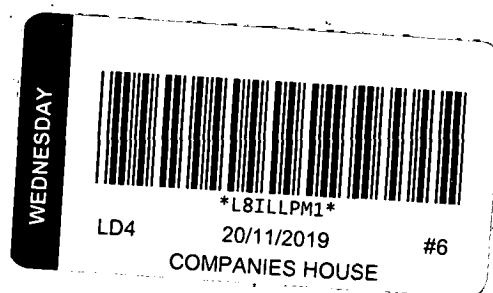


Company Registration No. 07080964 (England and Wales)

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Principal activities

The principal activity is that of a holding company with a single subsidiary, The Hospital Company (Southmead) Limited.

The principal activities of the subsidiary are the design, redevelopment, financing, operation and maintenance of Southmead Hospital under the Private Finance Initiative (PFI) for a period of thirty years after completion of construction pursuant to and in accordance with the terms of an agreement with the North Bristol National Health Service Trust. This agreement together with a loan facilities agreement, a construction contract, a facilities management contract and other related contracts was signed on 25 February 2010.

Review of the business

The consolidated income statement is set out on page 10 and relates to the operating activities during the year. The directors do not recommend the payment of a dividend (2017: £nil).

The group's principal activity is detailed above and its trading relationships with customers, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. The financial risks and the measures taken to mitigate them are as detailed in the following section.

Principal risks and uncertainties

Credit risk

The group receives its revenue from a United Kingdom government body and therefore is not exposed to significant risk. The group invests cash and enters into interest rate swap agreements with financial institutions. The credit quality of these institutions is reviewed by the directors on a regular basis. As a result of the current financial conditions these institutions are substantially owned by the UK Government. As such the group's exposure to credit risk is reduced.

Inflation risk

The group's project revenue and operating costs are linked to inflation at the inception of the project. In addition, the group has fixed the RPI on a portion of its revenue in the operational phase through the use of an RPI swap.

Insurance risk

The group is exposed to the conditions prevailing in the insurance market at each renewal date. The directors manage this through close monitoring of the claims record of the project and through employing experienced broking organisations to obtain competitive insurance terms.

Interest rate risk

The group hedges its interest rate risk at the inception of the project by swapping its variable rate debt into a fixed rate by the use of an interest rate swap.

Lifecycle risk

The group is responsible for lifecycle costs. The directors manage this through asset inspection and consequential forecasting of asset replacement costs. A cash lifecycle fund is held by the company to cover future anticipated replacement costs.

Liquidity risk

The group has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Brexit risk

The Group is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers. 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.

Going Concern Risk

The Group recognises that there is uncertainty over the forecast 12 months cover ratios as a result of the financial implication of the Major Project Party liquidation and potential future settlements with the North Bristol Trust – with current forecasts being that the ratio will continue to be breached through to March 2021. The Group has been successful in receiving waivers from the Lenders for ratio breaches to date and through discussions with the Lenders, expects that any future covenant breaches as a result of the Settlement process would receive waivers to March 2021 when ratios are expected to recover.

Solvency and performance of sub-contractors

The solvency and performance of key sub-contractors is regularly monitored by the directors. The group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following section.

Key performance indicators

Progress of the works

The group monitors the performance of the works to date by comparing it with the planned schedule agreed at financial close under the design and building scope of the project. In addition the client has the ability to levy financial penalties and/or require remedial action in the event that defects are not rectified according to detailed criteria set out in the project agreement. Phase 1 completion took place in line with both programme and contractual completion dates on 26 March 2014. The Phase 2 works were not completed as scheduled on 28 September 2015 but subsequently completed on 29 July 2016. The group received mitigation under its contractual arrangements as expected and was not materially adversely affected by the delay. Following the liquidation of the Construction Contractor, the liability for the remediation of any Construction Defects is now the responsibility of the Group. Post Completion Works including the construction of a road, have been undertaken in 2019.

Performance of the services

Now the project is in operation, the client has the ability to levy financial penalties relating to non-availability of facilities and/or require remedial action in the event that either performance standards are not achieved or accommodation is not available according to detailed criteria set out in the project agreement.

On 15 January 2018 the Major Project Parties for the Group – the Facilities Manager ("FM"), Carillion Services Limited ("CSL"), the Construction Contractor for the Company, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") - entered into compulsory liquidation. PricewaterhouseCoopers ("PWC") were appointed as Special Managers to ensure services continued whilst an alternative service provider can be put in place. On 31st May 2018, CSL was terminated as FM provider and Bouygues E&S FM UK Limited ("Bouygues") was appointed as Interim Manager to deliver the FM services. Bouygues were appointed as the full FM provider on 18th April 2019.

Due to the liquidation of Carillion, a number of Events of Defaults occurred under the Agreements. Liquidation of a Major Project Party is considered an event of default; the FM provider default was rectified with the replacement of the full FM provider and the Construction provider default was waived by the lenders. The increased liability to provide post completion construction works and also rectify defects has led to higher than expected cashflows, leading to cover ratios reaching default levels under the Finance Agreements. This further event of default, on submission of the March 2019 finance model was waived by the lenders in September 2019. However, as the Events of Default remained at 31 December 2018, the Directors have reclassified all relevant debts under the finance documents as current.

Whilst the cover ratio reaching default level as at March 2019 was waived by the lenders, the cover ratio is forecast to continue to breach the default levels until March 2021, and these forecast events of default have not been waived.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018


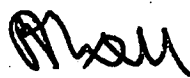
Financial performance

The Group has modelled the anticipated financial outcome of the project across its full term. The Group monitors actual financial performance against anticipated performance. Income and expenditure for the year ended 31 December 2018 which are based on fixed long-term contracts have been in line with the directors' expectations - with the exception of FM services costs that have increased, due to the replacement provider following the liquidation of Carillion Services Limited and also the associated remedial costs. The signing of a permanent FM agreement will continue to have an impact on costs as the agreement is at a higher price than the previous permanent provider. The increase in costs resulted in a gross loss for the year of £1,475,000 (2017: £3,369,000) and a loss before tax of £4,541,000 (2017: profit of £501,000). Following the liquidation of Carillion Construction Limited, the liability to rectify defects now sits with the Group, therefore a provision of £7,151,000 has been included in the financial statements (an increased of £3,151,000 since 2017 following further work to identify the financial impact of the liabilities taken on) and increases the loss for the year. The remainder of the loss is driven by an increase in subordinated debt interest, which is likely to continue. The balance sheet is in a net liabilities position at year end due to the fair value of the swap liability. Current liabilities have increased from 2017 due to the reclassification of Senior Debt and an increased accrual for Sub Debt interest due to the project being in default and not making Distribution payments in the year.

Safety performance

The group is committed to providing a safe environment for its sub-contractors and those impacted by its activities. Safety reports are provided at each board meeting. These are reviewed by the directors who monitor actual performance against anticipated performance using industry benchmarks. Appropriate action is taken where necessary in order to ensure that all matters raised are fully resolved and are compliant with safety regulations.

This report was approved by the Board on 19/11/19 and signed on its behalf by:

 
A D Clapp S Exell
Director Director

8 White Oak Square
Swanley
BR8 7AG

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and consolidated financial statements for the year ended 31 December 2018.

As at 31 December 2018, 50% of the company's share capital (The Hospital Company (Southmead) Holdings Limited) was held by PIP Infrastructure Investments (Southmead) Limited and 50% by Infrastructure Investments (Health) Limited. All these companies are incorporated in Great Britain.

Principal activities

The Principal activities of the Group are the design, redevelopment, financing, operation and maintenance of Southmead Hospital under the Government's Private Finance Initiative ("PFI") for a period of thirty years after completion of construction pursuant to and in accordance with the terms of an agreement with the North Bristol NHS Trust. The Group continued with these activities through the year and will continue in this activity for the foreseeable future.

Directors

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

N Cole (Resigned 26 April 2019)
M C Wayment
A B Deacon (Resigned 12 August 2019)
C G A McLeod (Resigned 29 November 2018)
E A Wilson (Appointed 4 January 2019)
A D Clapp (Appointed 30 April 2019)
S Exell (Appointed 12 August 2019)

Results and dividends

The directors do not recommend the payment of a dividend (2017: £nil)

Directors' indemnity

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Post reporting date events

Post balance sheet events

Events of Default under the financing agreements that had occurred at the balance sheet date were liquidation of a major project party (both FM provider - Carillion Services Ltd, and Construction contractor - Carillion Construction Ltd). Cover ratio breaches also arose on submission of the 31 March 2019 model, caused by the forecast increased cash outflows. On 18 April 2019 Bouygues E&S UK Limited were appointed as full FM provider which rectified the event of default relating to the FM liquidation. The other two Events of Default relating to CCL's liquidation and the default level ratios were waived by lenders on 16 September 2019.

Settlement Agreement 3 with the Trust was signed on 25 April 2019 and paid for in installments throughout the 2019 financial year. Settlement Agreement 4 relating to Fire remains in negotiations with the Trust.

Future developments

The directors continue to develop the business in line with the contract and the progress of works is described on page 2 of the Strategic Report.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of disclosure to 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 they ought to have as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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.

Change in Facilities Manager

On 15 January 2018 the Facilities Manager ("FM") for the Company, Carillion Services Limited ("CSL"), the Construction Contractor for the Company, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") entered into compulsory liquidation. PricewaterhouseCoopers ("PWC") were appointed as Special Managers to ensure services continued whilst an alternative service provider can be put in place. On 31st May 2018, CSL was terminated as FM provider and Bouygues E&S FM UK Limited ("Bouygues") was appointed as Interim Manager to deliver the FM services. Bouygues were appointed as the full FM provider on 18th April 2019.

Going Concern

The Group is in a net liabilities position as at 31 December 2018 due to the fair value of the interest rate and RPI swaps and is in a net current liability position due to the re-classification of certain liabilities as current as detailed below. On 15 January 2018 the Facilities Manager ("FM") for the Group, Carillion Services Limited ("CSL"), the Construction Contractor for the Group, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") entered into compulsory liquidation. This resulted in the project entering technical default, as the liquidation of the FM provider, the Construction Contractor or their parent guarantor is an Event of Default in the Facilities Agreement. PricewaterhouseCoopers ("PwC") were appointed as Special Managers to ensure services continued whilst an alternative service provider was put in place. In addition, cover ratio breaches were caused by the forecast increased cash outflows resulting from financial impact of the above events which resulted in a further event of default.

The Directors have acted to resolve the Events of Default. On 31st May 2018, CSL was terminated as Facilities Manager and Bouygues E&S UK Limited ("Bouygues") was appointed Agent of Operations to deliver the Facilities Management Services. On 18 April 2019 Bouygues were appointed as full FM provider which rectified the event of default relating to the FM liquidation. The other two Events of Default relating to CCL's liquidation and the default level ratios were waived by lenders on 16 September 2019.

As the Events of Defaults remained at 31 December 2018, the Directors have reclassified all relevant debts under the finance documents as current. The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the finance documents are immediately repaid in full.

However, there is current uncertainty over the projected 12 month Debt Service Cover Ratio as a result of the financial implication of the above events and potential future settlements with the North Bristol Trust – with current forecasts being that the ratio will continue to be breached through to March 2021. As noted above, the Group has been successful in receiving waivers from the Lenders for ratio breaches to date and through discussions with the Lenders, expects that any future covenant breaches would receive waivers to March 2021 when ratios are expected to recover.

Although there is no certainty that the lenders will provide waivers for future covenant breaches and will not exercise their rights under that Event of Default and as such there is an uncertainty that may cast doubt over the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business, these financial statements do not include any adjustments that would result.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

On behalf of the board



A D Clapp
Director



S Exell
Director

Date: 19/11/2019

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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, relevant and reliable;
 - state whether they have been prepared in accordance with IFRSs as adopted by the EU;
 - assess the group and parent 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 group or the parent 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 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 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 group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

Opinion

We have audited the financial statements of The Hospital Company (Southmead) Holdings Limited ("the company") for the year ended 31 December 2018 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Financial Position, Company Statement of Financial Position, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group Statement of Cash Flows, Company Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the group 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 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group 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.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements which indicates that under the Group's financing agreement, an event of default is forecast to occur until March 2021 in respect of cover ratios which has not been waived and is not forecast to be able to be remedied. The Group is reliant on the lenders waiving these events of default. These conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS 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 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

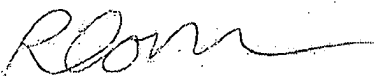
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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.



Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
20 November 2019

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Revenue	3	18,376	11,138
Cost of sales		(19,851)	(14,507)
Gross loss		(1,475)	(3,369)
Investment income	6	45,108	44,544
Finance costs	7	(48,174)	(40,674)
(Loss)/profit before taxation		(4,541)	501
Tax on (loss)/profit	8	789	(316)
(Loss)/profit for the financial year		(3,742)	185

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £'000	2017 £'000
(Loss)/profit for the year	<u>(3,742)</u>	<u>185</u>
Other comprehensive income		
Cash flow hedges (loss)/gain arising in the year	(866)	15,916
Tax relating to other comprehensive income	<u>148</u>	<u>(2,706)</u>
Other comprehensive income for the year	<u>(718)</u>	<u>13,210</u>
Total comprehensive income for the year	<u>(4,460)</u>	<u>13,395</u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		2018	2017
	Notes	£'000	£'000
Non-current assets			
Other financial assets	11	554,953	552,502
Deferred tax assets	16	25,095	24,175
		<u>580,048</u>	<u>576,677</u>
Current assets			
Other financial assets	11	7,453	2,095
Trade and other receivables	12	12,333	10,160
Cash and cash equivalents		36,627	31,614
		<u>56,413</u>	<u>43,869</u>
Current liabilities			
Other interest bearing loans and borrowings	14	(471,989)	(4,765)
Provisions	15	(7,151)	(4,000)
Trade and other payables	13	(32,256)	(12,007)
		<u>(511,396)</u>	<u>(20,772)</u>
Net current (liabilities)/assets		<u>(454,983)</u>	<u>23,097</u>
Total assets less current liabilities		<u>125,065</u>	<u>599,774</u>
Non-current liabilities			
Other interest bearing loans and borrowings	14	(92,690)	(563,805)
Derivative financial instruments	11	(143,075)	(142,209)
		<u>(235,765)</u>	<u>(706,014)</u>
Net liabilities		<u>(110,700)</u>	<u>(106,240)</u>
Equity			
Called up share capital	17	1	1
Hedging reserve		(118,751)	(118,033)
Retained earnings		8,050	11,792
Total equity		<u>(110,700)</u>	<u>(106,240)</u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2018

The financial statements were approved by the board of directors and authorised for issue on 19/11/19 and are signed on its behalf by:



A D Clapp
Director

Company Registration No. 7080964



S Exell
Director

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Current assets			
Other receivables	12	19,121	2,505
Other financial assets	14	97,430	97,430
Investments	9	1	1
Total assets less current liabilities		116,552	99,936
Current liabilities	13	(19,121)	(2,505)
Non-current liabilities	14	(97,430)	(97,430)
Total liabilities		(116,551)	(99,935)
Net assets		1	1
Equity			
Called up share capital	17	1	1
Total equity		1	1

The profit and loss result for the year is £nil (2017: £nil).

The financial statements were approved by the board of directors and authorised for issue on 19/11/19 and are signed on its behalf by:


AD Clapp
 Director
 Company Registration No. 07080964


S Exell
 Director

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	1	(131,243)	11,807	(119,635)
Year ended 31 December 2017:				
Profit for the year	-	-	185	185
Other comprehensive income:				
Cash flow hedges gains arising in the year	-	15,916	-	15,916
Tax relating to other comprehensive income	-	(2,706)	-	(2,706)
Total comprehensive income for the year	-	13,210	185	13,395
Balance at 31 December 2017	1	(118,033)	11,792	(106,240)
Year ended 31 December 2018:				
Loss for the year	-	-	(3,742)	(3,742)
Other comprehensive income:				
Cash flow hedges gains arising in the year	-	(866)	-	(866)
Tax relating to other comprehensive income	-	148	-	148
Total comprehensive income for the year	-	(718)	(3,742)	(4,460)
Balance at 31 December 2018	1	(118,751)	8,050	(110,700)

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £'000	Total Equity £'000
Balance at 1 January 2017	1	1
Year ended 31 December 2017:		
Profit and total comprehensive income for the year	-	-
Balance at 31 December 2017	1	1
Year ended 31 December 2018:		
Profit and total comprehensive income for the year	-	-
Balance at 31 December 2018	1	1

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Notes	£'000	£'000
Cash flows from operating activities			
(Loss)/profit for the year		(3,742)	185
Financial income	6	(45,108)	(44,544)
Financial expense	7	48,174	40,674
Taxation	8	(799)	316
(Increase)/decrease in trade and other receivables		(9,728)	3,357
Increase/(decrease) in trade and other payables		7,085	(2,382)
Tax paid		(230)	(527)
Net cash outflow from operating activities		(4,348)	(2,921)
Investing activities			
Interest received on bank deposits		78	83
Net cash generated from investing activities		78	83
Financing activities			
Interest received on finance receivables		45,108	44,544
Interest paid and similar expenses		(31,115)	(38,689)
Repayment of borrowings		(4,710)	(4,412)
Net cash generated from financing activities		9,283	1,443
Net increase/(decrease) in cash and cash equivalents		5,013	(1,395)
Cash and cash equivalents at beginning of year		31,614	33,009
Cash and cash equivalents at end of year		36,627	31,614

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

Notes	2018		2017	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
(Loss)/profit for the year		-		-
Investment income		(16,818)		(9,826)
Finance costs		16,818		9,826
		<u>-</u>		<u>-</u>
Net cash outflow from operating activities		-		-
Investing activities				
Interest received	-		3,991	
	<u>-</u>		<u>3,991</u>	
Net cash (used in)/generated from investing activities		-		3,991
Financing activities				
Interest paid on loan facilities	-		(3,991)	
	<u>-</u>		<u>(3,991)</u>	
Net cash used in financing activities		-		(3,991)
Net increase/(decrease) in cash and cash equivalents		-		-
Cash and cash equivalents at beginning of year		-		-
		<u>-</u>		<u>-</u>
Cash and cash equivalents at end of year		-		-
		<u><u>-</u></u>		<u><u>-</u></u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company Information

The Hospital Company (Southmead) Holdings Limited ("the company") is a private limited company domiciled and incorporated in England and Wales, in the UK. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG and the registered number is 07080009.

The Group consists of The Hospital Company (Southmead) Holdings Limited and its subsidiary.

1.1 Accounting convention

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

The financial statements are presented in pound sterling, which is the functional currency. All amounts in these financial statements are rounded to the nearest thousand.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit.

New standards and interpretations applicable from 1 January 2018

Standards and interpretations mandatorily applicable from 1 January 2018 have no material impact on the Group's financial statements at 31 December 2018. These are mainly:

- IFRS 15 "Revenue from contracts with customers"
- IFRS 9 "Financial instruments"

Standards and interpretations adopted by the IASB but not yet applicable at 31 December 2018.

The Group has not applied early the following standards and interpretations that could concern the Group and of which application was not mandatory at 1 January 2018:

- IFRS 16 "Leases"

A study of the impacts and practical consequences of applying these standards, amendments and interpretations is under way.

Basis of consolidation

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Transactions are eliminated upon consolidation. Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

No profit or loss is presented for the company as permitted by section 408 of the Companies Act 2006. The profit for the year was £nil (2017: £nil).

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.2 Going concern

The Group is in a net liabilities position as at 31 December 2018 due to the fair value of the interest rate and RPI swaps, and is in a net current liability position due to the re-classification of certain liabilities as current, as detailed below. This is a non-cash item and does not affect the cashflows of the Group and the liability is expected to unwind over the life of the project. The directors have reviewed the Group's cash flow forecast and profit projections over the concession period. The forecasts demonstrate that the Group expects to comply with its banking covenants, subject to the breach of future cover ratios to March 2021 noted below, and meet its liabilities as they fall due for the foreseeable future assuming that debts are not called due to forecast future Events of Default. The directors therefore believe it is appropriate for the financial statements to be prepared on a going concern basis.

On 15 January 2018 the Facilities Manager ("FM") for the Group, Carillion Services Limited ("CSL"), the Construction Contractor for the Group, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") entered into compulsory liquidation. This resulted in the project entering technical default, as the liquidation of the FM provider, the Construction Contractor or their parent guarantor is an Event of Default in the Facilities Agreement. PricewaterhouseCoopers ("PwC") were appointed as Special Managers to ensure services continued whilst an alternative service provider was put in place. In addition, cover ratio breaches were caused by the forecast increased cash outflows resulting from financial impact of the above events which resulted in a further event of default.

As the Events of Defaults remained at 31 December 2018, the Directors have reclassified all relevant debts under the finance documents as current. The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the finance documents are immediately repaid in full.

The Directors have acted to resolve the Events of Default. On 31st May 2018, CSL was terminated as Facilities Manager and Bouygues E&S UK Limited ("Bouygues") was appointed Agent of Operations to deliver the Facilities Management Services. On 18 April 2018 Bouygues were appointed as full FM provider which rectified the event of default relating to the FM liquidation. The other two Events of Default relating to CCL's liquidation and the default level ratios were waived by lenders on 16 September 2019.

However, there is current uncertainty over the projected 12 month Debt Service Cover Ratio as a result of the financial implication of the above events and potential future settlements with the North Bristol Trust – with current forecasts being that the cover ratio will continue to be breached through to March 2021 which is not forecast to be able to be remedied. As noted above, the Group has been successful in receiving waivers from the Lenders for ratio breaches to date and through discussions with the Lenders, expects that any future covenant breaches would receive waivers to March 2021 when ratios are expected to recover.

The Group continues to trade normally and as at the date of signing the financial statements and the Unitary Charge continues to be paid. Given the above, at the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

However, there is no certainty that the lenders will provide waivers for future covenant breaches and will not exercise their rights under those Events of Default as they arise and as such there is a material uncertainty that may cast significant doubt over the Group and Parent Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that would result.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Classification of financial instruments issued by the company

Following the adoption of IFRS 9, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potential unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium accounts exclude amounts in relation to those shares.

Impairment excluding deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Revenue

The Group adopted IFRS 15 on 1 January 2018. Given that the impacts identified were not material, the 2017 data presented for the purpose of comparison were not adjusted.

Service revenue represents revenues from the provision of construction services to Private Finance Initiative ("PFI") projects calculated as the fair value of services provided. A margin is recognised on the service provided which is reimbursed to the company along with the value of construction over the duration of the concession by the grantor through payment of a unitary charge in line with the Project Agreement of 25 February 2010.

Contracts with customers

In accordance with IFRIC 12 and the various provisions of adopted IFRSs, the company has determined the appropriate treatment of the principal assets of, and income streams from PFI and similar contracts. Results of all contracts with customers which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the contracts.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Contracts with customers treated as financial assets

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are held at amortised cost.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the construction phase, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, in accordance with IFRS 15. Costs for this purpose include valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method.

The finance receivables are held as loan or receivable in accordance with IFRS 9: 'Financial Instruments: Recognition and measurement'. Finance receivables are recognised initially at fair value. Subsequent to initial recognition, finance receivables are measured at amortised cost using the effective interest method less any impairment losses.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.3 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they originated. The Group derecognises a financial asset when the contractual rights to the cashflows from the asset expire, or it transfers the rights to receive contractual cashflows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amounts presented in the balance sheet when and only when the Group has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairments losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and all cash deposits. Bank overdrafts that are repayable on demand and form integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Restricted cash

The Group is obligated to keep a separate cash reserve in respect of future major maintenance costs and senior debt service. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £19,670,000 at the year end (2017: £19,124,000).

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through the profit and loss) are recognised initially on the trade date, which is the date the company becomes party to the contractual provision of the instrument.

The Group derecognises the liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other liabilities category. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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 group 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.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.4 Derivatives

Derivative financial instruments and hedging

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk and RPI exposure.

On initial designation of the derivative as the hedging instrument, the group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedge risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instrument are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged attributable to the hedged risk. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivatives are held at fair value and changes therein as described below.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Determination of fair values

A number of the company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair value have been determined for measurement and/or disclosure purposes based on the following method:

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivable, is estimated at the present value of future cash flows, discounted at market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

Derivatives

The fair value of interest rate swaps is based on broker quotes. Fair value reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the company and counterparty when appropriate.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

1.5 Taxation

The Group has entered into a composite trade agreement with the HMRC where by accounting profits are charged to corporation tax using tax rates enacted or substantially enacted at the balance sheet dates.

Tax on profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to those taxes levied by the same tax authority as the same entity or a different tax entity but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.6 Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method and, unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested and interest receivable on the financial asset.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

2 Judgements and key sources of estimation uncertainty

In the application of the group'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 estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

Construction Provision

Following the liquidation of Carillion, the liability to rectify defects now sits with the Group, therefore a provision of £7,151,000 has been included in the financial statements, this is an increase of £3,151,000 from 2017. The Directors have based this judgement on survey results and quotes from external suppliers and believe this to be an accurate forecast based on known defects and also includes some contingency for prudence. However, this is subject to ongoing asset condition surveys and therefore could increase. The lifecycle profile will also be reviewed as some defect items could be replaced through the lifecycle fund.

Contracts with Customers

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the Company's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of concession increase by 5% the impact on revenue and loss in the year would be a increase in revenue of £34,264 and an decrease in the loss of £5,711.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Revenue

	2018 £'000	2017 £'000
Revenue analysed by class of business		
Construction services	1,130	-
Operational services	12,870	5,859
Pass Through	4,081	4,888
Third Party	295	391
	<u>18,376</u>	<u>11,138</u>

Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers:

	2018 £'000	2017 £'000
Trade and other receivables	12,333	10,160
Other financial assets	562,406	554,597

The contract assets primarily relate to the company's rights to consideration for work completed but not billed at the reporting date on the company's PFI contract. The contract assets are transferred to receivables when the rights become unconditional.

The amount of revenue recognised in the current period from performance obligations satisfied (or partially satisfied) in previous periods was £18,376,000 (2017: £11,138,000).

4 Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the company's auditor:		
For audit services		
Audit of the financial statements of the group and company	1	1
Audit of the financial statements of the company's subsidiaries	21	16
	<u>22</u>	<u>17</u>

5 Employees

There were no employees during the year (2017: none). The directors have no contract of services with the company (2017: none). Amounts payable to third parties in respect of directors' services were £81,000 (2017: £50,000).

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6 Investment income

	2018 £'000	2017 £'000
Interest income		
Interest on bank deposits	78	85
Interest income on financial assets	45,030	44,459
Total income	45,108	44,544

7 Finance costs

	2018 £'000	2017 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	31,358	30,986
Other interest on financial liabilities	16,816	9,708
	48,174	40,694

8 Taxation

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profits for the current period	(27)	316
Deferred tax		
Origination and reversal of timing differences	(772)	-
Total tax (credit)/charge for the year recognised in the profit and loss account	(799)	316

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8 Taxation

(Continued)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. Further reductions to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) were substantively enacted on 6 September 2018. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

	2018 £'000	2017 £'000
(Loss)/profit before taxation	(4,541)	501
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(863)	96
Change in tax rate	11	-
Adjustments in respect of prior years	53	220
Taxation (credit)/charge for the year recognised in the profit and loss account	(799)	316

	2018 £'000	2017 £'000
Deferred tax arising on:		
Deferred tax credit recognised in other comprehensive income	148	(2,706)

9 Fixed asset investments

	Company 2018 £'000
Cost and net book value at the beginning and end of the year	1

10 Subsidiaries

Name of undertaking	Registered office	Class of shares held	% Held Direct
The Hospital Company (Southmead) Limited	8 White Oak Square, Swanley, Kent, BR8 7AG	Ordinary	100.00

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Financial Instruments

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Carrying amount of financial assets				
Debt instruments measured at amortised cost	554,953	552,502	116,551	99,936
Current Financial Assets	7,453	2,095	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Carrying amount of financial liabilities				
Measured at fair value through profit or loss				
- Other financial liabilities	143,075	142,209	116,551	99,936
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Financial Instruments

(Continued)

Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flow, discounted at the market rate of interest at the balance sheet date, as per note 14, if the effect is material.

Derivative financial instruments

The fair value of interest rate and RPI swaps is based on market to market valuations provided by swap counterparties.

Fair values

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

	Group Carrying amount 2018 £000	Group Fair value 2018 £000
Finance debtor	562,406	562,406
Trade and other receivables	12,333	12,333
Cash and cash equivalents	<u>36,627</u>	<u>36,627</u>
Total financial assets	<u>611,366</u>	<u>611,366</u>
Total financial liabilities at FV through P/L	(143,075)	(143,075)
Financial liabilities measures at amortised cost		
Other interest-bearing loans and borrowings	(583,228)	(386,504)
Trade and other payables	<u>(39,407)</u>	<u>(39,407)</u>
Total financial liabilities measured at amortised cost	<u>(622,635)</u>	<u>(425,911)</u>
Total financial liabilities	<u>(765,710)</u>	<u>(568,986)</u>
Total financial instruments	<u>(154,344)</u>	<u>42,380</u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Financial Instruments

(Continued)

	Group Carrying amount 2017 £000	Group Fair value 2017 £000
Other financial assets		
Loans and receivables		
Finance debtor	552,502	552,502
Trade and other receivables	10,160	10,160
Cash and cash equivalents	31,614	31,614
Total loans and receivables	594,276	594,276
Total financial assets	594,276	594,276
Total financial liabilities at FV through P/L	(142,209)	(142,209)
Financial liabilities measures at amortised cost		
Other interest-bearing loans and borrowings	(588,820)	(428,233)
Trade and other payables	(16,007)	(16,007)
Total financial liabilities measured at amortised cost	(604,827)	(444,240)
Total financial liabilities	(747,036)	(586,449)
Total financial instruments	(152,760)	7,827

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The group does not have any financial instruments that are measured by any other technique other than at Level 2.

	2018 £000	2017 £000
Interest rate swaps	(112,217)	(121,239)
Inflation rate swaps	(30,858)	(20,970)
	<u>(143,075)</u>	<u>(142,209)</u>

Credit risk

Financial risk management

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and investment securities.

The group receives its revenue from a government body and therefore is not exposed to significant risk. The group invests cash and enters into interest rate swap agreements with financial institutions. The credit quality of these institutions is reviewed by the directors on a regular basis. As such the company's exposure to credit risk is reduced.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Financial Instruments

(Continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £562,406,000 (2017: £552,502,000) being the total of the carrying amount of financial assets, excluding equity investments, shown in the table above.

The maximum exposure to credit risk for trade receivables and other financial assets at the balance sheet date by geographic region was:

	2018 £000	2017 £000
United Kingdom	<u>562,406</u>	<u>552,502</u>

The maximum exposure to credit risk for trade receivables and other financial assets at the balance sheet date by type of counterparty was:

	2018 £000	2017 £000
Government backed institutions - North Bristol NHS Trust	<u>562,406</u>	<u>552,502</u>

Credit quality of financial assets and impairments losses

The aging of trade and other receivables at the balance sheet date was:

	2018 £000	2017 £000
Government backed institutions - North Bristol NHS Trust	<u>562,406</u>	<u>552,502</u>
- not past due		

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Financial Instruments

(Continued)

Liquidity risk

Financial risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The company has adopted a cautious approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Cash flow hedges

The company's policy on derivative financial instruments is set out in Note 1 Accounting Policies. The company deems that its hedging arrangements are effective and any annual movement on the valuation of derivative financial instrument is incorporated in the hedging reserve. The company maintains both an interest rate and inflation rate swap.

Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

Market risk - Interest rate risk

Profile

At the balance sheet date the interest rate profile of the company's interest-bearing financial instruments was:

	2018 £000	2017 £000
Fixed rate instruments		
Financial assets	562,406	552,502
Variable rate instruments		
Financial liabilities	(712,038) (149,632)	(720,195) (167,693)

Sensitivity analysis

A sensitivity analysis has not been performed on the basis that the majority of variable rates are swapped for fixed rates and the group is not exposed to interest rate risk.

Capital management

The group manages its cash, bank loan and other overdrafts and equity as capital. The group's principal objective is that the group has sufficient capital to fund its operations. In developing business plans, the directors consider the likely capital requirements and how to fund them. Additional capital is funded by the least cost source at the time of fund raising.

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	6,266	5,758	-	-
Other receivables due from related parties	-	-	19,121	2,505
Corporation tax recoverable	257	-	-	-
Accrued income	5,186	4,287	-	-
Prepayments and other debtors	624	115	-	-
Total debtors	12,333	10,160	19,121	2,505

13 Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Interest payable	27,249	10,458	-	-
Trade payables	2,975	193	-	-
Corporation tax payable	-	96	-	-
VAT	346	685	-	-
Other payables due to related parties	-	-	19,121	2,505
Accruals and deferred income	1,686	575	-	-
	32,256	12,007	19,121	2,505

14 Borrowings

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank loans	467,249	471,140	-	-
Loan due to parent undertaking	97,430	97,430	97,430	97,430
	564,679	568,570	97,430	97,430
Current	471,989	4,765	-	-
Non-current	92,690	563,805	97,430	97,430

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

14 Borrowings

(Continued)

Bank borrowings relate to term loan facilities granted by banks. The above table shows those loan facilities made available to the group and their level of utilisation at the balance sheet date.

The carrying value is stated above after taking into account interest and fees accounted for under International Financial Reporting Standards. The associated aggregate effective interest adjustment at the balance sheet date was £18,549,000 (2017:£19,391,000). As the Event of Default remained at 31 December 2018, the Directors have reclassified all relevant debts under the finance documents as current.

As at 31 December 2018, the amount utilised on the term loan facilities was £485,798,000 (2017: £490,531,000) against a facility of £503,620,000.

On 15 September 2015, the company issued an aggregate total unsecured subordinated loan notes of £97,430,000 repayable by 25 February 2045.

The loan due to parent undertaking is shown as both a receivable and payable in the Group's consolidated balance sheet as it is a pass through to the Shareholders for subordinated debt.

Term loan facilities are provided by Lloyds Bank Plc (£245,599,000) and the European Investment Bank (EIB) (£240,199,000) which are secured by fixed charge on the company's assets. Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the bank borrowings and are being amortised using the effective interest rate method. The term loans are repayable in 60 instalments commencing on 31 March 2016. Interest is charged on amounts drawn under the facilities based on: floating LIBOR for Lloyds bank facilities and on a fixed rate basis for the European Investment Bank facility.

The company has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. For the term facility provided by Lloyds Bank, five hedging agreements have been entered into with Lloyds Bank, Royal Bank of Scotland, National Australia Bank, Credit Agricole and Societe Generale, all fixing the interest rate at 4.728%.

	Nominal Interest rate	Year of maturity	Fair value 2018	Fair value 2017
Variable rate loans - Lloyds Bank Plc	3.47%	2040	165,527	165,132
Fixed rate loans - EIB	5.79%	2040	162,941	166,671
Subordinated loan notes	10.2%	2045	<u>58,036</u>	<u>97,430</u>
			<u>386,504</u>	<u>428,233</u>

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Provisions for liabilities

A provision has been recognised at £7,151,000 (2017: £4,000,000) to rectify defects which would have been the obligation of Carillion Construction Limited prior to their liquidation in January 2018. The provision has been estimated based on quotes obtained by external consultants and reflects the forecast liability that now sits with the Group. The vast majority of the work will be completed within 2019. The Directors have based this judgement on survey results and quotes from external suppliers and believe this to be an accurate forecast based on known defects and also includes some contingency for prudence. However, this is subject to ongoing asset condition surveys and therefore could increase. The lifecycle profile will also be reviewed as some defect items could be replaced through the lifecycle fund.

16 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the group and company, and movements thereon:

	Assets 2018 £'000	Assets 2017 £'000
Group		
Tax losses	772	-
Derivative financial instruments	24,323	24,175
	<u>25,095</u>	<u>24,175</u>
	Group	Company
	2018	2018
	£'000	£'000
Movements in the year:		
Asset at 1 January 2018	(24,175)	-
Credit to profit or loss	(772)	-
Recognised in equity	(148)	-
	<u>(25,095)</u>	<u>-</u>
Asset at 31 December 2018	(25,095)	-

There are no unrecognised deferred tax gains or losses. Deferred tax assets are provided in compliance with IAS 12 as it is expected that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The deferred tax asset at 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

17 Share capital

	Group and company 2018 £'000	2017 £'000
Ordinary share capital		
Issued and fully paid		
1,000 Ordinary of £1 each	1	1

THE HOSPITAL COMPANY (SOUTHMEAD) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17 Share capital

(Continued)

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

18 Post reporting date events

Events of Default under the financing agreements that had occurred at the balance sheet date were liquidation of a major project party (both FM provider - Carillion Services Ltd, and Construction contractor - Carillion Construction Ltd). Cover ratio breaches also arose on submission of the 31 March 2019 model, caused by the forecast increased cash outflows. On 18 April 2019 Bouygues E&S UK Limited were appointed as full FM provider which rectified the event of default relating to the FM liquidation. The other two Events of Default relating to CCL's liquidation and the default level ratios were waived by lenders on 16 September 2019.

Settlement Agreement 3 with the Trust was signed on 25 April 2019 and paid for in installments throughout the 2019 financial year. Settlement Agreement 4 relating to Fire remains in negotiations with the Trust.

19 Related party transactions

Transactions with related parties

During the year the group entered into the following transactions with related parties:

	Purchase of goods	
	2018	2017
	£'000	£'000
Group		
PIP Infrastructure Investments Limited (Director fees)	25	24
Infrastructure Investments (Health) Limited (Director fees)	25	24
PIP Infrastructure Investments Limited (Subordinated Distribution)	-	3,991
Infrastructure Investments (Health) Limited (Subordinated Distribution)	-	3,991
	<u>50</u>	<u>8,030</u>

	Payables outstanding	
	2018	2017
	£'000	£'000
Group		
PIP Infrastructure Investments Limited (Subordinated Distribution)	58,276	49,978
Infrastructure Investments (Health) Limited (Subordinated Distribution)	58,276	49,978
	<u>58,276</u>	<u>49,978</u>

20 Ultimate parent company and parent company of larger group

There is no ultimate parent company. As at 31 December 2018, 50% of the company's share capital was held by PIP Infrastructure Investments (Southmead) Limited and 50% by Infrastructure Investments (Health) Limited. Both companies are incorporated in Great Britain with the following registered addresses, PIP: Cannon Place, Cannon Street, London, EC4N 6AF. Infrastructure Investments: 12 Charles II Street, London, SW14 4QU. These financial statements represents the smallest and largest group in which the Company's results are consolidated.