Company Registration No. 04668140 (England and Wales)

DERBY HEALTHCARE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

DERBY HEALTHCARE PLC

COMPANY INFORMATION

Directors	Mrs G Birley-Smith Mr R Sheehan Mr M Davis (Non- Executive)	 (Appointed 20 April 2017)
Secretary	HCP Social Infrastructure (UK) Limited	
Company number	04668140	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE	

DERBY HEALTHCARE PLC

CONTENTS

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

Business Review
The principal activity of the company is to design, build, finance and operate a Hospital in accordance with a forty year contract (the "Project Agreement") with Derby Teaching Hospitals NHS Foundation Trust (the "Trust"). Contract negotiations were successfully completed in September 2003 and construction commenced immediately. The project has been fully operational since 2008.

The directors do not foresee any change in the activities of the company.

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

Lifecycle
The principal risk borne by the company is that lifecycle costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset by asset basis and by the periodic technical evaluations of the physical condition of the facilities. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

Availability
Investment in the project is funded primarily by the Bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the Bonds will be unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the company's ability to make payments to Bondholders. Deductions of £50,000 (2016: £34,000) were incurred in the year, these were recovered from the service provider, resulting in a net deduction of £Nil (2016: £Nil).

Service performance
Performance risk under the Project Agreement and related contracts are substantially passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees. Ultimately, poor performance may result in the Trust having the right to terminate the Project Agreement. As noted in the discussion of the company's KPIs, the levels of deductions levied in the year were low and are not considered to pose a risk to the project.

Service provider failure
The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk as being low. However, as continuity of service delivery is of paramount importance, the company has a Business Continuity Plan which details how the company would deal with a service provider failure. This includes directly employing staff and sub-contractors until a replacement sub-contractor is in place.

Development and performance

Turnover in the year increased to £47,931,000 (2016: £45,892,000) largely due to a higher mark up on service costs required in the period and increased income in relation to variations and passthrough costs. Passthrough costs are are incurred by service providers and paid for by the Trust through the company; the company does not apply a mark up to these costs. The higher mark up on service costs is the key reason for the improvement in operating profit of £8,503,000 (2016: £8,202,000). A higher mark up occurred because of changes in estimated future costs and income principally due to an adjustment in the timing of lifecycle costs.

Interest receivable and similar income has declined to £20,254,000 (2016: £20,661,000) mainly due to reduced interest receivable on the Finance Debtor. Interest receivable on the Finance Debtor has reduced in proportion with the reduction in the Finance Debtor balance.

Interest payable and similar expenses has increased to £28,973,000 (2016: £28,784,000) mainly due to increased interest on subordinated debt of £5,677,000 (2016: £5,387,000). The increase is due to not all of the subordinated debt interest being paid in 2016 and 2017. In accordance with the unsecured subordinated loan notes 2041, the unpaid interest has been added to the outstanding balance and hence the increase balance results in the increased interest payable. The subordinated debt balance as at 31 December 2017 was £42,399,000 (31st December 2016: £40,090,000).

The impact of these movements has resulted in a loss before taxation of £216,000 compared to the prior year profit before taxation of £79,000. There was no revaluation of the deferred tax asset in 2017, whilst in 2016 the company revalued its deferred tax asset to reflect the enacted 17% tax rate from 1 April 2020, which resulted in a deferred tax charge of £437,000.

At the 31 December 2017 the company had net liabilities of £35,429,000 (2016: net liabilities of £35,523,000).

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

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £318,484,000 (2016: £323,275,000. The Finance Debtor amortisation during the year was £4,791,000 (2016: £4,505,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

During the year, the company has repaid £2,688,000 of the Secured Guaranteed Bonds. Scheduled loan repayment dates are 30 June and 31 December each year. In the previous financial year, the company repaid a total of £2,305,000.

During the year the company has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2041.

Key performance indicators
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 financial year deductions of £50,000 (2016: £34,000) were levied by the Trust and passed onto the service providers to the fullest extent possible. This deduction amounts to only 0.23% (2016: 0.15%) of the total fees charged by the service providers. The directors consider this low level of deduction to be satisfactory.

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

The company is providing a full range of facilities management services as required under the Project Agreement at a satisfactory level.

On behalf of the board

....
Mr R Sheehan
Director

....
25 April 2018

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

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

Mrs G Birley-Smith
Mr R Sheehan
Mr M Davis (Non- Executive) (Appointed 20 April 2017)

Mr R Sheehan and Mr M Davis are members of the Audit Committee

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

No ordinary dividends were paid (2016: Nil). The directors do not recommend payment of a final dividend.

Supplier payment policy
The company's current policy concerning the payment of trade creditors is to:
- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Trade creditors of the company at the year end were equivalent to 23 (2016: 25) day's purchases, based on the average daily amount invoiced by suppliers during the year.

Financial instruments

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

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

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

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

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trust is the sole client of the company. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the financial asset of £318,484,000 (2016: £323,275,000) is the maximum credit exposure.

Financial reporting risk and internal control

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.

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

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.

Statement of disclosure to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the strategic report.

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

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

Significant shareholdings and special rights
The company is a subsidiary undertaking of Derby Healthcare (Holdings) Limited. Derby Healthcare (Holdings) Limited is owned by Innisfree PFI Continuation Fund (75%), Innisfree PFI Secondary Fund (8%) and Innisfree PFI Secondary Fund 2 PL (17%). Each of the shareholders holds its shareholdings as a long term investment.

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

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

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

The directors confirm that:

(a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and

(b) the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principle risks and uncertainties that they face.

On behalf of the board

R Sheehan

Mr R Sheehan
Director

25 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

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

On behalf of the Board

Mr R Sheehan
Director
25 April 2018

DERBY HEALTHCARE PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DERBY HEALTHCARE PLC

1 Our opinion is unmodified
We have audited the financial statements of Derby Healthcare Plc (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

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

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

Service revenue recognition
(£34.7 million; 2016: £34.2 million)

Refer to page 15 (accounting policy) and page 19 (critical judgements and financial disclosures).

The risk

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

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

Our response

Our procedures included:

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

Our results

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

3 Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at £4.0 million, determined with reference to a benchmark of total assets of £405.9 million (of which it represents 1% (2016: 1%)).

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

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

5 We have nothing to report on the Strategic report and the Directors' report
The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on other matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' reposponsibilities
As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below) or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety and anti-bribery recognising the nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

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

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

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

H R Brown

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

30 April 2018

DERBY HEALTHCARE PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
Turnover	3	47,931	45,892
Administrative expenses		(39,428)	(37,690)
Operating profit		8,503	8,202
Interest receivable and similar income	7	20,254	20,661
Interest payable and similar expenses	8	(28,973)	(28,784)
(Loss)/profit before taxation		(216)	79
Tax on loss/profit	9	40	(454)
Loss for the financial year		(176)	(375)

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
Current assets					
Debtors falling due after more than one year	10	320,622		325,675	
Debtors falling due within one year	10	54,492		51,856	
Cash at bank and in hand		30,853		27,334	
		405,967		404,865	
Creditors: amounts falling due within one year	12	(17,949)		(15,628)	
Net current assets			388,018		389,237
Creditors: amounts falling due after more than one year	13		(423,447)		(424,490)
Net liabilities			(35,429)		(35,253)
Capital and reserves					
Called up share capital	15		50		50
Profit and loss reserves			(35,479)		(35,303)
Total equity			(35,429)		(35,253)

The financial statements were approved by the board of directors and authorised for issue on 25/04/18 and are signed on its behalf by:

Mr R Sheehan
Director

Company Registration No. 04668140

DERBY HEALTHCARE PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Profit and loss reserves	Total
	£000	£000	£000
Balance at 1 January 2016	50	(34,928)	(34,878)
Period ended 31 December 2016:			
Loss and total comprehensive loss for the year	-	(375)	(375)
Balance at 31 December 2016	50	(35,303)	(35,253)
Period ended 31 December 2017:			
Loss and total comprehensive loss for the year	-	(176)	(176)
Balance at 31 December 2017	50	(35,479)	(35,429)

1 Accounting policies

Company information

Derby Healthcare Plc is a public limited company incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

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

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

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

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

1.2 Going concern

The directors, having reviewed a cash flow forecast covering the remainder of the company's contract period and taking into account reasonably possible risks in operations and the fact the obligations of the company's 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.

1.3 Turnover

Turnover in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue is recognised when the services are performed.

1.4 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

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

1 Accounting policies **(Continued)**

Basic financial assets
Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash
The company is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £27,430,000 at the year end (2016: £26,115,000).

Other financial assets
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

1 Accounting policies **(Continued)**

Classification of financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

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

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

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

Other financial liabilities
Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

1.5 *Equity instruments*
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.6 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.7 Service Concession Accounting

The company is an operator of a Public Finance Initiative ("PFI") contract. As the company entered into the contract prior to the date of transition to FRS102, the company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The company recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

1.8 Interest Receivable and Payable

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

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

2 Judgements and key sources of estimation uncertainty

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

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

Critical judgements

Service concession accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the Company's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

3 Turnover and other revenue

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

	2017 £000	2016 £000
Turnover		
Services income	35,689	34,754
Pass through income	12,108	11,005
Rental income	134	133
	47,931	45,892

4 Auditor's remuneration

Fees payable to the company's auditor and associates:	2017 £000	2016 £000
For audit services		
Audit of the company's financial statements	19	15

5 Employees

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

6 Directors' remuneration

	2017 £000	2016 £000
Sums paid to related parties for directors' services	30	29

7 Interest receivable and similar income

	2017 £000	2016 £000
Interest income		
Interest on bank deposits	113	234
Interest on finance debtor	20,141	20,427
	20,254	20,661

8 Interest payable and similar expenses

	2017 £000	2016 £000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds	22,425	22,522
Interest on subordinated debt	5,677	5,387
	28,102	27,909
Other finance costs:		
Amortisation of finance arrangement costs	871	875
	28,973	28,784

9 Taxation

	2017 £000	2016 £000
Current tax		
UK corporation tax on profits for the current period	-	17
Deferred tax		
Decrease/(Increase) in deferred tax asset	(40)	437
Tax (credit)/expense for the year	(40)	454

9 Taxation **(Continued)**

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

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.

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

	2017 £000	2016 £000
(Loss)/profit before taxation	(216)	79
Expected tax charge based on a corporation tax rate of 19.25% (2016: 20.00%)	(42)	16
Adjustments in respect of prior years	-	1
Effect of change in corporation tax rate	-	437
Effect of differences in the corporation tax and the deferred tax rate	2	-
Tax (credit)/expense for the year	(40)	454

Factors that may affect the future tax charge
The company has tax losses of £42,530,000 (2016: £42,300,000) which have been carried forward and will be offset against future trading profits.

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

10 Debtors

Amounts falling due within one year:	2017 £000	2016 £000
Trade debtors	7,013	7,470
Accrued income	40,714	38,041
Amounts due from fellow group undertakings	110	-
Finance debtor	5,093	4,791
Other debtors	1,095	1,079
Prepayments	467	475
	54,492	51,856

10 Debtors **(Continued)**

Amounts falling due after more than one year:	**2017 £000**	**2016 £000**
Finance debtor	313,391	318,484
Deferred tax asset (note 14)	7,231	7,191
	320,622	325,675
Total debtors	375,114	377,531

All Financial assets above are held at amortised cost.

11 Loans and borrowings

	2017 £000	**2016 £000**
Bonds	385,119	387,088
Subordinated loans	42,399	40,090
	427,518	427,178
Payable within one year	4,071	2,688
Payable after one year	423,447	424,490

Amounts included above which fall due after five years:

Payable by instalments	414,091	418,472

11 Loans and borrowings **(Continued)**

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 commenced 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
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.

12 Creditors: amounts falling due within one year

	Notes	2017 £000	2016 £000
Guaranteed Secured 5.564% Bonds	11	4,071	2,688
Trade creditors		2,451	2,563
Corporation tax payable		-	6
Other taxation and social security		1,141	1,081
Accruals and deferred income		10,286	9,290
		17,949	15,628

All Financial liabilities above are held at amortised cost.

13 Creditors: amounts falling due after more than one year

	Notes	2017 £000	2016 £000
Bank loans and borrowings	11	381,048	384,400
Other borrowings	11	42,399	40,090
		423,447	424,490

All Financial liabilities above are held at amortised cost.

Amounts included above which fall due after five years are as follows:

	2017 £000	2016 £000
Payable by instalments	414,091	418,472

14 Deferred taxation

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

Balances:	Assets 2017 £000	Assets 2016 £000
Tax losses	7,231	7,191

Movements in the year:	2017 £000
Liability/(Asset) at 1 January 2017	(7,191)
Credit to profit or loss	(40)
Liability/(Asset) at 31 December 2017	(7,231)

The deferred tax asset expected to be utilised in the forthcoming financial year is £nil.

15 Share capital

	2017	2016
	£000	£000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50
	50	50

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

16 Related party transactions

Remuneration of key management personnel
The remuneration of key management personnel is as follows.

	2017	2016
	£000	£000
Directors Services	30	29

The company incurred the above fees from Innisfree Limited.

Transactions with related parties
During the year the company entered into the following transactions with related parties:

	2017	2016
	£000	£000
HCP Social Infrastructure (UK) Ltd	837	810

In September 2003 the company entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited, is owned by Innisfree M&G PPP LP, a fund co-managed by Innisfree Limited and M&G Investment Management limited. Innisfree Limited also manages the funds invested in the company.

The following amounts were outstanding at the reporting end date:

	2017	2016
Amounts owed to related parties	£000	£000
Key management personnel	-	17
HCP Social Infrastructure (UK) Ltd	83	76
	83	93

16 Related party transactions **(Continued)**

No guarantees have been given or received.

17 Controlling party

The company is a wholly owned subsidiary of Derby Healthcare (Holdings) Limited incorporated in the United Kingdom, registered at 8 White Oak Square, London Road, Swanley, Kent BR8 7AG. 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.

The ultimate controlling party is Innisfree PFI Continuation Fund.

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.