

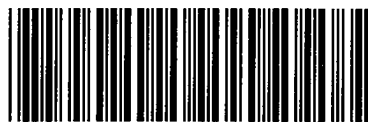
Derby Healthcare Plc

Annual report and financial statements

For the year ended 31 December 2014

Registered number 04668140

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Company information

Directors

G. Birley-Smith
R. Sheehan

Secretary

P. Beardsmore (resigned 3 February 2014)
HCP Social Infrastructure (UK) Limited (appointed 3 February 2014)

Registered office

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor

KPMG LLP
100 Temple Street
Bristol
BS1 6AG

Registered number

04668140

Strategic report

The Directors present their strategic report for the year ended 31 December 2014.

Business review

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 Project is for a primary term of forty years from the date of signing the Project Agreement in September 2003.

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.

Financial performance and financial position

Turnover for the year is £42,436,000 (2013: £42,568,000), of which the main component is service fee income (net of deductions) of £42,307,000 (2013: £42,453,000). Turnover has reduced slightly this year as it doesn't include any interim income generated from services provided at the London Road site due to this agreement finishing at the end of 2013.

The result before tax for the year is a profit of £125,000 (2013: £151,000). The operating profit margin has increased from 17.8% to 18.3% on the reduced turnover this year, but with the net interest receivable dropping because of the reducing finance debtor balance, the reduction in profit before tax for the year is small.

The result after tax for the year is a profit of £98,000 (2013: loss of £1,154,000). There has been no movement in the deferred tax asset this year, and there was a rate change charge of £1,270,000 last year hence the loss after tax last year.

Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the year deductions of £4,000 (2013: £4,000) were levied by the Trust and passed onto the service providers. This deduction relates to only 0.01% (2013: 0.01%) of the total fees charged by the service providers. This low level of deduction was considered satisfactory.

The Directors have modelled the anticipated financial outcome of the Project across its full term. The Directors monitor actual financial performance against this anticipated performance. 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, and the Company will therefore continue in business.

During the year, the Company has repaid £1,148,000 (2013: £724,000) of the guaranteed secured bonds as scheduled, with bond repayment dates scheduled for 30 June and 31 December each year, or the first business day thereafter.

The Directors believe the FRS5 finance debtor to be recoverable over the life of the Concession Agreement.

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.

Strategic report *(continued)*

By order of the Board



R. Sheehan
Director

23 April 2015

Registered number: 04668140

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Financial instruments

The Company's principal financial instruments comprise short term bank deposits, fixed rate bonds and subordinated loan stock. Further details of the financial risk management policies and objectives of the Company are given in note 14 to the accounts.

Financial reporting

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.

Dividends

The Directors do not recommend the payment of a dividend (2013: £nil).

Directors

The Directors who held office during the year were as follows:

G. Birley-Smith
R. Sheehan

Employees

There were no employees during the year (2013: Nil).

Political contributions

The Company made no political contributions during the year (2013: £nil).

Disclosure of information to auditor

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.

Auditor

KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting.

Directors' report *(continued)*

By order of the Board



R. Sheehan
Director

23 April 2015

Registered number: 04668140

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

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

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 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 2014 set out on pages 9 to 21. 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 7, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of its profit 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 Strategic report and 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.



Huw Brown, Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

28 April 2015

Profit and loss account
for the year ended 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Turnover	3	42,436	42,568
Operating costs	4	(34,690)	(35,006)
Operating profit		7,746	7,562
Interest receivable and similar income	6	21,124	21,347
Interest payable and similar charges	7	(28,745)	(28,758)
Profit on ordinary activities before taxation		125	151
Taxation on profit on ordinary activities	8	(27)	(1,305)
Profit / (loss) for the financial year		98	(1,154)

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

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

Movements on reserves are shown in note 16.

The notes on pages 12 to 21 form an integral part of these financial statements.

Balance sheet
as at 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Current assets			
Debtors: amounts falling due within one year	9	52,790	49,911
Debtors: amounts falling due in more than one year	10	327,780	332,029
		380,570	381,940
Cash at bank and in hand	11	24,021	23,016
		<u>404,591</u>	<u>404,956</u>
Current liabilities			
Creditors: amounts falling due within one year	12	(12,932)	(12,735)
Net current assets		<u>391,659</u>	<u>392,221</u>
Creditors: amounts falling due after more than one year	13	(425,635)	(426,295)
Net liabilities		<u>(33,976)</u>	<u>(34,074)</u>
Capital and reserves			
Called up share capital	15	50	50
Profit and loss account	16	(34,026)	(34,124)
Equity shareholders' deficit		<u>(33,976)</u>	<u>(34,074)</u>

The notes on pages 12 to 21 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 April 2015 and signed on its behalf by:



R. Sheehan
Director

Registered number: 04668140

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2014

	2014 £000	2013 £000
Opening equity shareholders' deficit	(34,074)	(32,920)
Profit / (loss) for the financial year	98	(1,154)
Closing equity shareholders' deficit	<u>(33,976)</u>	<u>(34,074)</u>

The notes on pages 12 to 21 form an integral part of these financial statements.

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 2014 show a deficit of £33,976,000 (2013: £34,074,000).

The Directors have reviewed the cash flow forecast and taking into account reasonably 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 19.

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 profit 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

	2014 £000	2013 £000
Services income	42,307	42,453
Other	129	115
	<u>42,436</u>	<u>42,568</u>

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

	2014 £000	2013 £000
Materials, site and production costs	3,094	3,117
Services costs	31,543	31,836
Auditor's remuneration - audit of these financial statements	17	17
- taxation services	8	8
Directors' fees	28	28
	<u>34,690</u>	<u>35,006</u>

5. Directors and staff costs

There were no employees during the year (2013: 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

	2014 £000	2013 £000
Interest receivable on bank deposits	173	157
Interest receivable on finance debtor	20,951	21,190
	<u>21,124</u>	<u>21,347</u>

7. Interest payable and similar charges

	2014 £000	2013 £000
Amounts payable on bonds	22,606	22,619
Amounts payable on loan stock	5,261	5,261
Amortisation of finance arrangement costs	878	878
	<u>28,745</u>	<u>28,758</u>

Notes (continued)

8. Taxation on profit on ordinary activities

(a) Analysis of the charge in the year

	2014 £000	2013 £000
<i>Current tax:</i>		
Current Tax charge	27	26
Total current tax	27	26
<i>Deferred tax:</i>		
Tax losses carried forward	-	9
Effect of change in corporation tax rates	-	1,270
Total deferred tax (note 18)	-	1,279
Tax on profit on ordinary activities	27	1,305

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 with Derby Hospitals NHS Foundation Trust.

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

The current tax charge for the year is equal to (2013: *lower than*) the standard rate of corporation tax of 21.5% in the UK (2013: 23.25%). The differences are explained below.

	2014 £000	2013 £000
<i>Current tax reconciliation:</i>		
Profit on ordinary activities before tax	125	151
Current tax at 21.5% (2013: 23.25%)	27	35
<i>Effects of:</i>		
Tax losses carried forward	-	(9)
	27	26

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

The Company has tax losses of £42,318,000 (2013: £42,336,000) which have been carried forward and will be offset against future trading profits.

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 2 July 2013 and as such a blended rate of 21.5% has been used for the calculation of current tax in 2014.

A further reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantially enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset as at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

9. Debtors: amounts falling due within one year

	2014 £000	2013 £000
Finance debtor	4,249	3,995
Trade debtors	6,847	6,900
Prepayments and accrued income	404	401
Deferred tax asset (note 18)	8,467	8,467
Unitary charge control account	32,823	30,148
	<u>52,790</u>	<u>49,911</u>

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

	2014 £000	2013 £000
Finance debtor	327,780	332,029
	<u>327,780</u>	<u>332,029</u>

11. Cash at bank and in hand

	2014 £000	2013 £000
Cash at bank	24,021	23,016
	<u>24,021</u>	<u>23,016</u>

Included within cash is £22,600,000 (2013: £22,100,000), the distribution of which is subject to restrictions in accordance with the Company's financing agreements.

12. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	1,835	2,101
Accruals and deferred income	9,759	9,486
Guaranteed secured 5.564% bonds 2041	1,338	1,148
	<u>12,932</u>	<u>12,735</u>

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:

	2014 £000	2013 £000
Guaranteed secured 5.564% bonds 2041	408,966	410,115
Unsecured unsubordinated 13.465% loan notes 2041	39,070	39,070
Total borrowings	448,036	449,185
Finance arrangement costs capitalised	(26,782)	(26,782)
Less amounts due within one year	(1,338)	(1,148)
Amortisation of finance arrangement costs capitalised	9,605	8,727
Less adjustment on effective interest rate*	(3,886)	(3,687)
	425,635	426,295

* 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. Innisfree Nominees Limited acting on behalf of Innisfree PFI Continuation Fund (75%), Innisfree PFI Secondary Fund (8%) and Innisfree PFI Secondary Fund 2 LP (17%), holds legal title to 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 the Company 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 the shareholders of Derby Healthcare (Holdings) 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 the Company.

Derby Healthcare (Holdings) Limited and the Company 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 2014 was:

	2014 £000	2013 £000
Trade debtors	6,847	6,900
Prepayments and accrued income	404	401
Unitary charge control account	32,823	30,148
Finance debtor	332,029	336,024
	372,103	373,473

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:

2014	Effective interest rate	Total £000	1 year or less £000	1-2 years £000	2-5 years £000	5 + years £000
Guaranteed secured bonds	5.56%	(408,966)	(1,338)	(2,305)	(11,578)	(393,745)
Unsecured subordinated loan notes	13.47%	(39,070)	-	-	-	(39,070)
Finance debtor	6.35%	332,029	4,249	4,518	15,351	307,911
Bank balances*	0.75%	24,021	24,021	-	-	-
Total		(91,986)	26,932	2,213	3,773	(124,904)

*Floating rate

Notes (continued)

14. Financial risk management policies and objectives (continued)

2013	Effective interest rate	Total £000	1 year or less £000	1-2 years £000	2-5 years £000	5 + years £000
Guaranteed secured bonds	5.56%	(410,115)	(1,148)	(1,338)	(9,063)	(398,566)
Unsecured subordinated loan notes	13.47%	(39,070)	-	-	-	(39,070)
Finance debtor	6.35%	336,024	3,995	4,248	14,434	313,347
Bank balances*	0.68%	23,016	23,016	-	-	-
Total		(90,145)	25,863	2,910	5,371	(124,289)

*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:

	2014		2013	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Guaranteed secured bonds	(408,966)	(511,412)	(410,115)	(445,302)
Unsecured subordinated loan notes	(39,070)	(91,302)	(39,070)	(84,969)
Finance debtor	332,029	387,590	336,024	374,455
Bank balances	24,021	24,021	23,016	23,016
Total	(91,986)	(191,103)	(90,145)	(132,800)

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 2014 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 2014 is 4.72% (2013: 5.39%).

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 2014 is 4.22% (2013: 4.89%).

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

	2014 £000	2013 £000
<i>Called up and fully paid</i>		
50,000 ordinary shares of £1	<u>50</u>	<u>50</u>

16. Reserves

	2014 £000	2013 £000
At the beginning of the year	(34,124)	(32,970)
Profit / (loss) for the financial year	98	(1,154)
At the end of the year	<u>(34,026)</u>	<u>(34,124)</u>

17. Contract commitments

	2014 £000	2013 £000
Amounts contracted for but not provided for in the financial statements	<u>50</u>	<u>50</u>

Notes (continued)

18. Deferred tax asset

A deferred tax asset has been recognised in respect of tax losses as it is felt that this amount will be recoverable from future profits. 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:

	2014 £000	2013 £000
Deferred tax asset brought forward	8,467	9,746
Tax losses utilised in the year	-	(9)
Effect of change in corporation tax rate	-	(1,270)
	<u>8,467</u>	<u>8,467</u>

The deferred tax asset has been calculated using the reduced rate of 20% effective from 1 April 2015 as this has been substantially enacted as at the balance sheet date.

19. 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.