

Capital Hospitals (Issuer) PLC
Directors' report and financial statements

31 December 2009
Registered number 5462494



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Company information

Directors

G Beazley-Long
JF Costello
TR Pearson
N Doherty
P Nash
M Gagnon

Secretary

JE Burbidge

Registered office

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

Auditors

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

Registered number

5462494

Directors' report

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

Principal activity

The principal activity of the company is to act as a special purpose vehicle to raise finance and on-lend the proceeds to Capital Hospitals Limited, a special purpose vehicle contracted to design, construct and partially to operate hospitals at the Royal London and St Bartholomew sites under the Government's Private Finance Initiative

Business review

On 27 April 2006 the 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 Capital Hospitals Limited pursuant to a proceeds on-loan agreement.

Dividends

The directors do not recommend the payment of a dividend (2008 £nil)

Directors

The directors who held office during the year were as follows

G Beazley-Long

JF Costello

AR Gillman resigned 18 June 2010

D Hardy resigned 14 December 2009

TR Pearson

C Waples resigned 14 December 2009

N Doherty

P Nash appointed 15 January 2010

M Gagnon appointed 18 June 2010

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.

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 and index linked and fixed rate bonds. 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 of a fellow subsidiary.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements.

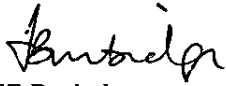
Exposure to liquidity, credit and interest rate risks arise in the normal course of the company's business. Further details relating to these risks are given in note 9 to the accounts.

Directors' report (*continued*)

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board



JE Burbidge

Secretary

Date **18 June 2010**

3 White Oak Square
London Road
Swanley
Kent
BR8 7AG

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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



Independent auditors' report to the members of Capital Hospitals (Issuer) PLC

We have audited the financial statements of Capital Hospitals (Issuer) PLC for the year ended 31 December 2009 set out on pages 7 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



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

Arlington Business Park
Theale
Reading
RG7 4SD

22 June 2010

Profit and loss account
for the year ended 31 December 2009

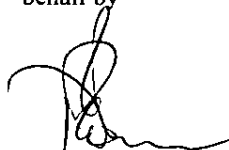
	<i>Note</i>	2009 £	2008 £
Interest payable and similar charges	2	(13,620,712)	(54,436,169)
Other interest receivable and similar income	3	<u>13,620,712</u>	<u>54,436,169</u>
Profit on ordinary activity before taxation		-	-
Taxation on profit on ordinary activity		<u>-</u>	<u>-</u>
Profit for the financial year		<u><u>-</u></u>	<u><u>-</u></u>

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 results relate to continuing activities.

Balance sheet
at 31 December 2009

	<i>Note</i>	2009 £	2008 £
Current assets			
Debtors (including £1,095,752,380 (2008 £1,102,506,525) due after more than one year)	4	1,100,918,798	1,107,744,775
Creditors: amounts falling due within one year	5	<u>(5,166,418)</u>	<u>(5,238,250)</u>
Net current assets		1,095,752,380	1,102,506,525
Creditors amounts falling due after more than one year	6	<u>(1,095,702,380)</u>	<u>(1,102,456,525)</u>
Net assets		<u>50,000</u>	<u>50,000</u>
Capital and reserves			
Called up share capital	7	50,000	50,000
Profit and loss account	8	<u>-</u>	<u>-</u>
Equity shareholders' funds	8	<u>50,000</u>	<u>50,000</u>

These financial statements were approved by the board of directors on *18.12.2010* and were signed on its behalf by



Director

The notes on pages 9 to 13 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 accounting rules

Under FRS 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 11

(ii) 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

(iii) Financial Instruments

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 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

2 Interest payable and similar charges

	2009 £	2008 £
Interest on bonds	13,042,793	53,351,088
Finance arrangement costs expensed during the year	577,919	1,085,081
	<u>13,620,712</u>	<u>54,436,169</u>

3 Other interest receivable and similar income

	2009 £	2008 £
Interest receivable on inter group loans	13,042,793	53,351,088
Finance arrangement costs recharged during the year	577,919	1,085,081
	<u>13,620,712</u>	<u>54,436,169</u>

Notes (continued)

4 Debtors

	2009 £	2008 £
Inter group loan	<u>1,100,918,798</u>	<u>1,107,744,775</u>

The debtor represents an intercompany loan between the Company and Capital Hospitals Limited. An amount of £1,095,702,380 (2008: £1,102,456,525) is due after more than five years.

5 Creditors: amounts falling due within one year

	2009 £	2008 £
Accruals	<u>5,166,418</u>	<u>5,238,250</u>

6 Creditors: amounts falling due after more than one year

	2009 £	2008 £
Instalments over 5 years		
Bonds	819,584,453	825,075,029
Bank loan	274,880,752	276,722,239
Mezzanine notes	20,000,000	20,000,000
	<u>1,114,465,205</u>	<u>1,121,797,268</u>
Less: unamortized debt issuance costs	<u>(18,762,825)</u>	<u>(19,340,743)</u>
	<u>1,095,702,380</u>	<u>1,102,456,525</u>

The bonds are secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Ltd (formerly Financial Security Assurance (UK) Ltd) (50%) and Ambac Assurance UK Ltd (50%) respectively. The bonds are repayable in half-yearly instalments commencing 30 September 2016 and are subject to an interest rate of 1.703% subject to a Retail Price Index adjustment calculated on a half-yearly basis. The Company's 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 Assured Guaranty (Europe) Ltd (formerly Financial Security Assurance (UK) Ltd) (50%) and Ambac Assurance UK Ltd (50%) respectively. The loan is repayable in half-yearly instalments commencing 30 September 2016 and is subject to an interest rate of 1.550% subject to a 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 are subject to an interest rate of 10.5%.

Notes (continued)

7 Called up share capital

	2009 £	2008 £
Equity		
Authorised		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Called up and fully paid		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

8 Reconciliation of movements in equity shareholders' funds

	2009 £	2008 £
Profit for the year	-	-
Open equity shareholders' funds	<u>50,000</u>	<u>50,000</u>
Closing equity shareholders' funds	<u>50,000</u>	<u>50,000</u>

9 Financial risk management policies and objectives

The Company's principal financial instruments comprise the inter-group loan to Capital Hospitals Ltd, indexed-linked bonds, index-linked bank loan and mezzanine notes. The main purpose of these financial instruments is to secure funding for the Project and to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match the profile of the inter-group loan which is in turn serviced by expected revenues arising from the Project.

The Company does not undertake financial instruments 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 credit and interest rate risks arise in the normal course of the Company's business.

Liquidity risk

Repayment of indexed-linked bonds, indexed-linked bank loan and mezzanine notes is not required until the Hospital is operational and revenue is generated under the terms of the Project Agreement.

Credit risk

The inter-group loan is serviced by Capital Hospitals Ltd whose only client is Bart and the London NHS Trust. The directors are satisfied that the Trust will be able to fulfil its collateral obligations under the PFI contract that are in turn underwritten by the Secretary of State for Health. The carrying amount of this loan represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2009 was £1,100,918,798 (2008 £1,107,744,775).

Notes (continued)

9 Financial risk management policies and objectives (continued)

Interest rate risk

The Company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings. Except for Guaranteed Secured Index-Linked Bonds and Loan which are subject to bi-annual indexation calculated from an agreed formula based on the Retail Price Index, all the other interest bearing assets and liabilities are primarily of fixed rate. The indexation risk is also offset by turnover being subject to similar indexation terms.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheets date and the periods in which they mature, or, if earlier, are repriced.

2009

	Effective Interest Rate	Total £	Over 5 years £
Inter-group loans	1.854%	1,095,702,380	1,095,702,380
Bonds	1.703%	(819,584,453)	(819,584,453)
Bank loan	1.55%	(274,880,752)	(274,880,752)
Mezzanine notes	10.5%	(20,000,000)	(20,000,000)
Total		(18,762,825)	(18,762,825)

2008

	Effective Interest Rate	Total £	Over 5 years £
Inter-group loans	1.854%	1,102,456,525	1,102,456,525
Bonds	1.703%	(825,075,029)	(825,075,029)
Bank loan	1.55%	(276,722,239)	(276,722,239)
Mezzanine notes	10.5%	(20,000,000)	(20,000,000)
Total		(19,340,743)	(19,340,743)

Fair Values

The fair values together with the carrying amounts shown in the balance sheet of all financial assets and financial liabilities are as follows:

	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
	£	£	£	£
Inter group loans	1,095,702,380	723,341,008	1,102,456,525	787,011,927
Bonds	(819,584,453)	(540,743,618)	(825,075,029)	(588,856,018)
Bank loan	(274,880,752)	(181,360,215)	(276,722,239)	(197,496,652)
Mezzanine notes	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
	(18,762,825)	(18,762,825)	(19,340,743)	(19,340,743)

Notes *(continued)*

9 Financial risk management policies and objectives *(continued)*

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table

Guaranteed index linked bonds are valued based on a quoted trading price for the last business day preceding the year end

Bank Loan is valued based on the bond value premium over issue price, as the risks, security and indexation of the loan and bonds are substantially similar

The fair value of the Mezzanine Notes is not believed to be materially different to the carrying value of the liability

Fair value of the inter-group loan, which represents loan and share issue proceeds passed on to Capital Hospitals Limited under the terms of a Proceeds On-Loan agreement, less finance costs incurred, are valued by totalling the values comprising the separate constituent parts of the loan, as itemised within this note

Interest rates used for determining fair values

For the Mezzanine Notes, where fair value has been assessed by discounting carrying amounts of future principal and interest cash values, the discount rate used is 10.5% pa reflecting the risks associated with the unsecured loan

Sensitivity analysis

Since the Company has offsetting fixed rate financial assets and liabilities, a general increase of one percentage point in interest rates would not significantly impact the profits of the Company

10 Profit on ordinary activities before taxation

Auditors' remuneration of the Company is borne by a related party

The directors of the Company did not receive any emoluments from the Company during the year (2008 £Nil) Apart from the directors there were no other employees of the Company during the year (2008 Nil)

11 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