NewHospitals (St Helens and Knowsley) Holdings Limited

Directors' Report and Financial Statements

Registered number 05603625

31 March 2013

Contents

Company information

Directors

N Crowther (Chairman)

D Brooking
P Goodridge
D Finch

Secretary

HCP Social Infrastructure (UK) Limited

Registered office

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor

KPMG LLP
100 Temple Street
Bristol
BS1 6AG

Directors' report

The Directors present their report and financial statements for the year ended 31 March 2013

Results and dividends

The loss for the year, after taxation, amounted to £129,000 *(2012 profit of £7,258,000)* The directors are unable to recommend the payment of a dividend *(2012 £Nil)*

Principal activities and business review

The Company was incorporated on 26 October 2005 and commenced trading on 7 June 2006 The principal activity of NewHospitals (St Helens and Knowsley) Holdings Limited (the "Company") is that of a holding company

The principal activities of the group, (being NewHospitals (St Helens & Knowsley) Holdings Limited, NewHospitals (St Helens & Knowsley) Limited, NewHospitals (St Helens & Knowsley) Finance Plc and NewHospitals (St Helens & Knowsley) Nominee Limited) are the financing, design, construction and maintenance of two new hospital facilities at the Whiston and St Helens sites, together with the operation of certain non-clinical services within the existing and new hospital facilities, as part of the strategic redevelopment scheme for the St Helens and Knowsley Hospitals NHS Teaching Trust (the "Trust") under the Government's Private Finance Initiative ("PFI") The directors are not aware, at the date of this report, of any likely major changes in the group's activities in the next year

The Company is the immediate parent undertaking of NewHospitals (St Helens and Knowsley) Limited (the "SPV") On 7 June 2006, the SPV entered into a Project Agreement with the Trust, together with an associated construction contract, funding agreements, hard and soft facilities management services contracts, a medical equipment supplies contract and other ancillary project related agreements The Project Agreement requires the SPV to provide and maintain two new hospital facilities for the Trust, and to deliver certain non-clinical services over the 41 year concession term The St Helens Diagnostic and Treatment Centre (the "St Helens DTC") achieved Practical Completion on 26 September 2008 and has been fully operational since 21 November 2008 The SPV has been providing fully operational steady state hard and soft facilities management services and medical equipment supplies services to the St Helens DTC since 21 November 2008 The Whiston Hospital Phase 1A and 1B Practical Completions occurred on 22 January 2010 and 1 April 2010 respectively (one and three months earlier than envisaged under the construction contract) Full patient occupation of the Whiston Phase 1A and Phase 1B facilities occurred on 14 April 2010 and the SPV has been providing fully operational steady state hard and soft facilities management services and medical equipment supplies services to the Whiston Hospital since 14 April 2010 The SPV provided interim services to the residual existing Whiston Hospital estate until 31 August 2012 in line with the Project Agreement The construction of the remaining Whiston Hospital estate was completed on 11 June 2012, substantially in line with the contractual deadline From 1 September 2012 onwards the SPV has provided full steady state hard and soft facilities management along with medical equipment supplies services to all aspects of both hospital sites The final step up in unitary charge received from the Trust was effective from 1 September 2012

The Company is the immediate parent undertaking of NewHospitals (St Helens and Knowsley) Finance Plc On 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc authorised the creation of £178,300,000 of 1 7774% Index-Linked Guaranteed Secured Bonds due 2047 of which £153,000,000 were issued It also entered into a loan agreement with the European Investment Bank (the "EIB") under which the EIB granted it £149,186,000 of a 1 743% index-linked guaranteed secured bank loan due 2038 The proceeds from both the bond issue and bank loan were onward loaned to a fellow subsidiary undertaking, NewHospitals (St Helens and Knowsley) Limited with identical terms for payment of interest and principal The bonds and bank loan have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by the monoline insurer Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited)

On 20 March 2008, £6,800,000 of the remaining £25,300,000 Index-Linked Guaranteed Secured Bonds created but not issued, the "Committed Variation Bonds", were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed

On 26 May 2009 the Company's shareholders, at that date, commenced subscription for tranches of unsecured 11 96% fixed interest subordinated loan stock created, constituted and issued by NewHospitals (St Helens and Knowsley) Finance Plc on 7 June 2006 This subordinated loan stock totalled £29,490,000 and was fully subscribed as at 31 March 2011 On the 30 March 2012 an early redemption of £5,000,000

Directors' report *(continued)*

Principal activities and business review *(continued)*

(at par) was paid to the Company's shareholders at that date leaving the balance of subordinated loan stock as at the year end of £24,490,000

NewHospitals (St Helens and Knowsley) Finance Plc has onward loaned the proceeds of the loan stock issue to NewHospitals (St Helens and Knowsley) Limited on exactly the same payment terms for interest and principal Further details of the loan stock issue are set out in note 14 to the financial statements The proceeds of the loan stock issue are being used by the group to finance its obligations under the Project Agreement with the Trust

On 18 April 2012 Innisfree PFI Fund III transferred its share of equity and subordinated loan interest in NewHospitals (St Helens & Knowsley) Holdings Limited and NewHospitals (St Helens & Knowsley) Finance Plc respectively to two other long term secondary funds managed by Innisfree Limited, being Innisfree PFI Secondary Fund acquiring 32% and Innisfree Secondary Fund 2 LP acquiring 68% of Innisfree PFI Fund III shares and subordinated debt

Key performance indicators

- **Historical performance**

The Group is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed To the best of the directors' knowledge the Group has met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Event of Defaults or Trigger Events with regard to the Collateral Deed

- **Completion of construction sections in line with the construction contract**

The achievement of sectional completions in accordance with the contractual timetable is a key indicator of satisfactory performance under the design and build contract as the unitary charge income from the Trust increases with each completed section The major final milestone in the construction programme is the completion of the Whiston External Works programme, this was completed on 11 June 2012, substantially in line with the contractual deadline

- **Performance deductions under the service contracts**

Financial penalties are levied by the Trust in the event that accommodation availability and service performance standards set out in the Project Agreement are not achieved All deductions are passed on to the contracted service providers but the quantum of the penalties is an indication of the level of performance During the year ended 31 March 2013 service performance deductions totalling £33,672 were levied for both Interim and Steady State services *(2012 £34,000)* This represents 0 18% *(2012 0 22%)* of the total revenues from the service providers for the provision of the services

- **Financial performance**

The directors have modelled the financial outcome of the project over the 41 year concession term and this has shown the project to be profitable and cash generative The directors monitor actual financial performance against this anticipated performance including monitoring cash flows and profit or loss after tax on a regular basis As at 31 March 2013, the Group is in the seventh and final year of the construction phase, the first year of the full operating phase at the Whiston site and the fifth year of the operating phase for the St Helens DTC Whilst the Group is currently in a cumulative loss making position the financial model forecasts year on year profitability commencing in the following financial year until the end of the concession

Principal risks and uncertainties and associated risk management policies

The risk management policy of the Group is designed to identify and manage risk at the earliest possible point The group maintains a detailed risk register which is formally reviewed by the Board on a quarterly basis The principal risks and uncertainties facing the Group have been broadly categorised into price, inflation and interest rate risk, performance and lifecycle risk, and financial instrument related risks

Directors' report *(continued)*

Principal risks and uncertainties and associated risk management policies *(continued)*

- **Price, inflation and interest rate risk**

The Group's price risk is principally managed through a 41 year Project Agreement with the Trust providing for payments that are fixed, subject to performance and movements in the UK All Items Retail Prices Index (the "UK RPI"), and through sub-contracts with suppliers that largely mirror the provisions of the Project Agreement The PFI hospital concession assets produce revenues which are index-linked to movements in the UK RPI

These revenues generate the cash flows with which the Group funds its operating costs, finance costs and repayments due on its financial liabilities The Group is exposed to interest rate risk in relation to its index-linked debt through movements in the UK RPI This risk is mitigated as the majority of the cash flows generated from the PFI hospital concession assets increase in line with movements in the UK RPI

- **Performance and lifecycle risk**

The Group passes on design, construction, availability and performance risks to its various sub-contractors via sub-contracts The obligations of these sub-contractors are underwritten either by performance guarantees issued by banks or by parent company guarantees The Group is responsible and bears the risk for all of the lifecycle expenditure throughout the concession term excluding the Building Management System and Painting element which the Hard FM provider bears the risk on The timing and quantum of the finances available to settle this expenditure have been reviewed and compared to the forecast lifecycle expenditure included within the financial model The directors consider the amounts available to settle this expenditure are appropriate for the remainder of the project concession term

- **Financial instrument risks**

The Group's financial instruments comprise short term bank deposits, finance debtors, trade creditors, index-linked bonds, an index-linked bank loan and fixed rate subordinated loan stock All of the Group's index-linked financial instruments are index-linked to movements in the UK RPI The financial structure has been established to ensure that the cash flows from the Trust are sufficient to meet all interest and principal payments due on the index-linked and fixed rate debt

The Group does not undertake financial instrument transactions which are speculative or unrelated to the Group's trading activities Board approval is required for the use of any new financial instrument, and the Group's ability to enter into any new transaction is constrained by covenants in its existing funding agreements Exposure to market related interest rate risk, cash flow risk, credit risk, and liquidity risk arises in the normal course of the Group's business The Group's exposure to, and the management of, financial instrument risks is described in further detail as follows

Market related interest rate risk

The Group is exposed to market related interest rate risk in relation to its index-linked debt through movements in the UK RPI This is mitigated as the majority of the cash flows generated from the PFI hospital concession assets increase in line with movements in the UK RPI The Group is also exposed to market related interest rate risk through movements in the London Inter-Bank Offered Rate (the "LIBOR"), which affects the quantum of interest receivable on its cash deposits

Cash flow risk

The risk of exposure to variability in long term cash inflows generated under the concession with the Trust is mitigated as performance and availability deductions are passed on to the relevant service providers and the majority of revenues and costs which the group receives and pays are index-linked to movements in the UK RPI

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation under the contract giving rise to the financial instrument

The Group's long term exposure to credit risk, which exists predominantly until the end of the Project Agreement, is principally dependent on the creditworthiness of three major European investment banks which hold the group's cash balances

Directors' report *(continued)*

- **Financial instrument risks** *(continued)*

Credit risk

The Group actively monitors the credit ratings of its counterparty banks and reports are issued to the Board on a monthly basis The Group's maximum credit risk exposure relating to its financial assets is represented by their carrying value at the balance sheet date

The Group's other long term exposure to credit risk is principally dependent on the creditworthiness of the Trust as the Group's sole client The risk associated with this is mitigated as the cash flows are secured under the Project Agreement, which is a long term contract with the Trust, whose obligations and liabilities are effectively underwritten by the Government

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with its financial liabilities The Group's liquidity risk is principally managed through financing the Group by means of long term borrowings which are tailored to match the expected cash flows arising from the Trust In addition the Group maintains a debt service reserve bank account to provide short term liquidity against future debt service requirements

Capital management

The Group's and Company's capital and debt structures were set out in the 41 year concession term financial model at the commencement of the project The equity and debt has been subscribed for in accordance with this model to date except that Taylor Woodrow Construction has subscribed for 100% of its commitment under the subordinated loan stock issue as at 31 March 2010 whereas the financial model assumes this occurred as at 31 March 2011

Directors

The directors who held office during the year ended 31 March 2013 and up to the date of this report are shown below

N Crowther
P Goodridge
D Brooking (appointed 28 June 2012)
D Bowler (resigned 22 November 2012)
D Finch (appointed 22 November 2012)

Employee involvement

The Group operates through sub-contracting services and does not directly employ any staff

Going concern

The directors have reviewed the group's projected cashflows contained in the financial model covering accounting periods up to 31 March 2048 The directors have also examined the current status of the Group's principal contracts and likely developments in the foreseeable future Having reviewed the forecast cashflows and financial facilities available to the Group, the directors consider that the Group and Company will be able to meet their loan covenant requirements and settle their liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Directors' report *(continued)*

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

On behalf of the board

N Crowther
Chairman
9 August 2013

8 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 group and parent company and of their profit or loss for that period In preparing each of the group and parent company 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

We have audited the financial statements of NewHospitals (St Helens & Knowsley) Holdings Limited for the year ended 31 March 2013 set out on pages 10 to 25 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2013 and of the Group's loss 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 AUDITOR'S REPORT TO THE MEMBERS OF NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED *(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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

Amanda Moses (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

15 August 2013

Consolidated Profit and Loss Account

for the year ended 31 March 2013

	Note	2013 £000	2012 £000
Turnover	3	**33,703**	41,856
Cost of sales		**(27,571)**	(38,011)
Gross profit		**6,132**	3,845
Administrative expenses		**(2,582)**	(1,620)
Operating profit	4	**3,550**	2,225
Interest receivable	7	**18,356**	23,172
Interest payable and similar charges	8	**(21,572)**	(27,393)
Profit / (Loss) on ordinary activities before taxation		**334**	(1,996)
Taxation on ordinary activities	9	**(463)**	9,254
Loss / (profit) for the financial year		**(129)**	7,258

There were no other recognised gains and losses for the current or prior years other than the result stated above and therefore no separate statement of total recognised gains and losses has been reported

There is no difference between the historical cost loss and the loss stated above

All of the results relate to continuing activities

Movements in reserves are shown in note 16

The notes on pages 14 to 25 form part of these financial statements

Consolidated Balance Sheet
at 31 March 2013

	Note	2013 £000	2012 £000
Current assets			
Debtors amounts receivable within one year	*11*	**12,263**	13,491
Debtors amounts receivable after more than one year	*12*	**309,894**	307,821
Cash at bank and in hand		**25,322**	25,548
		347,479	346,860
Creditors: amounts falling due within one year	*13*	**(20,007)**	(20,561)
Net current assets		**327,472**	326,299
Creditors amounts falling due after more than one year	*14*	**(361,937)**	(360,635)
Net liabilities		**(34,465)**	(34,336)
Capital and reserves			
Called up share capital	*15*	**60**	60
Profit and loss account	*16*	**(34,525)**	(34,396)
Equity shareholders' deficit	*17*	**(34,465)**	(34 336)

These financial statements were approved by the board of directors on 9 August 2013 and were signed on its behalf by

N Crowther
Chairman

Company registered number 05603625

Notes on pages 14 to 25 form part of these financial statements

Company Balance Sheet
at 31 March 2013

	Note	2013 £000	2012 £000
Fixed assets: investments in subsidiary undertakings	*10*	**60**	60
Net assets		**60**	60
Capital and reserves			
Called up share capital	*15*	**60**	60
Profit and loss account	*16*	**-**	-
Equity shareholders' funds	*17*	**60**	60

These financial statements were approved by the board of directors on 9 August 2013 and were signed on its behalf by

N Crowther
Chairman

Company registered number 05603625

Notes on pages 14 to 25 form part of these financial statements

Consolidated Cash Flow Statement
at 31 March 2013

	Note	2013 £000	2012 £000
Net cash inflow / (outflow) from operating activities	*18(a)*	**1,601**	(14,136)
Returns on investment and servicing of finance			
Interest received		**18,356**	23,172
Interest paid		**(9,369)**	(9,895)
		8,987	13,277
Net cash inflow / (outflow) before management of liquid resources and financing		**10,588**	(859)
Financing			
Bond/Bank loan repayments		**(10,814)**	(6,403)
Redemption of subordinated loan stock		**-**	(5,000)
Decrease in cash in the period	*18(c)*	**(226)**	(12,262)

Notes on pages 14 to 25 form part of these financial statements

Notes to the financial statements

1 Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The directors have reviewed the Group's and Company's projected profits and cash flows by reference to a financial model covering accounting periods up to 31 March 2048 They have also examined the current status of the Group's and Company's principal contracts and likely developments in the foreseeable future Having reviewed the financial facilities available to the Group and Company, the directors consider that the Group and Company will be able to meet its loan covenant requirements and settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis

2 Accounting policies

(i) Basis of consolidation

The Group and Company financial statements consolidate the financial statements of NewHospitals (St Helens and Knowsley) Holdings Limited and its subsidiary undertakings for the year ended 31 March 2013 using the acquisition method Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition up to the date of disposal All inter-company balances, transactions, profits and losses are eliminated on consolidation No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006 The profit for the Company for the year ended 31 March 2013 was £824,000 *(2012 £Nil)*

(ii) Finance debtor

The Group is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be an asset of the Group under FRS 5 Application Note F

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts Upon becoming operational, the costs were transferred to the finance debtor During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services

Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when these services are performed

(iii) Interest, indexation and other financing costs

Interest, indexation and other financing costs are expensed to the profit and loss account in the period to which they relate

(iv) Revenue recognition

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

Revenue from construction activity

Revenue from construction activity is recognised by reference to costs incurred in the period that are directly attributable to the construction of the asset No mark up is applied to these costs

Facilities management services - interim phase prior to completion

Revenue from the provision of the interim services to the existing hospital estate is recognised as contract activity progresses at a zero mark up on related costs as these items are direct pass-through from the Trust to the contracted service providers

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

***(iv) Revenue recognition** (continued)*

Facilities management services - operational phase following completion

Revenue from the provision of the facilities management services to the new hospitals is recognised as contract activity progresses at a mark up on related costs to reflect the fair value of work performed

Interest receivable on finance debtor

Revenue in relation to the finance debtor is recognised as finance income at a project specific rate commencing when each new hospital becomes operational

Medical Equipment Supplies Income

Revenue is received quarterly in advance from the Trust, both income from the Trust and expenditure from the MES supplier are recognised monthly in the financial statements in line with service delivery

Interest income

Interest income is recognised as interest accrues using the effective interest method

(v) Deferred revenue

Revenue received relating to the hospitals during the construction phase was deferred until the year ended 31 March 2010 During the year to March 2011 this deferred income started to be released on an annual basis over the remaining life of the contract as full occupation of the main Whiston hospital site occurred on 14 April 2010

(vi) Taxation

The charge for current taxation for the period is based on the result for the period, adjusted for disallowable items

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

(vii) Investments

Investments are stated at cost less provision for impairment

Notes to the financial statements *(continued)*

3 Turnover

Turnover which is stated net of value added tax, represents income for services provided in the period Turnover is attributable to one geographical market, the United Kingdom, and can be analysed as follows

	2013 £000	2012 £000
Construction income	491	9,996
Operating income	21,502	20,325
Medical equipment supplies income	3,094	2,958
Pass through and interim services income	8,616	8,577
	33,703	41,856

4 Operating profit

This is stated after charging

	2013 £000	2012 £000
Auditor's remuneration		
Audit of these financial statements	1	1
Audit of subsidiaries pursuant to legislation	15	15
Taxation services	10	10
	26	26

5 Directors' remuneration

None of the directors received any remuneration in respect of services provided to the group during the year *(2012 £Nil)* The directors receive their remuneration directly from shareholder companies The group incurred fees from related parties for directors' services totalling £120,000 *(2012 £116,000)*

6 Staff costs

The group operates through subcontracting services and there were no persons employed by the group during the year *(2012 none)*

7 Interest receivable

	2013 £000	2012 £000
Interest receivable on bank deposits	326	302
Interest receivable on finance debtor	18,030	22,870
	18,356	23,172

Notes to the financial statements *(continued)*

8 Interest payable and similar charges

	2013 £000	2012 £000
Interest payable on bond	**3,324**	3,262
Indexation on bond	**5,761**	8,786
Interest payable on bank loan	**3,113**	3,106
Indexation on bank loan	**5,840**	8,186
Commitment fees and associated financing costs	**469**	565
Amortisation of transaction costs	**725**	671
Interest payable on subordinated loan stock	**2,340**	2,817
	21,572	27,393

9 Taxation

(a) Tax on loss on ordinary activities

	2013 £000	2012 £000
Analysis of charge in period		
Current tax:		
UK corporation tax on profit for the period	-	-
Adjustments in respect of previous periods	-	-
Total current tax (note 9(b))	-	-
Deferred tax		
Origination and reversal of timing differences (note 20)	**80**	9,254
Adjustment following change in corporation tax rate	**383**	-
Tax on profit / (loss) on ordinary activities	**463**	9,254

Notes to the financial statements *(continued)*

9 Taxation *(continued)*

(b) Factors affecting the current tax charge/(credit)

The current tax charge/(credit) on the loss on ordinary activities for the year is lower *(2012 lower)* than the standard rate of corporation tax in the United Kingdom of 24% *(2012 26%)* The differences are reconciled below

	2013 £000	2012 £000
Loss on ordinary activities before tax	**334**	(1,996)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK	**80**	(519)
Tax losses (utilised)/carried forward	**(80)**	519
Total current tax (note 9(a))	**-**	-

c) Factors affecting the future tax charge

The Group has recognised a deferred tax asset of £8,791,000 *(2011 £9,254,000)* on tax losses which have been carried forward and will be offset against future trading profits

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013 This will reduce the company's future current tax charge accordingly

The deferred tax asset at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's deferred tax asset accordingly

10 Fixed assets – investments in subsidiary undertakings

	Shares in group undertakings £000
Company	
Cost and net book value	
At beginning and end of year	**60**

Notes to the financial statements *(continued)*

10 Fixed assets – investments in subsidiary undertakings *(continued)*

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital are as follows

Company	Country of incorporation	Principal activity	Class and percentage of shares held
NewHospitals (St Helens & Knowsley) Ltd	U K	PFI operator	Ordinary 100%
NewHospitals (St Helens & Knowsley) Finance Plc	U K	Financing company	Ordinary 99 99%
NewHospitals (St Helens & Knowsley) Nominee Ltd	U K	Investment company	Ordinary 100%

NewHospitals (St Helens & Knowsley) Nominee Ltd holds the remainder of the 0 01% shares in NewHospitals (St Helens & Knowsley) Finance Plc

11 Debtors: amounts receivable within one year

	2013 £000	2012 £000
VAT receivable	236	546
Trade debtors	1	-
Prepayments and accrued income	121	749
Finance debtor	3,114	718
Finance debtor under construction	-	2,224
Deferred tax asset (note 20)	8,791	9,254
	12,263	13,491

12 Debtors: amounts receivable after more than one year

	2013 £000	2012 £000
Finance debtor	291,257	71,646
Finance debtor under construction	-	221,851
UCCA	18,637	14,324
	309,894	307,821

The finance debtors are shown net of capital contributions totalling £nil *(2012 £79,736,000)* from the Trust

13 Creditors amounts falling due within one year

	Group 2013 £000	Group 2012 £000
Trade creditors	2,806	3,313
Accruals and deferred income	6,323	6,459
Bond repayment	5,089	5,295
Bank loan	5,789	5,494
	20,007	20,561

Notes to the financial statements *(continued)*

14 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Bond:		
At the beginning of the year	**184,143**	176,983
Indexation on bond during the year	**5,761**	8,786
Bond repayments	**(5,307)**	(1,626)
	184,597	184,143
Less Unamortised transaction costs	**(9,301)**	(9,594)
	175,296	174,549
Less amounts due within one year	**(5,089)**	(5,295)
	170,207	169,254
Bank loan		
At the beginning of the year	**175,980**	172,571
Indexation on bank loan during the year	**5,840**	8,186
Bank Loan Repayments	**(5,507)**	(4,777)
	176,313	175,980
Less Unamortised transaction costs	**(6,464)**	(6,843)
	169,849	169,137
Less amounts due within one year	**(5,789)**	(5,494)
	164,060	163,643
Subordinated loan stock		
At beginning of the year	**24,490**	29,490
Subordinated loan stock redeemed during the year	**-**	(5,000)
	24,490	24,490
Effective interest rate adjustment on subordinated loan stock	**3,968**	4,088
Less Unamortised transaction costs	**(788)**	(840)
	27,670	27,738
Total loans outstanding net of unamortised transaction costs	**361,937**	360,635

Notes to the financial statements *(continued)*

14 Creditors: amounts falling due after more than one year *(continued)*

The loan balances fall due for payment as follows

	2013 £000	2012 £000
Installments due within:		
1 year	**10,878**	10,886
1-2 years	**11,457**	10,865
2-5 years	**35,788**	35,503
More than 5 years	**314,692**	314,170
	372,815	371,424

Index-Linked Guaranteed Secured Bonds due 2047

NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, has created £178,300,000 of 1 7774% Index-Linked Guaranteed Secured Bonds due 2047 pursuant to a Bond Trust Deed and Collateral Deed dated 7 June 2006, of which £153,000,000 were issued for cash on 7 June 2006 at a 99 99% of par

On 20 March 2008, £6,800,000 of the remaining £25,300,000 Bonds created but not issued, the "Committed Variation Bonds", were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed

The bonds bear interest at 1 7774%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI in accordance with the terms of the Bond Trust Deed The interest is payable semi-annually in arrears on 31 March and 30 September each year The principal on the bonds is repayable in instalments which commence on 31 March 2012 and end in February 2047

The index-linked bonds created by the group have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the group

Index-Linked Guaranteed Secured Bank Loan due 2038

NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, has drawn £149,186,000 of a 1 743% Index-Linked Guaranteed Secured Bank Loan due 2038 pursuant to a Loan Agreement dated 1 June 2006 and a Collateral Deed dated 7 June 2006

The loan has an interest rate of 1 743%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI in accordance with the terms of the Loan Agreement The interest is payable semi-annually in arrears on 31 March and 30 September each year The loan principal is repayable in instalments which commence on 30 September 2011 and end in June 2038

The index-linked bank loan has the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the group

Notes to the financial statements *(continued)*

14 Creditors: amounts falling due after more than one year *(continued)*

Fixed rate unsecured subordinated loan stock due 2047

On 24 May 2006, NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, authorised and approved the issue of £30,090,000 unsecured 11 96% fixed interest loan notes which were constituted in a Deed Poll dated 7 June 2006 Under the terms of an Equity Subscription Agreement dated 7 June 2006, the Company's shareholders undertook to subscribe for the loan notes in separate tranches up to a total value of £30,090,000 over the period from 31 May 2009 to 31 March 2011 In the year ended 31 March 2011 the total amount of loan notes subscribed for by the Company's shareholders was £29,490,000 On the 30 March 2012 an early redemption payment of £5,000,000 (at par) was made to the Group's shareholders leaving the balance as at the year end totalling £24,490,000

The 11 96% fixed interest accrues from 1 April 2011 and interest is paid semi-annually in arrears every 30 September and 31 March thereafter

Of the total £30,090,000 loan notes constituted, £600,000 relates to a commitment to subscribe for Contingent Equity Tranche loan notes as detailed in the Equity Subscription Agreement The commitment to subscribe for this tranche of the loan notes is no longer required as the matching Committed Variation Bonds to which the amount relates were cancelled on 20 March 2008, as they expired on 31 December 2007, in accordance with the Terms of the Bond Trust Deed and Collateral Deed

Under the terms of an Intra group Loan Agreement entered into on 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc undertook to onward loan the proceeds of the issue of the subordinated loan stock to NewHospitals (St Helens and Knowsley) Limited, on exactly the same payment terms for interest and principal The proceeds of the loan stock issue are being used by the group to finance its obligations under its Project Agreement with the Trust

The loan notes are redeemable at any time in line with the provisions of Clause 3 of the Deed Poll Constituting Unsecured Subordinated Loan Notes for the Company and in accordance with condition 3 (Redemption) of the aforementioned Deed

15 Share capital

	2013	2012
	£000	£000
Equity		
Allotted, called up and fully paid		
60,000 shares of £1 each	**60**	60

Notes to the financial statements *(continued)*

16 Reserves

	Profit & Loss Account Company 2013 £000	Profit & Loss Account Group 2013 £000
At beginning of year	-	(34,396)
Profit/(loss) for the financial year	**824**	(129)
Dividends on shares classified in shareholders' funds	**(824)**	-
At end of the year	-	(34,525)

17 Movements in shareholders' funds

	Company 2013 £000	**Group 2013 £000**	Company 2012 £000	Group 2012 £000
Opening equity shareholders' funds/(deficit)	**60**	**(34,336)**	60	(41,594)
Profit/(loss) for the financial year	**824**	**(129)**	-	7,258
Dividends on shares classified in shareholders' funds	**(824)**	-	-	-
Closing equity shareholders' funds/(deficit)	**60**	**(34,465)**	60	(34,336)

18 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2013 £000	2012 £000
Operating profit	**3,550**	2,225
Increase in debtors	**(1,306)**	(15,958)
Decrease in creditors	**(643)**	(403)
Net cash outflow from operating activities	**1,601**	(14,136)

(b) Analysis of changes in net debt

	At 1 April 2012 £000	Cash flows £000	Other non-cash movements £000	At 31 March 2013 £000
Cash at bank and in hand	25,548	(226)	-	**25,322**
Debt due within one year	(10,789)	10,814	(10,903)	**(10,878)**
Debt due after more than one year*	(360,635)	-	(1,302)	**(361,937)**
Total	(345,876)	10,588	(12,205)	**(347,493)**

*net of transaction costs

Notes to the financial statements *(continued)*

18 Notes to the consolidated cash flow statement *(continued)*

(c) Reconciliation of net cash flow to movement in net debt

	2013 £000	2012 £000
Decrease in cash	(226)	(12,262)
Senior debt payments	10,814	6,403
Redemption of subordinated loan notes*	-	5,000
Change in net debt resulting from cash flows	10,588	(859)
Non-cash movements		
Indexation of debt due after more than one year	(11,601)	(16,972)
Amortisation of transaction costs	(724)	(671)
Interest on subordinated loan notes*	120	145
Change in net debt resulting from non cash movements	(12,205)	(17,498)
Opening net debt	(345,876)	(327,519)
Net debt at end of period	(347,493)	(345,876)

*net of transaction costs

19 Contract commitments

	Company 2013 £000	Group 2013 £000	Company 2012 £000	Group 2012 £000
Amounts contracted for but not provided for in the financial statements	-	134	-	305

20 Deferred tax asset

A deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company The future profits of the Company have been estimated on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract The directors consider that there is sufficient certainty that suitable profits will arise under this contract against which the losses can be utilised that the deferred tax asset can be recognised The deferred tax asset has been calculated on the basis that the corporation tax rate from 1 April 2013 has fallen from 24% to 23%

The elements of deferred taxation are as follows -

	2013 £000
At beginning of year	9,254
Origination and reversal of timing differences	(80)
Adjustment following change in corporation tax	(383)
At end of year	8,791

Notes to the financial statements *(continued)*

21 Related party transactions

On 9 September 2008, Vinci Plc acquired the entire share capital of Taylor Woodrow Construction Limited from Taylor Wimpey Plc As part of the acquisition Taylor Woodrow Construction Limited was re-registered as an unlimited company by Taylor Wimpey Plc on 4 September 2008 and changed its name to Taylor Woodrow Construction

As at 31 March 2013, the Company was owned by Taylor Woodrow Construction (19 9%) and both Innisfree PFI Secondary Fund (25 6%) and Innisfree PFI Secondary Fund 2 LP (54 5%) through its nominee Innisfree Nominees Limited, managed by Innisfree Limited The Taylor Woodrow and Innisfree group of entities have interests in contracts placed by the Company's subsidiary, NewHospitals (St Helens and Knowsley) Limited, to finance, develop, design and construct, maintain and deliver certain non-clinical services within the existing and the new Whiston and St Helens Hospitals as part of the Project Agreement entered into with the Trust

On 7 June 2006, the group entered into contracts with Taylor Woodrow Construction Limited, Taylor Woodrow Management Limited and Taywood Engineering Limited for the design and construction of the hospitals and for the provision of certain services in connection with the development of the Whiston and St Helens hospitals In addition the group also entered into guarantees with Taylor Woodrow Plc (subsequently renamed Taylor Wimpey Plc following the merger on 3 July 2007 of Taylor Woodrow Plc and George Wimpey Plc), with regard to the performance of the aforementioned Taylor Woodrow group entities These guarantees were subsequently transferred to Vinci Plc on 11 March 2009 The total amount paid in the year under the contracts with the Taylor Woodrow

Group was £11,472,000 *(2012 £22,684,000)* As at 31 March 2013, £949,000 *(2012 £1,358,000)* remains outstanding and is included in trade creditors and accruals

On 26 May 2009 Innisfree PFI Fund III LP and Taylor Woodrow Construction commenced subscription for tranches of unsecured 11 96% fixed interest subordinated loan stock created, constituted and issued by NewHospitals (St Helens and Knowsley) Finance Plc, a fellow subsidiary undertaking, on 7 June 2006 This loan stock was fully subscribed for to the total value of £29,490,000 as at the 31 March 2011 During the year ended 31 March 2012 the shareholders redeemed £5,000,000 of this loan stock under the terms of an Equity Subscription Agreement entered into on 7 June 2006 making the total value as at 31 March 2012 £24,490,000 As at 31 March 2013 Innisfree PFI Secondary Fund, Innisfree PFI Secondary Fund 2 LP and Taylor Woodrow Construction have subscribed for £6,277,000, £13,339,000 *(2012 £19,616,000 Innisfree PFI Fund III LP)* and £4,874,000 *(2012 £4,874,000)* respectively, of the subordinated loan stock

During the year ended 31 March 2013, the group incurred £60,000 *(2012 £58,000)* each in respect of directors' services from both Taylor Woodrow Construction and Innisfree Limited

On 7 June 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 (formerly Health Care Projects Limited) HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited is invested with funds under the management of Innisfree Limited, who also manage the funds invested in the Company During the year the group incurred costs of £724,000 *(2012 £631,000)* in respect of project management and other associated services to HCP Social Infrastructure (UK) Limited As at 31 March 2013, £57,000 *(2012 £53,000)* due to HCP Social Infrastructure (UK) Limited remains outstanding and is included in trade creditors

22 Parent undertaking and controlling party

As at 31 March 2013, the Company's voting share capital was held 54 5% by Innisfree PFI Secondary Fund 2 LP and 25 6% by Innisfree PFI Secondary Fund (through its nominee Innisfree Nominees Limited) and 19 9% by Taylor Woodrow Construction Both of these entities are registered in England and Wales

In the directors' opinion, the Company's ultimate parent undertaking and controlling party is Innisfree PFI Secondary Fund 2 LP, a limited partnership registered in England and Wales