Capital Hospitals Limited
Directors' report and financial statements

31 December 2007
Registered number 5462470

Contents

Company information

Directors
G Beazley-Long
JF Costello
M Gagnon
AR Gillman
D Hardy
TR Pearson
J Sansome
C Waples
H Wilson

Secretary

DP Hammond

Registered office

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

Auditors

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

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Business review and principal activities

The principal activity of the Company is to design, construct and partially to operate hospitals at the Royal London and St Bartholomew sites under the Government's Private Finance Initiative

On 27th April 2006, a project agreement was finalised between Capital Hospitals Limited and Barts & The London NHS Trust, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-clinical services within the Barts and Royal London Hospitals It has a term of forty two years from the date of signing On the same day Capital Hospitals (Issuer) Limited, a related company, issued 1 703% Index Linked Guaranteed Secured Bonds due 2046 at a nominal value of £745,400,000, drew down sums from the European Investment Bank under two £125,000,000 loan facilities and issued 10 5% mezzanine notes at a value of £20,000,000 These sums were immediately on-lent to the Company pursuant to a proceeds on-loan agreement

The financial results for the year are set out in the profit and loss account on page 7

Key performance indicators (KPIs)

1 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 unitary charge income is derived from completed sections The first building phase completion is scheduled for 2010

2 Performance deductions under the service contract

Financial penalties are levied by the Barts & The London 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 provider but the quantum is a measure of performance For the year ended 31 December 2007, deductions levied totalled £81,936 (2006 £3,167)

3 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 2007, the Company's performance against this measure was satisfactory

Position of the Company at the year end

The construction works are progressing satisfactorily at 31 December 2007 and building phase completion deadlines remain unchanged Interim services have commenced satisfactorily

Principal risks and uncertainties

Barts & The London NHS Trust is the sole client of the Company but the directors consider that no risk arises from a single client base since the Secretary of State for Health has undertaken to support 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 supported either by performance guarantees issued by banks or by parent company guarantees

The timing and expenditure of building and plant maintenance and replacement has been estimated by the Company's professional advisers as being appropriate for the project There are a number of factors which could lead to a higher than projected cost, such as shorter than anticipated asset life-spans or higher than predicted inflation affecting specific items

Dividends

The directors do not recommend the payment of a dividend *(2006 Nil)*

Directors

The directors who held office during the year were as follows

G Beazley-Long	Appointed 5 December 2007
A Finegan	Resigned 5 December 2007
M Gagnon	Appointed 16 November 2007
AR Gillman	
D Hardy	
TR Pearson	
J Sansome	
C Waples	Appointed 16 November 2007
R Weston	Resigned 16 November 2007
H Wilson	Appointed 5 February 2007

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

Charitable and political donations

No charitable donations or expenditure (2006 £10,000 to the St Bartholemew's and the Royal London Charitable Foundation) and no political donations or expenditure (2006 £Nil) were made by the Company during the year

Policy on payment of creditors

It is 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 £14,236,600 of trade creditors at 31 December 2007 (2006 £18,519,456) and an average payment period of 28 days (2006 23 days)

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 ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Financial risk management policies and objectives

The Company's principal financial instruments comprise inter-group loan, short term deposits and medium term deposits in Guaranteed Investment Contracts 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 Concession 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, counter-party credit and interest rate risks arise in the normal course of the company's business

Auditors

During the year KPMG Audit Plc were re-appointed as auditors of the company In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the next Annual General meeting

By order of the board

D P Hammond

DP Hammond
Secretary
Date 30 May 2008

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)

The financial statements are required by law to 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, 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 proper accounting records that 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 1985 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

Under applicable law the Directors are also responsible for preparing a Directors' Report that complies with that law

Independent auditors' report to the members of Capital Hospitals Limited

We have audited the financial statements of Capital Hospitals Limited for the year ended 31 December 2007 which comprise Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

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

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

Independent auditors' report to the members of Capital Hospitals Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 May 2008

Profit and loss account

for the year ended 31 December 2007

	Note	**Year ended 31-Dec-07 £**	Year ended 31-Dec-06 £
Turnover	2	**200,598,290**	333,060,869
Cost of sales	3	**(151,957,893)**	(332,312,585)
Gross profit		**48,640,397**	748,284
Administrative expenses	3	**(2,026,654)**	(1,839,335)
Operating profit/(loss)		**46,613,743**	(1,091,051)
Interest payable and similar charges	5	**(79,473,264)**	(24,692,369)
Interest receivable and similar income	6	**33,221,750**	25,896,683
Profit on ordinary activity before taxation		**362,229**	113,263
Taxation on profit on ordinary activity	7	**(108,669)**	(63,979)
Profit for the financial year		**253,560**	49,284

There were no other recognised gains and losses for the year other than the profit stated above There is no difference between the historical cost profit and the profit stated above All of the above results relate to continuing activities

Movements on reserves are shown in note 14

The notes on pages 9 to 15 form part of these financial statements

Balance sheet
at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Current assets					
Debtors:					
amounts falling due within one year	8	13,818,353		13,675,950	
amounts falling due after more than one year	9	445,592,359		304,002,787	
		459,410,712		317,678,737	
Cash at bank and in hand	10	635,669,740		753,131,304	
		1,095,080,452		1,070,810,041	
Creditors: amounts falling due within one year	11	(22,066,593)		(53,391,381)	
Net current assets			1,073,013,859		1,017,418,660
Total assets less current liabilities			1,073,013,859		1,017,418,660
Creditors: amounts falling due after more than one year	12		(1,072,661,015)		(1,017,319,376)
Net assets			352,844		99,284
Capital and reserves					
Called up share capital	13		50,000		50,000
Profit and loss account	14		302,844		49,284
Equity shareholders' funds	15		352,844		99,284

These financial statements were approved by the board of directors on 30 May 2008 and were signed on its behalf by

Director

The notes on pages 9 to 15 form part of these financial statements

Notes
(forming part of the financial statements)

1 Accounting policies

(i) Basis of preparation of the accounts

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

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

As the company is a subsidiary of Capital Hospitals (Holdings) Limited the company has taken advantage of the exemption contained in FRS 8 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 Capital Hospitals (Holdings) Limited, within which this company is included, can be obtained from the address given in note 16

(ii) Finance debtor

The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be a tangible fixed asset of the Company under Financial Reporting Standard 5 Application Note F because the risks and rewards of ownership as set in that standard are deemed to lie principally with the Trust

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts 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 is 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 the services are performed

(iii) Taxation

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

(iv) Turnover

Turnover is recognised in accordance with the finance debtor accounting policies above Turnover represents value of work done entirely in the UK and excludes value added tax

(v) 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

Notes (continued)

(vi) *Financial Instruments (continued)*

Bank and other borrowings

Interest bearing bank loans and other borrowings are recorded at the proceeds received, net of direct issue costs, with accrued indexation 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 debtors

2 Analysis of turnover

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Construction income	**141,589,572**	304,002,787
Services income	**59,008,718**	29,058,082
	200,598,290	333,060,869

3 Operating expenses

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Cost of sales		
Construction costs	**95,338,058**	305,207,101
Service costs	**56,619,835**	27,105,484
	151,957,893	332,312,585
Administrative expenses		
Directors' remuneration (see note 4)	**101,762**	159,863
Auditors' remuneration - audit fees	**23,000**	30,000
- other fees	**8,822**	6,000
Insurance	**222,339**	239,343
Other costs	**1,670,731**	1,404,129
	2,026,654	1,839,335
	153,984,547	334,151,920

4 Directors and staff costs

(i) Employee costs for the year were

The Company did not employ any staff during the year (2006 Nil)

(ii) Directors' emoluments in the year

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Directors' remuneration	**101,762**	159,863

Notes *(continued)*

5 Interest payable and similar charges

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Interest payable on loans	**74,637,659**	21,556,660
Other costs	**4,835,605**	3,135,709
	79,473,264	24,692,369

6 Interest receivable and similar income

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Interest receivable on guaranteed investment contracts and bank deposits	**33,221,750**	25,896,683
	33,221,750	25,896,683

7 Taxation

Analysis of charge in the current year

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
UK corporation tax		
Current tax on income for the year	**108,669**	63,979

Factors affecting the tax charge for the current year

The previous year's tax charge for the year was higher than the standard rate of corporation tax in the UK (30%) as explained below

	Year ended 31-Dec-07 £	Year ended 31-Dec-06 £
Profit on ordinary activities before tax	**362,229**	113,262
Current tax at 30% (2006 30%)	**(108,669)**	(33,979)
Effects of		
Non-deductible costs	**-**	(30,000)
Total current tax charge (see above)	**(108,669)**	(63,979)

Notes *(continued)*

8 Debtors: amounts falling due within one year

	2007	2006
	£	£
Trade debtors	**4,983,967**	5,375,543
Other debtors	**1,487,248**	1,849,806
Prepayments and accrued income	**7,347,138**	6,450,601
	13,818,353	13,675,950

9 Debtors: amounts falling due after more than one year

	2007	2006
	£	£
Amounts recoverable on contracts	**445,592,359**	304,002,787
	445,592,359	304,002,787

Included within amounts recoverable on contracts is £53,786,971 in respect of capitalised interest and finance costs payable in excess of capitalised interest receivable (2006 £2,487,937 excess capitalised interest receivable over capitalised interest and finance costs payable)

10 Cash at Bank and in hand

	2007	2006
	£	£
Deposits in Guaranteed Investments Contracts	**604,407,471**	733,249,118
Cash at bank	**31,262,269**	19,882,186
	635,669,740	753,131,304

11 Creditors amounts falling due within one year

	2007	2006
	£	£
Trade creditors	**14,236,599**	18,519,456
Corporation tax	**108,669**	63,979
Accruals and deferred income	**7,721,325**	34,807,946
	22,066,593	53,391,381

Notes *(continued)*

12 Creditors: amount falling due after more than one year

	2007 £	2006 £
Inter-group loans and balances		
Accrued interests on bonds	**4,909,585**	4,911,720
Bonds	**799,856,583**	758,473,612
Bank loan	**268,264,216**	254,384,765
Mezzanine notes	**20,000,000**	20,000,000
Other balances	**50,000**	50,000
	1,093,080,384	1,037,820,097
Less unamortized debt issuance costs	**(20,419,369)**	(20,500,721)
	1,072,661,015	1,017,319,376

The creditor represents an intercompany loan between the Company and Capital Hospitals (Issuer) PLC, a fellow subsidiary

The bonds are secured by an irrevocable and unconditional financial guarantee issued by Financial Security Assurance (UK) Ltd and Ambac Assurance UK Ltd respectively The bonds are repayable in half-yearly instalments commencing 30th September 2016 and are subject to an interest rate of 1 703% subject to Retail Price Index adjustment calculated on a half yearly basis The Company's fellow subsidiary has retained £275,000,000 of bonds ("variation bonds") which it may sell, subject to certain restrictions, to fund variations to the project

The bank loan is secured by an irrevocable and unconditional financial guarantee issued by Financial Security Assurance (UK) Ltd (50%) and Ambac Assurance UK Ltd (50%) respectively The loan is repayable in half-yearly instalments commencing 30th September 2016 and is subject to an interest rate of 1 550% subject to Retail Price Index adjustment calculated on a half yearly basis

The Mezzanine Notes are unsecured and repayable in 2036 subsequent to the repayment of the company's other loans and is subject to an interest rate of 10 5%

13 Called up share capital

	2007 £	2006 £
Equity		
Authorised		
50,000 ordinary shares of £1 each (2006 50,000)	**50,000**	50,000
Called up and fully paid		
At the beginning of the year	**50,000**	50,000
Issue of shares	**-**	-
At the end of the year	**50,000**	50,000

Notes *(continued)*

14 Reserves

	2007	2006
	£	£
Profit and loss account		
At the beginning of the year	49,284	-
Retained profit for the year	253,560	49,284
At the end of the year	302,844	49,284

15 Reconciliation of movements in equity shareholders' funds

	2007	2006
	£	£
Profit for the year	253,560	49,284
Opening equity shareholders' funds	99,284	50,000
Closing equity shareholders' funds	352,844	99,284

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

The Company is a subsidiary undertaking of Capital Hospitals (Holdings) Limited incorporated in the United Kingdom

The smallest and largest group in which the financial statements of the Company are consolidated is Capital Hospitals (Holdings) Limited

The consolidated accounts of the group are available to the public and may be obtained from 3 White Oak Square, London Road, Swanley, Kent, BR8 7AG

17 Capital commitments

	2007	2006
	£	£
Amounts contracted for but not provided in the financial statements	676,541,915	755,079,074

18 Related Party Transactions

The Company's holding company is owned by Skanska Infrastructure Investment UK Ltd (37 5%), Innisfree Nominees Ltd (37 5%) acting in its capacity as nominee for Innisfree PFI Fund III and Equion Health (Barts) Ltd (25%) The Skanska and Innisfree groups of companies have interests in contracts placed by the Company for the financing, construction and management of the Barts & The Royal London Hospitals project

Notes *(continued)*

18 Related Party Transactions *(continued)*

On 27th April 2006 the Company entered into a £1,001,279,568 fixed price (subject to contract permitted adjustments) design and build contract with Skanska Major Projects Ltd and Skanska Rashleigh Weatherfoil Ltd (Skanska Barts & The London The contract value increased to £1,016,320,722 as a result of amendments agreed on 30th August 2007 The value of work completed under the contract during the year was £93,378,313 (2006 £246,400,494) Additional payments to the contractor were made in respect of contract variations totalling £5,644,957 (2006 £248,602) and for other services totalling £3,610,195 (2006 £478,070) As at 31 December 2007 trade creditors include £9,797,040 (2006 £43,896,212) due to Skanska Barts & the London

On 27th April 2006 the Company entered into a hard services contract with Skanska Rashleigh Weatherfoil Ltd for the provision of Estates and Waste Services relating to the Barts & The Royal London Hospitals project The value of work completed under the contract for the year was £9,608,478 (2006 £5,272,444) As at 31 December 2007 trade creditors include £967,947 (2006 £851,916) due to Skanska Rashleigh Weatherfoil Ltd

Under the terms of Shareholder and Management Agreements the Skanska and Innisfree groups and Equion Health (Barts) Ltd provide the Company with directors, staff and technical support services The value of work undertaken in the year was £483,487 (2006 £1,105,680) As at 31 December 2007 trade creditors include £23,500 (2006 £247,517) due to the Skanska and Innisfree groups under these arrangements Directors fees totalling £20,353 (2006 £31,973) were paid to Equion Health (Barts) Ltd

Prior to the Company commencing business on 27th April 2006 all costs incurred were paid by the shareholders These costs were fully reimbursed in 2006 and no further payments made in the year (2006 payments made by the Company to Skanska Infrastructure Development UK Limited, to companies related to Innisfree PFI Fund III and to a company related to Equion Health (Barts) Ltd totalled £5,236,462, £4,988,334 and £1,035,041 respectively)

Amounts in respect of subordinated loan stock fees and costs were paid on behalf of Capital Hospitals (Issuer) PLC to Skanska Infrastructure Investment UK Limited, to companies related to Innisfree PFI Fund III and to Equion Health (Barts) Ltd totalling £1,144,363 (2006 £1,696,675), £1,144,363 (2006 £1,698,675) and £762,908 (2006 £323,975) respectively

Amounts in respect of mezzanine note fees and costs were paid on behalf of Capital Hospitals (Issuer) PLC to Skanska Infrastructure Investment UK Limited, to companies related to Innisfree PFI Fund III and to Equion Health (Barts) Ltd totalling £187,500, £187,500 and £125,000 respectively There were no further payments made during 2007 The shareholders hold these Notes (see Note 12) in proportion to their shareholdings and the Company paid interest on these notes during the year on behalf of Capital Hospitals (Issuer) PLC totalling £2,100,000 (2006 £897,534)