unsecured subordinated loan notes is calculated by discounting future cashflows at an appropriate discount rate The discount rate is calculated by adding an appropriate premium to the relevant gilt yield The gilt yield reflects the unexpired term of the project and the premium reflects the market spread that would be required by investors in bonds issued by the PFI companies with similar risk profiles, plus a market wrapping fee that would normally be charged to enhance the project cashflows to investment grade As at 31 December 2011 this premium including the wrapping fee was 100 basis points In addition a further premium is added to reflect the risk to the cashflows where they are related to usage The further premium is 50 basis points The discount rate that has been applied for 31 December 2011 is 4 97%% (2010 5 81%)

Notes *(continued)*

14 Financial risk management policies and objectives (continued)

The fair value of contract receivable and finance debtor is calculated by discounting future cash flows at an appropriate discount rate The discount rate used is calculated by adding an appropriate premium to the relevant gilt yield for the project The gilt yield reflects the unexpired term of the project agreement and the premium reflects market spread that would be required by investors in bonds issued by the PFI project companies with similar risk profiles, plus the market wrapping fee that would normally be charged to enhance the project cashflows to investment grade The discount rate that has been applied to the finance debtor and contract receivable at 31 December 2011 is 4 47% *(2010 5 31%)*

Sensitivity analysis
Since the Company has significant fixed rate financial assets and liabilities, a general increase of one percentage point in interest rates is not expected to significantly impact the profits of the Company

15. Called up share capital

	2011 £000	2010 £000
Called up and fully paid		
50,000 ordinary shares of £1	**50**	50

16. Reserves

	2011 £000	2010 £000
At the beginning of the year	**(31,520)**	(30,998)
Loss for the year	**(883)**	(522)
At the end of the year	(32,403)	(31,520)

17. Contingent liabilities

There are no contingent liabilities (*2010 £nil*)

18. Contract commitments

	2011 £000	2010 £000
Amounts contracted for but not provided for in the financial statements	**50**	**50**

Notes *(continued)*

19. Deferred tax asset

A deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company The future profits of the Company have been estimated on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract

The elements of deferred taxation are as follows -

	2011 £000	2010 £000
Tax losses for prior periods	**11,496**	11,884
Tax losses for current year	**11**	37
Adjustment following change in corporation tax rate	**(852)**	(425)
	10,655	11,496

The deferred tax asset has been calculated on the basis that the corporation tax rate from 1 April 2012 has fallen from 27% to 25%

20. Ultimate parent company and parent undertaking of a larger group of which the company is a member

The Company is a subsidiary undertaking of Derby Healthcare (Holdings) Limited which is incorporated in the United Kingdom The largest and smallest group in which the results of the Company are consolidated is that headed by Derby Healthcare (Holdings) Limited The consolidated accounts of this group are available to the public and may be obtained from 8 White Oak Square, London Road, Swanley, Kent BR8 7AG