Derby Healthcare Plc

Directors' Report and Financial Statements

For the year ended 31 December 2009

Registered number 04668140

Contents

Company information

Directors
G Birley-Smith
S Patkunanathan
J Wrinn
M Gagnon

Secretary
M Brooks

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

Auditors
KPMG Audit Plc
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

Principal activities and business review

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

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

Key performance indicators (KPIs)

(a) 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 During the year the Hospital was handed over to the Trust and the full unitary charge continued to be received Thus performance was considered satisfactory

(b) Performance deductions under the service contract
Financial penalties are levied by the Southern Derbyshire Acute Hospitals NHS 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 2009 deductions of £444k *(2008 £131k)* were levied by the Trust and passed onto the service providers This deduction relates to only 1 5% *(2008 0 5%)* of the total fees charged by the service providers This low level of deduction was considered satisfactory

(c) Financial performance
The company has modelled the anticipated financial outcome of the Project across its full term The company monitors actual financial performance against this anticipated performance As at 31 December 2009, the Company's performance against this measure was considered satisfactory

Position of the Company at the year end

The construction works have progressed well and the new hospital is fully commissioned and the Company is receiving its full unitary charge

Principal risks and uncertainties

The Southern Derbyshire Acute Hospitals NHS Trust is the sole client of the company but the directors consider that no 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

Directors' report *(continued)*

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 *(2008 £nil)*

Directors

The following persons were directors of the company during the year

C Mitchell (Resigned 6 April 2009)
S Patkunanathan (Appointed 31 March 2009)
G Birley-Smith
J Pedretti (Resigned 1 October 2009)
M Gagnon (Appointed 1 October 2009)
J Wrinn

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

Political and charitable contributions

The company made no political or charitable contributions during the year *(2008 £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 £2,827,636 *(2008 £6,059,800)* of trade creditors at 31 December 2009 and an average payment period of 28 days *(2008 57 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 auditors are 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 auditors are aware of that information

Auditors

KPMG Audit Plc are the auditors of the Company The auditors are deemed to be reappointed under section 487(2) of the Companies Act 2006

By order of the board

M Brooks

M Brooks
Company Secretary

25 May 2010

3 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 judgments 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Derby Healthcare Plc

We have audited the financial statements of Derby Healthcare Plc for the year ended 31 December 2009 set out on pages 7 to 19 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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 web-site at www frc org uk/apb/scope/UKNP

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 2009 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

Moses

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

Arlington Business Park
Theale
Reading RG7 4SD

Date 11 June 2010

Profit and loss account
for the year ended 31 December 2009

	Note	**2009**	2008
		£	£
Turnover	**3**	**43,112,647**	71,189,045
Net operating costs	**4**	**(36,629,955)**	(65,753,529)
Operating profit		**6,482,692**	5,435,516
Interest payable and similar charges	**6**	**(28,676,777)**	(23,341,653)
Other interest receivable and similar income	**7**	**21,867,198**	14,809,169
Loss on ordinary activities before taxation		**(326,887)**	(3,096,968)
Taxation on loss on ordinary activities	**8**	**73,615**	867,607
Loss for the financial year		**(253,272)**	(2,229,361)

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 10 to 19 form part of these financial statements

Balance sheet
as at 31 December 2009

	Note	2009 £	2008 £
Current assets			
Debtors amounts falling due within one year	9	**37,412,762**	37,932,962
Debtors amounts falling due in more than one year	10	**346,295,121**	347,164,870
		383,707,883	385,097,832
Cash at bank and in hand	11	**23,881,405**	25,548,876
		407,589,288	410,646,708
Current liabilities			
Creditors amounts falling due within one year	12	**(12,281,117)**	(13,792,931)
Net current assets		**395,308,172**	396,853,777
Total assets less current liabilities		**395,308,172**	396,853,777
Creditors amounts falling due after more than one year	13	**(426,256,261)**	(427,548,594)
Net liabilities		**(30,948,089)**	(30,694,817)
Capital and reserves			
Called up share capital	15	**50,000**	50,000
Reserves	16	**(30,998,089)**	(30,744,817)
Equity shareholders' deficit		**(30,948,089)**	(30,694,817)

The notes on pages 10 to 19 form part of these financial statements

These financial statements were approved by the Board of Directors on 25 May 2010 and signed its behalf by

J Wrinn
Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2009

	2009	2008
	£	£
Opening equity shareholders' deficit	**(30,694,817)**	(28,465,456)
Loss for the year	**(253,272)**	(2,229,361)
Closing equity shareholders' deficit	**(30,948,089)**	(30,694,817)

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 accounting rules

The shareholders' funds for the period ending 31 December 2009 show a deficit of £30,948,089 *(2008 £30,694,817)* 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

Under Financial Reporting Standard 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 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 Financial Reporting Standard 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 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 costs are expensed during the construction phase of the contract

(d) 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

Notes *(continued)*

(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 and Guaranteed Investment Contracts (GICs)

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

GICs are readily convertible into known amounts of cash at or close to their carrying values and are classified as cash They are treated as held-to-maturity instruments as defined in paragraph 9 of FRS 26, which are initially recognised at fair value and then are stated at amortised cost

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

	2009	2008
	£	£
Services income	**38,989,146**	34,007,478
Construction services	**4,035,747**	37,181,567
Other turnover	**87,754**	-
	43,112,647	71,189,045

Services income relates to the provision of soft and hard facilities management services at the Royal Derby Hospital and the London Road Community Hospital

Notes *(continued)*

4. Net operating costs

		2009 £	2008 £
Materials, site and production costs		**6,447,399**	38,727,374
Services costs		**30,123,022**	26,961,644
Auditor's remuneration	- audit fees	**19,220**	18,000
	- other	**6,481**	22,931
Directors' fees		**33,833**	23,580
		36,629,955	65,753,529

5. Directors and staff costs

There were no employees during the year (*2008 £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 payable and similar charges

	2009 £	2008 £
Amounts payable on bonds	**22,540,371**	22,522,178
Amounts payable on loan stock	**5,260,825**	-
Amortisation of finance arrangement costs	**875,581**	819,475
	28,676,777	23,341,653

7. Other interest receivable and similar income

	2009 £	2008 £
Interest receivable on bank deposits	28,787	575,117
Interest receivable on finance debtor	21,838,411	14,234,052
	21,867,198	14,809,169

Notes *(continued)*

8. Taxation on loss on ordinary activities

(a) Analysis of the charge in the year

	2009 £	2008 £
Current tax		
Adjustment with respect to prior periods – land remediation tax credit	**(108,794)**	-
Total current tax	**(108,794)**	-
Deferred tax		
Origination / reversal of timing differences	**(91,528)**	(867,151)
Adjustment to tax losses recognised in prior period	**126,707**	(456)
Total deferred tax (note 19)	**35,179**	(867,607)
Tax on loss on ordinary activities	**(73,615)**	(867,607)

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 -

	2009 £	2008 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(326,887)**	(3,096,968)
Current tax at 28% (*2008 28%*)	**(91,528)**	(867,151)
Effects of		
Adjustment with respect to prior periods – land remediation tax credit	**(108,794)**	-
Tax losses carried forward	**91,528**	867,151
	(108,794)	-

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

The Company has tax losses of £42 4 million (*2008 £42 6 million*) which has been carried forward and will be offset against future trading profits

Notes *(continued)*

9. Debtors: amounts falling due within one year

	2009	2008
	£	£
Finance debtor	**3,119,624**	2,899,200
Trade debtors	**6,302,305**	10,367,062
Prepayments and accrued income	**1,302,818**	2,086,205
Deferred tax asset (note 19)	**11,884,475**	11,919,654
Other debtors	**14,803,540**	10,660,841
	37,412,762	37,932,962

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

	2009	2008
	£	£
Finance debtor	**346,295,121**	345,349,090
Prepayments and accrued income	-	1,815,780
	346,295,121	347,164,870

11. Cash at bank and in hand

	2009	2008
	£	£
Bank balances	**23,881,405**	25,548,876
	23,881,405	25,548,876

12 Creditors: amounts falling due within one year

	2009	2008
	£	£
Trade creditors	**2,827,636**	6,059,800
Accruals and deferred income	**9,453,481**	7,465,599
Guaranteed secured 5 564% bonds 2041	-	267,532
	12,281,117	13,792,931

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

	2009 £	2008 £
Guaranteed secured 5 564% bonds 2041	**411,320,487**	411,588,000
Unsecured unsubordinated 13 465% loan notes 2041	**39,070,369**	39,070,369
Total borrowings	**450,390,856**	450,658,369
Finance arrangement costs capitalised	**(26,782,135)**	(24,966,355)
Less amounts due within one year	**-**	(267,532)
Less amortisation of finance arrangement costs capitalised	**5,217,088**	4,341,506
Less adjustment on effective interest rate*	**(2,569,548)**	(2,217,394)
	426,256,261	427,548,594

* 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 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

Unsecured subordinated 13.465% loan notes 2041
The Company is a wholly owned subsidiary of Derby Healthcare (Holdings) Limited Together Skanska ID 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 07m unsecured subordinated loan notes 2041 on like terms Under the terms of an Equity Subscription Agreement dated 9 September 2003 Skanska ID 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

Derby Healthcare (Holdings) limited and Derby Healthcare Plc have each issued £39 07m 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
The Company has entered into indexed-linked and fixed rate GICs with a periodic withdrawal schedule to match the payment requirements during the construction of the Hospital

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 South Derbyshire Acute Hospitals NHS Trust (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 2009 was

	2009	2008
	£	£
Trade debtors	**6,302,305**	10,367,062
Prepayments and accrued income	**1,302,818**	2,086,205
Other debtors	**14,803,540**	10,660,840
Cash at bank and in hand	**23,881,405**	25,548,876
	46,290,068	48,662,983

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

2009	**Effective interest rate**	**Total £'000**	**1 year or less £'000**	**1-2 years £'000**	**2-5 years £'000**	**5 + years £'000**
Guaranteed secured bonds	**6.50%**	**(411,321)**	**-**	**(66)**	**(2,288)**	**(408,967)**
Unsecured subordinated loan notes	**13.47%**	**(39,070)**	**-**	**-**	**-**	**(39,070)**
Finance debtor	**6.35%**	**349,415**	**3,120**	**3,318**	**11,272**	**331,705**
Bank balances*	**0.09%**	**23,881**	**23,881**			
Total		**(77,095)**	**27,001**	**3,252**	**8,984**	**(116,332)**

*Floating rate

Notes *(continued)*

14. Financial risk management policies and objectives (continued)

2008	Effective interest rate	Total £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	5 + years £'000
Guaranteed secured bonds	5 38%	(411,588)	(268)	-	(1,206)	(410,114)
Unsecured subordinated loan notes	13 47%	(39,070)	-	-	-	(39,070)
Finance debtor	6 35%	348,248	2,899	3,083	10,475	331,791
Bank balances*	2 21%	25,549	25,549	-	-	-
Total		(76,861)	28,180	3,083	9,269	(117,393)

*Floating rate

The Company is exposed to interest rate risk on those interest bearing assets 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 -

	2009		2008	
	Carrying value £	**Fair value £**	Carrying value £	Fair value £
Guaranteed secured bonds	**(411,320,487)**	**(367,638,252)**	(411,588,000)	(303,998,897)
Unsecured subordinated loan notes	**(39,070,370)**	**(83,892,218)**	(39,070,369)	(31,482,971)
Finance debtor	**349,414,746**	**387,509,878**	348,248,288	412,216,252
Bank balances	**23,881,405**	**23,881,405**	25,548,876	25,548,876
Total	**(77,094,706)**	**(40,139,187)**	(76,861,205)	102,283,260

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 2008 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 2009 is 5 96% (2008 7 95%)

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 2009 is 5 46% *(2008 4 95%)*

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

	2009	2008
	£	£
Equity		
Authorised		
50,000 ordinary shares of £1	**50,000**	50,000
Called up and fully paid		
50,000 ordinary shares of £1	**50,000**	50,000

16. Reserves

	2009	2008
	£	£
At the beginning of the year	**(30,744,817)**	(28,515,456)
Loss for the year	**(253,272)**	(2,229,361)
At the end of the year	**(30,998,089)**	(30,744,817)

17. Contingent liabilities

There are no contingent liabilities (*2008 £nil*)

18. Capital commitments

	2009	2008
	£	£
Amounts contracted for but not provided for in the financial statements	**50,000**	**2,665,181**

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 Group The future profits of the Group 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 -

	2009	2008
	£	£
Tax losses for prior periods	**11,919,654**	11,052,047
Adjustment to tax losses for prior periods	**(126,707)**	456
Tax losses for current year	**91,528**	867,151
	11,884,475	11,919,654

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 3 White Oak Square, London Road, Swanley, Kent BR8 7AG