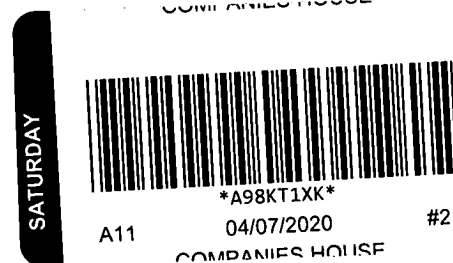


Company Registration No. 05462470 (England and Wales)

CAPITAL HOSPITALS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



CAPITAL HOSPITALS LIMITED

COMPANY INFORMATION

Directors	Mr T Pearson	
	Mrs G Birley-Smith	
	Ms J Acred	
	Ms J Fegan	
	Ms S Sidhu	(Appointed 1 January 2019)
	Mr P Bannister	
	Mr L J Falero	
	Mr J F Dingle	(Appointed 31 December 2019)

Ms J Acred is a non-executive director.

Secretary	HCP Social Infrastructure (UK) Limited
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Company number	05462470
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Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
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Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE
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CAPITAL HOSPITALS LIMITED

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CAPITAL HOSPITALS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Fair review of the business

The principal activity of the Company is to design, build, finance, maintain and deliver certain non-clinical services to the Barts and Royal London Hospitals in accordance with a forty two year contract (the "Project Agreement") with the Barts and The London NHS Trust. Contract negotiations were successfully completed on 27 April 2006 and construction commenced immediately. Barts and The London NHS Trust merged with Newham University Hospital NHS Trust and Whipps Cross University Hospital NHS Trust on 1 April 2013 to become the Barts Health NHS Trust (the "Trust"). On 29 March 2016 the project reached "Actual Global Completion" when the final construction phase was handed over. From this point 100% of the unitary charge was invoiced to the Trust.

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

Development and performance

The Company made a profit of £6,593,000 (2018: loss of £1,244,000) for the year on a turnover of £67,614,000 (2018: £59,326,000). At 31 December 2019 the Company had net assets of £20,218,000 (2018: net assets of £13,625,000).

During the year the Company conducted a detailed asset validation and lifecycle review resulting in a better understanding of the overall lifecycle profile and quantum of the lifecycle service cost over the remaining life of the concession. Whilst the level of risk and uncertainty on overall performance of these assets and profitability of this service element remains, the Directors are more confident that all assets have now been appropriately captured.

As a result of this enhancement to the underlying lifecycle data, the Directors now consider it appropriate to account for a profit on this service element and release the cumulative value of restricted profit on lifecycle services from prior years and this has been reflected in the turnover for the year ended 31 December 2019. This is the main driver of the increase in turnover and profit versus 2018. Offsetting this lifecycle costs were £1,531,000 lower than 2018 as a result of a reduction in high cost replacement projects being undertaken than from 2018. Pass through income decreased by £530,000 primarily due to lower utilities costs and variation works.

Operating profit increased to £14,631,000 (2018: £6,888,000), mainly driven by the adjustment in respect of lifecycle revenue recognition as noted above.

Profit before taxation increased by £9,685,000 to show a Profit before taxation of £8,149,000 (2018: loss of £1,536,000). Interest payable decreased by £12,950,000 due to the decrease in the RPI rate in 2019 compared to the 2018 rate which has affected the financing costs. This has also caused a decrease in the interest received on the Finance Debtor by £11,428,000 but at a smaller rate due to the values of the debt and the Finance debtor. The remainder is the result of the reduced operating profit explained above.

Investment in the Project is funded primarily by index-linked guaranteed secured bonds, index-linked loans, mezzanine notes and subordinated loan notes secured by the Company's fellow subsidiary, Capital Hospitals (Issuer) plc, and on-lent to the Company pursuant to a proceeds on-loan agreement. The terms of the intra-group loan match those of the external borrowings. Repayment of these borrowings started in September 2016 following the project reaching Global Completion.

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 represents the attributable costs of construction, not yet recovered through the PFI unitary charge income. The directors believe this financial asset to be fully recoverable over the term of the Project Agreement.

CAPITAL HOSPITALS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risk 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:

Brexit

The risks from Brexit are a result of the risk it poses to the sub-contracted service providers, rather than the company itself. This is therefore linked to the service performance and service provider failure risks discussed above. The company is insulated from these risks because non-performance will result in deductions being passed down to the service providers, however, there remains a risk that in extreme circumstances nonperformance may result in the Trust having the right to terminate the Project Agreement.

The service providers have performed a review of their respective exposure to Brexit. The relevant concerns relate to spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU.

While there will likely be some disruption, each service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service providers; however, this will not impact the company itself. The company is comfortable that the increased costs and disruption will not threaten the services providers to such an extent as to put the project at risk.

To date the company has not experienced any significant disruption as a result of Brexit.

COVID 19

The Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The Company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, 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. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Sole client

The 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.

Major maintenance

The principal risk borne by the Company is that maintenance and replacement costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the facilities.

Going Concern

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment including the consideration of the impact of COVID-19 is contained within note 1.2.

Taking into account reasonable possible risks in operations to the Company, the fact the obligations of the Company's sole customer are underwritten by the Secretary of State for Health, the Directors have a reasonable expectation that the Company will be able to settle its liabilities as they fall due to the foreseeable future. It is therefore appropriate to prepare these financial statements on the going concern basis.

CAPITAL HOSPITALS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Availability

Investment in the project is funded primarily by the Indexed Linked Guaranteed Secured Bonds, bank loans and subordinated unsecured loan stock and mezzanine loan stock secured by a fellow subsidiary, Capital Hospitals (Issuer) plc and on-lent to the Company pursuant to a proceeds on-loan agreement. During the operational phase the principal source of funds available to meet its liabilities under the bonds' and loans' on-loan agreements will be the unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of performance would result in lower than forecast revenues and this may adversely affect the company's ability to make payments to the bondholders and lenders. Deductions incurred in the year and prior year were recovered from the service provider, resulting in a net deduction of £nil (2018: £nil).

Service performance

Performance risk under the Project Agreement and related contracts are passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees and performance bonds. 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 all under the Warning Notice thresholds and not considered to pose a risk to the Project. In collaboration with the Trust to improve performance reporting certain performance monitoring protocols were agreed and associated contract interpretations were resolved in March 2019.

Key performance indicators

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 2019 against this measure was considered satisfactory. 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 £278,000 (2018: £297,000) were levied by the Trust and passed onto the service providers. This deduction amounts to only 1.0% (2018: 1.0%) of the total fees charged by the service providers. The Company is providing a full range of facilities management services as required under the Project Agreement and the directors consider this low level of deduction to be satisfactory.

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.

CAPITAL HOSPITALS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies Act 2006 ("section 172").

The directors have identified the company's main stakeholders as the following:

- i. The company's shareholders, bondholders and credit provider
Principal considerations of the board are whether the investment objective of the company is meeting shareholder, other credit providers and bondholder expectations and the how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder, credit provider and bondholder briefing meetings to ensure that shareholder and bondholder engagement is optimized.

The bonds are secured by an irrevocable financial guarantee policy issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%). The index-linked bank loan, provided by European Investment Bank, is secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%) respectively. The board regularly discusses the obligations under this policy and how the manager is fulfilling these at board meetings and through engagement with the senior management of the manager. The board frequently engages with all credit providers and keeps them updated on matters as required.

- ii. The client
The board recognises the importance of working in partnership with its public sector client to successfully deliver a key public infrastructure asset. On behalf of the company, the manager fosters this partnership through regular meetings with the client representative and other key managers. The manager provides regular monthly reporting to the public sector client on the performance of its obligations under the PFI arrangement. Periodically the directors will also meet with the public sector client to discuss key service delivery matters.
- iii. The service providers
On behalf of the company, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the company contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. Periodically the directors will also meet with the service provider to discuss key service delivery matters.
- iv. The manager
The delivery by the manager of its services is fundamental to the long term success of the company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

- a. The likely consequences of any decision in the long term

The company has outsourced the management of the company to HCP Social Infrastructure (UK) Limited ("HCP"), the manager. The delivery by the manager of its services is fundamental to the long term success of the company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

CAPITAL HOSPITALS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Section 172 Companies Act 2006 Statement (continued)

b. The interests of the company's employees

As an externally managed company, the company's activities are all outsourced and therefore it does not have any employees. The company does however, pay due regard to the interests and safety of all those engaged by contractors to the company to perform services on its behalf.

c. The need to foster the company's business relationships with suppliers, customers and others

The company is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the company has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that company obligations to its public sector client and service providers can be upheld.

d. The impact of the company's operations on the community and the environment

The company has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the company is committed to minimizing environmental disruption from its activities. The board upholds the company's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises that the company is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

e. The desirability of the company maintaining a reputation for high standards of business conduct

The company is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

f. The need to act fairly between members of the company

The members of the company are represented at board meetings by their appointed director(s). Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the company's key stakeholders and reflect the board's belief that the long term sustainable success of the company is linked directly to its key stakeholders.

By order of the board

P A Bannister

Mr P Bannister
Director
29 June 2020

CAPITAL HOSPITALS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and financial statements for the year ended 31 December 2019.

Directors

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

Mr T Pearson	
Mr N Crowther	(Resigned 1 January 2019)
Mrs G Birley-Smith	
Ms J Acred	
Ms J Fegan	
Ms S Sidhu	(Appointed 1 January 2019)
Mr P Bannister	
Mr L J Falero	
Mr N Norehn	(Appointed 7 February 2019 and resigned 16 December 2019)
Mr J F Dingle	(Appointed 31 December 2019)

Ms J Acred is a non-executive director.

Results and dividends

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

No ordinary dividends were paid. The directors do not recommend payment of a final dividend (2018: Nil).

Qualifying third party indemnity provisions

For the benefit of certain directors there were during the year qualifying third party indemnity provisions made. These provisions remain in force at the reporting date.

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 24 (2018: 23) 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 principal financial instruments comprise: trade payables and receivables, intra-group loans, cash at bank, and short term deposits. 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 the expected revenues.

The Company does not undertake financial instrument transactions that are speculative or unrelated to the company's trading activities. The directors only approve the use of financial instruments that do not contravene the covenant restrictions in its existing funding agreements. The Company's financial instruments result in the company's exposure to liquidity, credit rate and interest rate risks. Further information on the financial instruments employed by the Company can be seen in the notes to these financial statements.

CAPITAL HOSPITALS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 interest rate bearing liabilities with floating interest rates. The directors do not consider this exposure to be significant, this is because the secured bonds and bank loan are subject to UK Retail Price Index adjustment calculated on a half year basis. The Retail Price Index adjustment is linked to the Unitary Charge, so therefore the risk is naturally hedged.

The mezzanine debt and subordinated loan notes both have fixed interest rates until the end of the concession.

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 £1,269,522 (2018: £1,289,675) 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.

Auditor

KPMG LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006. KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next general meeting.

Statement of disclosure to 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.

Significant shareholdings and special rights

The Company is a subsidiary undertaking of Capital Hospitals (Holdings) Limited.

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.

CAPITAL HOSPITALS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

By order of the board

P A Bannister

Mr P Bannister

Director

29 June 2020

CAPITAL HOSPITALS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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), including FRS 102 *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 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;
- 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 the 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.

CAPITAL HOSPITALS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL HOSPITALS LIMITED

Opinion

We have audited the financial statements of Capital Hospitals Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Total Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and 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.

CAPITAL HOSPITALS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS LIMITED

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.

Directors' responsibilities

As explained more fully in their statement set out on page 9, 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 error, and to issue 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 or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.



Robert Fitzpatrick (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

30 June 2020

CAPITAL HOSPITALS LIMITED

STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	67,614	59,326
Operating costs		(52,983)	(52,438)
Operating profit		14,631	6,888
Interest receivable and similar income	7	66,034	77,042
Interest payable and similar expenses	8	(72,516)	(85,466)
Profit/(loss) before taxation		8,149	(1,536)
Taxation	9	(1,556)	292
Profit/(loss) for the financial year		6,593	(1,244)
Other comprehensive income for the year		-	-
Total comprehensive profit/(loss) for the year		6,593	(1,244)

The statement of total comprehensive income has been prepared on the basis that all operations are continuing operations.

The accompanying notes on pages 15 - 26 form an integral part of the financial statements

CAPITAL HOSPITALS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

		2019	2018
	Notes	£'000	£'000
Current assets			
Debtors falling due after one year	10	1,248,295	1,270,009
Debtors falling due within one year	10	86,167	65,224
Cash at bank and in hand		147,657	144,093
		<u>1,482,119</u>	<u>1,479,326</u>
Creditors: amounts falling due within one year	11	<u>(77,881)</u>	<u>(73,241)</u>
Net current assets		1,404,238	1,406,085
Creditors: amounts falling due after more than one year	12	(1,384,020)	(1,392,460)
Net assets		<u>20,218</u>	<u>13,625</u>
Capital and reserves			
Called up share capital	14	50	50
Profit and loss reserves		20,168	13,575
Total equity		<u>20,218</u>	<u>13,625</u>

The accompanying notes on pages 15 - 26 form an integral part of the financial statements

The financial statements were approved by the board of directors and authorised for issue on 29 June 2020 and are signed on its behalf by:

P A Bannister

Mr P Bannister
Director

Company Registration No. 05462470

CAPITAL HOSPITALS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2018		50	14,819	14,869
		<hr/>	<hr/>	<hr/>
Period ended 31 December 2018:				
Loss and total comprehensive income for the year		-	(1,244)	(1,244)
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2018		50	13,575	13,625
		<hr/>	<hr/>	<hr/>
Period ended 31 December 2019:				
Profit and total comprehensive income for the year		-	6,593	6,593
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2019		50	20,168	20,218
		<hr/>	<hr/>	<hr/>

The accompanying notes on pages 15 - 26 form an integral part of the financial statements

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

Capital Hospitals Limited is a private company limited by shares 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, Capital Hospitals (Holdings) Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Capital Hospitals (Holdings) Limited are prepared in accordance with FRS 102 and are available to the public and may be 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
- Cash flow statement and related notes

As the Company is a wholly owned subsidiary of Capital Hospitals (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.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of 15 months from the date of approval of these financial statements, through to 30 September 2021, which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from Barts Health NHS Trust and the Directors expect these amounts to be received even in severe but plausible downside scenarios.

The Company continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment. Further, the Trust have agreed to suspend the contract monitoring regime until at least 30 June 2020, pending further Cabinet Office direction. Deductions will therefore not be levied during this period.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a 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.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 short term deposits.

Restricted cash

The Company is obligated to keep a 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 £93,385,000 at the year end (2018: £90,265,000).

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.

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, including trade and other creditors and intra-group 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.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

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.

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 transaction 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.

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.

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.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.7 Service concession accounting

The Company is an operator of a Public Finance Initiative ("PFI") contract. The Company entered into a project agreement (the "contract") with the Barts Health NHS Trust (the "Trust") to design, build, finance, operate and maintain the Barts and Royal London Hospitals. The contract negotiations were successfully completed on 27 April 2006 and construction commenced immediately. The project has been fully operational since 29 March 2016. The concession period is for 42 years, during this period the company has contracted to provide hard services to the Trust. The Company has passed these obligations down to a subcontractor via a subcontract. The obligation to provide major maintenance works (lifecycle) is undertaken by the Facilities Management Provider, however, as discussed in the strategic report, the risk that the costs exceed those forecast in the financial model is borne by the company. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the Company, further information is shown in note 2. The Contract entitles the Trust to a share in any savings made by the Company on the actual insurance premiums incurred versus those assumed during the contract negotiations. Any savings are shared with the Trust on a quinquennial basis.

The Trust are entitled to terminate the Contract at anytime by giving 6 months written notice to Project Co. If the Trust exercise this right they are liable to pay the company compensation as set out in the Contract, which would include the senior debt, redundancy costs and other Facilities Management provider losses and the market value of the subordinated debt and shareholder equity.

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 Trusts.

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 the Trust pay the Company a fixed Unitary Charge payment, as determined in the Contract, that is inflated by RPI each year. 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.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The following judgements have had the most significant effect on amounts recognised in the financial statements.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

(Continued)

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 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.

Service concession accounting - lifecycle

As in any PFI contract the cost related to lifecycle services are significant component of the total forecast costs however, by their nature those costs tend to arise later in the concession period as major items of plant and equipment or parts of the physical facilities require major maintenance or replacement. As a result the cost subject to this forecast are necessarily less certain than other elements of the costs of delivering the services which arise more evenly over the concession period. In addition, the lifecycle cost estimate must take into account those costs related to the risks assumed by the Company after the expiry of the 12 year defect liability period under the construction contract. The level of estimation uncertainty is further increased by the nature of the assets within the project which comprise a 10 and 17 storey tower block and contain a mix of new and refurbished assets. This is uncommon in hospitals built under concession contracts and therefore the external benchmarking data which has been used by the Directors to inform the forecast of lifecycle costs may not accurately reflect the actual costs which will be incurred in future periods. There is no enhanced inflation protection for the Company against the pricing of planned lifecycle works that are subsequently deferred or delayed and the resulting differential in cost therefore outstripping the rate of inflation applied to calculate income.

During the year the Company conducted a detailed asset validation and lifecycle review resulting in a better understanding of the overall lifecycle profile and quantum of the lifecycle service cost over the remaining life of the concession. Whilst the level of risk and uncertainty on overall performance of these assets and profitability of this service element remains, the Directors are more confident that all assets have now been appropriately captured.

As a result of this enhancement to the underlying lifecycle data, the Directors now consider it appropriate to account for a profit on this service element and release the cumulative value of restricted profit on lifecycle services from prior years and this has been reflected in the turnover for the year ended 31 December 2019. The cumulative brought forward value of revenue that had been restricted as at 1 January 2019 and included in the year ended 31 December 2019 is £4,771,000. If the cumulative costs of lifecycle over the remainder of the concession were to increase by 5% the impact for the year to 31 December 2019 would be to decrease revenue by £84,000, should the costs be 5% lower than forecast it would result in an increase in revenue of £86,000.

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

(Continued)

Service concession accounting - maintenance

In relation to routine maintenance, the Company that provides the services are subject to periodic market benchmarking as to price, however, the risk of increases in market pricing above indexation is borne solely by the Company. In addition, the location and nature of the facilities and the unique nature of the contractual provisions are such that the risk of price increases above indexation is in the view of the Directors more likely compared to other concessions and their general experience of the industry and market in which they operate.

As a result the directors consider that the forecast of routine maintenance activity over the life of the concession is subject to a greater degree of estimation uncertainty. The Directors estimate of these costs includes sufficient contingency to take account of the uncertainty in relation to these costs in assessing the total forecast costs and hence is reflected in the margin expected on these services across the life of the concession. If these costs are 5% higher than the Directors' current estimate of the probable increase at each subsequent benchmark event, the impact would be to decrease revenue by £79,000 for the year ended 31 December 2019. Should the costs be 5% lower than estimated it would result in a increase in revenue by £74,000 for the year ended 31 December 2019.

3 Turnover and other revenue

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

	2019 £'000	2018 £'000
Turnover		
Services	47,006	38,189
Passthrough	20,608	21,137
	<u>67,614</u>	<u>59,326</u>

Turnover analysed by geographical market

	2019 £'000	2018 £'000
United Kingdom	<u>67,614</u>	<u>59,326</u>

4 Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditor and its associates:		
For audit services		
Audit of the Company's financial statements	<u>32</u>	<u>37</u>

5 Employees

The Company had no employees during the year (2018: nil).

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

6 Directors' remuneration

	2019 £'000	2018 £'000
Sums paid to third parties for directors' services	223	215

The proportion of the above treated as remuneration for qualifying services to the Company is £203,000 (2018: £195,000).

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	1,338	910
Other interest receivable	-	8
Interest on finance debtor	64,696	76,124
Total income	66,034	77,042

8 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Other financing costs	2,032	2,418
Interest payable to group undertakings	70,484	83,048
	72,516	85,466

9 Taxation

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits for the current period	1,556	(292)

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

9 Taxation

(Continued)

The charge for the year can be reconciled to the profit/(loss) per the profit and loss account as follows:

	2019 £'000	2018 £'000
Profit/(loss) before taxation	8,149	(1,536)
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,548	(292)
Under provided in prior years	8	-
Taxation for the year	1,556	(292)

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

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

10 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	5,769	6,107
Accrued service concession income	56,469	37,470
Corporation tax recoverable	-	331
Loans to group undertakings	536	-
Finance Debtor	21,227	19,666
Prepayments and accrued income	2,166	1,650
	86,167	65,224
Amounts falling due after more than one year:		
Finance debtor	1,248,295	1,270,009
Total debtors	1,334,462	1,335,233

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

11 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Loans from group undertakings	13	60,244	57,499
Trade creditors		4,014	6,128
Corporation tax payable		720	-
Other taxation and social security		5,442	5,287
Accruals		7,461	4,327
		<u>77,881</u>	<u>73,241</u>

12 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Loans from group undertakings	13	<u>1,384,020</u>	<u>1,392,460</u>

13 Loans and overdrafts

	2019 £'000	2018 £'000
Loans from group undertakings	<u>1,444,264</u>	<u>1,449,959</u>
Payable within one year	60,244	57,499
Payable after one year	<u>1,384,020</u>	<u>1,392,460</u>
Amounts included above which fall due after five years:		
Payable by instalments	<u>1,196,693</u>	<u>1,210,345</u>

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

13 Loans and overdrafts

(Continued)

Investment in the project is funded primarily by the indexed-linked guaranteed secured bonds, index-linked bank loans, mezzanine notes and subordinated loan notes secured by a fellow subsidiary, Capital Hospitals (Issuer) plc and on-lent to the Company pursuant to a proceeds on-loan agreement. The borrowings therefore represent an intercompany loan between the Company and Capital Hospitals (Issuer) plc. The terms of the intra-group loan owed by the Company match those of the borrowings secured by Capital Hospitals (Issuer) plc, which are set out below.

The bonds are secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%) respectively. The bonds are repayable in half yearly instalments, repayments commenced 30 September 2016 and are subject to an interest rate of 1.703% subject to UK Retail Price Index adjustment calculated on a half yearly basis. The Company released its right to retain £275,000,000 of bonds as a result of the project reaching Actual Global Completion at which point the project was not required to retain the ability to access the funds.

The index-linked bank loan is secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%) respectively. The bank loan is repayable in half yearly instalments, repayments commenced 30 September 2016 and are subject to an interest rate of 1.550% subject to UK Retail Price Index adjustment calculated on a half yearly basis.

The subordinated loan notes are unsecured and are repayable in half yearly instalments commencing 30 September 2020 and are subject to an interest rate of 9.5% which increased to 11% following Actual Global Completion of the project on 29 March 2016.

Mezzanine Notes are unsecured and repayable in 2036 subsequent to the repayment of the group's other loans and are subject to an interest rate of 10.5%.

14 Share capital

	2019 £'000	2018 £'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary of £1 each	50	50

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

CAPITAL HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

15 Related party transactions

Under the terms of Shareholders' Agreements the Skanska and Innisfree groups and Healthcare (Barts) Ltd provide the Company with directors, staff and technical support services. Directors fees totalling £56,000, £56,000 and £27,000 (2018: £54,000, £54,000 and £28,000) were incurred to Skanska, Innisfree and Healthcare (Barts) Ltd respectively. As at 31 December 2019 trade creditors include nil, £nil and £14,000 (2018: £28,000, £28,000 and nil) due to Skanska, Innisfree and Healthcare (Barts) Ltd respectively and accruals include £28,080, £28,080 and £nil.

On 27 April 2006 the Company entered into a £1,001,280,000 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 £1,016,321,000 as a result of amendments agreed on 30 August 2007. The value of work completed under the contract during the year was Nil (2018: Nil), this is because global completion was reached in March 2016. Additional work completed in respect of variations totalled £905,000 (2018: £1,205,000). As at 31 December 2019 trade creditors include £51,000 (2018: £975,000) due to Skanska Barts & The London.

On 27 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 £19,645,000 (2018: £20,696,000). Additional payments to the contractor was made in respect of variations totalling £905,000. As at 31 December 2019 trade creditors include £1,039,000 (2018: 934,000) due to Skanska Rashleigh Weatherfoil Ltd.

In 2006 the Group 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 some of the funds invested in the Company. Transactions in the year with HCP Social Infrastructure (UK) Limited totalled £1,696,000 (2018: £1,634,000). As at 2019 reporting date £206,000 was still outstanding (2018: £153,000).

16 Post Balance Sheet Event

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Company has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and the company does not expect this position to change. The project remains fully operational.

17 Controlling party

The Company is a subsidiary undertaking of Capital Hospitals (Holdings) Limited which is also the ultimate parent company incorporated in the United Kingdom. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG

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 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.