The Hospital Company (Sandwell) Holdings Limited

Annual report and financial statements

Registered number 09822833

For the period ended 31 December 2016

Strategic report

The directors present their strategic report for the period ended 31 December 2016.

Principal activities

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

The principal activities of the subsidiary are the design, redevelopment, financing, operation and maintenance of Midland Metropolitan 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 Sandwell and West Birmingham 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 11 December 2015.

The consolidated income statement is set out on page 7 and relates to the operating activities during the period. The directors do not recommend the payment of a dividend.

The directors consider the performance of the group during the period, the financial position at the end of the period and its prospects for the future to be satisfactory.

Principal risks and uncertainties

The group's principal activity is detailed above and its trading relationships with its 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.

Credit risk

The group will receive 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 has contracted out the responsibility for lifecycle costs and these are now at the risk of the sub-contractor. A cash lifecycle fund will be held by the group to cover future anticipated replacement costs and will be utilised in reimbursing the sub-contractor for the profiled 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.

Solvency and performance of sub-contractors

The solvency and performance of key sub-contractors is regularly monitored by the directors.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

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. Completion was original scheduled for Autumn 2018 but is now envisaged as being delayed until Spring 2019 due primarily to prolonged design works.

Performance of the services

Once the project is in operation, the client has the ability to levy financial penalties relating to the 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.

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 period ended 31 December 2016 which are based on fixed long-term contracts have been in line with the directors' expectations. The impact of project delays in respect of delayed draw down of funds in comparison to the contracted lending profile has been assessed and is referred to in Note 1.

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 14 August 2017 and signed on its behalf by

M A Trodd
Director

84 Salop Street
Wolverhampton
WV3 0SR

14 August 2017

Directors' report

The directors present their report and consolidated financial statements for the period ended 31 December 2016.

As at 31 December 2016, 50% of the company's share capital was held by Carillion Private Finance (2015) Limited and 40% by Dukehill Investments Limited and 10% by Infrastructure UK Limited. All these companies are incorporated in Great Britain.

Future developments

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

Post balance sheet events

There were no significant post balance sheet events.

Directors

The directors who held office during the period were as follows:

M A Trodd	appointed	8 December 2015		
L Oliver	appointed	13 October 2015	resigned	8 December 2015
M Palmer	appointed	8 December 2015		
R Robinson	appointed	8 December 2015		
A Bell	appointed	13 October 2015		
M Morgan	appointed	8 December 2015		
J Fox	appointed	8 December 2015		
J Doshi	appointed	26 January 2017		

Disclosure of information 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 group's auditor is unaware; and each director has taken all the steps that they ought to have taken 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.

By order of the board

M A Trodd
Director

84 Salop Street
Wolverhampton
WV3 0SR

14 August 2017

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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 period. Under that law they have elected to prepare both the group and parent company financial statements in accordance with 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- 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 the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of The Hospital Company (Sandwell) Holdings Limited

We have audited the financial statements of The Hospital Company (Sandwell) Holdings Limited for the period ended 31 December 2016 set out on pages 7 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, 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 web-site 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 affairs and of the parent company's affairs as at 31 December 2016 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with 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 requirements of the Companies Act 2006; and
- the financial statements 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 Strategic Report and Directors' Report for the financial period is consistent with the financial statements. Based solely on work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified any material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006

Independent auditor's report to the members of The Hospital Company (Sandwell) 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's 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.

Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

14 August 2017

Consolidated Income Statement
for the period ended 31 December 2016

	Note	**Period ended 31 December 2016 £000**
Revenue	2	**154,785**
Cost of sales		**(148,770)**
Gross profit being operating profit	3	**6,015**
Financial income	5	**3,113**
Financial expense	5	**(3,423)**
Net financing expense		**(310)**
Profit before tax		**5,705**
Taxation	6	**(1,143)**
Profit for the period	16	**4,562**

The notes on pages 15 to 33 form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For period ended 31 December 2016

	Note	**Period ended 31 December 2016 £000**
Profit for the period	*16*	**4,562**
Other comprehensive income		
Net change in fair value of cash flow	*5*	**(15,837)**
Income tax on other comprehensive income	*10*	**2,692**
Other comprehensive expense for the period, net of income tax	*16*	**(13,145)**
Total comprehensive expense for the period		**(8,583)**

Consolidated balance sheet
at 31 December 2016

	Note	2016 £000
Non-current assets		
Other financial assets	*7*	**124,176**
Trade and other receivables	*10*	**77**
Deferred tax assets	*9*	**2,692**
		126,945
Current assets		
Other financial assets	*7*	**-**
Trade and other receivables	*10*	**10,859**
Cash and cash equivalents		**157**
		11,016
Total assets		**137,961**
Current liabilities		
Trade and other payables	*12*	**(18,069)**
Other interest bearing loans and borrowings	*11*	**-**
Other financial liabilities	*8*	**(268)**
		(18,337)
Non-current liabilities		
Trade and other payables	*12*	**-**
Other interest-bearing loans and borrowings	*11*	**(112,637)**
Other financial liabilities	*8*	**(15,569)**
		(128,206)
Total liabilities		**(146,543)**
Net liabilities		**(8,582)**
Equity attributable to equity holders of the parent		
Share capital	*14*	**1**
Hedging reserve	*15*	**(13,145)**
Retained earnings	*15*	**4,562**
Total deficit		**(8,582)**

These financial statements were approved by the board of directors on 14 August 2017 and were signed on its behalf by:

M A Trodd
Director
Registered number 9822818

Consolidated Statement of changes in equity

	Note	**Share capital £000**	**Hedging reserve £000**	**Retained Earnings £000**	**Total equity £000**
Balance at start of the period		-	-	-	-
Total comprehensive income for the period					
Profit for the period		-	-	4,562	4,562
Other comprehensive income:					
Issue of share capital		1	-	-	1
Net change in fair value of cash flow hedges	*5*	-	(15,837)	-	(15,837)
Deferred tax on other comprehensive income	*10*	-	2,692	-	2,692
Total other comprehensive income		1	(13,145)	4,562	(8,582)
Total comprehensive income for the period		1	(13,145)	4,562	(8,582)
Balance at 31 December 2016		1	(13,145)	4,562	(8,582)

Consolidated statement of cash flow

for the period ended 31 December 2016

	Note	**Period ended 31 December 2016 £000**
Cash flows from operating activities		
Profit for the period	*16*	**4,562**
Adjustments for:		
Financial income	*5*	**(3,113)**
Financial expense	*5*	**3,423**
Taxation	*6*	**1,143**
		6,015
Increase in trade and other receivables		**(132,454)**
Increase in trade and other payables		**19,864**
		(106,575)
Interest received on bank deposits and finance receivables	*5*	**76**
Interest paid and similar charges		**(5,982)**
Tax paid		**-**
Net cash outflow from operating activities		**(112,481)**
Cash flows from financing activities		
Drawings from loan facilities net of issue costs		**112,637**
Injection of equity		**1**
Net cash inflow from financing activities		**112,638**
Net increase in cash and cash equivalents		**157**
Cash and cash equivalents at the beginning of the period		**-**
Cash and cash equivalents at the end of the period		**157**

Company balance sheet
at 31 December 2016

	Note	2016 £'000
Non-current assets		
Investments	8	**1**
Total assets		**1**
Net assets		**1**
Equity attributable to equity holders of the parent		
Share capital	15	**1**
Total equity		**1**

These financial statements were approved by the board of directors on 14 August 2017 and were signed on its behalf by:

M A Trodd
Director
Registered number 7080964

Company statement of changes in equity
at 31 December 2016

	Share capital £'000	Total Equity £'000
Balance at the beginning of the year	-	-
Injection of equity	1	1
Balance at the end of the year	1	1

Company cash flow statement

for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000
Cash and cash equivalents at the beginning of the year		-
Cash flow from investment activities		
Investment in subsidiary	7	(1)
		(1)
Cash flow from financing activities		
Injection of equity	15	1
		1
Cash and cash equivalents at the end of the year		-

Notes
(forming part of the financial statements)

1 Accounting policies

The Hospital Company (Sandwell) Holdings Limited (the "company") is a company incorporated and domiciled in the UK. The registered address of the company is 84 Salop Street, Wolverhampton, WV3 0SR.

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 accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

Measurement convention

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.

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. The accounting policies of the group have been changed where necessary to align with the policies adopted by the group.

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 *(2015: £nil)*.

Going concern

The financial statements are prepared on the going concern basis which assumes that the group will continue in operational existence for the foreseeable future.

Notwithstanding the group's net liabilities of £8,582,000 as at 31 December 2016, the directors believe it is appropriate for the financial statements to be prepared on a going concern basis. Furthermore, the directors have reviewed the group's cash flow forecasts and profit projections over the concession period. The forecasts demonstrate that the group expects to comply with its banking covenants and meet its liabilities as they fall due for the foreseeable future. The group received a waiver from lenders under the Common Terms Agreement on 13 July 2017 in respect of the potential gap between the anticipated loan drawdown profile which was subject to an interest rate swap at financial close and the actual and forecast loan profile upto and including 31 January 2018 before which a revised construction programme will be received from the construction contractor and agreed with relevant stakeholders, including lenders, The directors believe that the group remains a going concern as in their view it is in the best interests of lenders to continue with a waiver should similar circumstances still exist in January 2018 so as to enable completion of the project and the continuation of planned service of senior and junior debt.

Classification of financial instruments issued by the group

Following the adoption of IAS 32, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the group (continued)

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 group'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.

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 amount and intends 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 impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an 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.

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 group 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.

Derivative financial instruments and hedging

Derivative financial instruments

The group holds derivative financial instruments to hedge its interest rate risk 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 hedged 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 instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% – 125%. For a cash flow hedge of a forecast

Notes *(continued)*

1 Accounting policies *(continued)*

***Derivative financial instruments and hedging** (continued)*

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 are 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

Impairment excluding inventories, and 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

Services revenue (in accordance with IFRIC 12) 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 recognized on the service provided which is reimbursed to the group 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.

Service concessions

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

Service concessions 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 direction of 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.

Notes *(continued)*

1 Accounting policies *(continued)*

***Service concessions treated as financial assets** (continued)*

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 valuc 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 IAS 11. 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 IAS 39: '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.

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.

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 the profit or loss for the period 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 is the expected tax payable or receivable on the taxable income or loss for the period, 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 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 taxable 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.

Determination of fair values

A number of the group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values 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 receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

Notes *(continued)*

1 Accounting policies *(continued)*

Determination of fair values (continued)

Derivatives

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

Accounting estimates and judgements

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the amount reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. There are no significant accounting estimates or judgements required in the preparation of these financial statements.

New IFRS standards, amendments and interpretations not adopted

The IASB and IFRIC have issued additional standards and amendments which are effective for periods starting after the date of these financial statements. The following standards and amendments have not yet been adopted by the Company:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017)
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)
- Effective date of IFRS 15 – amendment to IFRS 15 (effective for annual periods beginning on or after 1 January 2018)

The Group has considered the impact of these new standards and interpretations in future periods on profit and net assets. None of the above standards or interpretations are expected to have a material impact.

New IFRS standards and interpretations adopted during 2016

There were no new IFRS standards and interpretations adopted during the year.

Notes *(continued)*

2 Revenue

	Period ended 31 December 2016 £000
Rendering of:	
Construction services	154,785
	154,785

3 Expenses and auditor's remuneration

	2016 £000
Auditor's remuneration:	
Audit of these financial statements	1
Audit of subsidiary	11

4 Staff numbers and costs

There were no employees during the period. The directors have no contract of services with the company. Amounts payable to third parties in respect of directors' services were £60,000.

5 Finance income and expense

Recognised in profit or loss

	Period ended 31 December 2016 £000
Finance income	
Interest income on financial assets	3,037
Interest receivable	13
Other interest receivable	63
Total finance income	3,113

	Period ended 31 December 2016 £000
Finance expense	
Interest expense on financial liabilities measured at amortised cost	(3,423)
Total finance expense	(3,423)

Notes *(continued)*

5 Finance income and expense *(continued)*

Recognised in comprehensive income

	Period ended 31 December 2016 £000
Net change in fair value of cashflow hedges transferred to profit and loss	(15,837)
	(15,837)

6 Taxation

Recognised in the income statement

	Period ended 31 December 2016 £000
Current tax	
Current tax	1,143
Deferred tax charge	
Timing differences	-
Deferred tax charge	-
Total tax charge	1,143

Income tax recognised in other comprehensive income

	2016 £000
Deferred tax credit recognised on derivative financial instruments (note 10)	2,692
	2,692

Notes *(continued)*

6 Taxation *(continued)*

Reconciliation of effective tax rate

	Period ending 31 December 2016 £000
Profit for the period	**4,562**
Total tax charge	**1,143**
Profit before taxation	**5,705**
Tax using the UK corporation tax rate of 20%	**(1,143)**
Difference between rate at which deferred tax is provided & UK corporation tax rate	**-**
Total tax charge	**(1,143)**

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 21% to 20% with effect from April 2015. Further reductions to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively.

This will reduce the group's future tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

7 Investments in subsidiaries

The company has the following investment in a subsidiary:	Company **£'000**
Costs and net book value at the beginning and at the end of the year	**1**

Investments in subsidiary undertakings represent a holding of 100% of the ordinary share capital of The Hospital Company (Sandwell) Limited. This company is incorporated in Great Britain and its sole purpose in the design, build, operation, servicing and maintenance of a hospital in Smethwick, Sandwell.

8 Other financial assets

	2016 £000
Non-current	
Other financial assets	**124,176**
	124,176
Current	
Other financial assets	**-**
Total	**124,176**

Notes *(continued)*

9 Other financial liabilities

	2016 £000
Non-current	
Financial liabilities designated as fair value through profit or loss	**(15,569)**
	(15,569)
Current	
Financial liabilities designated as fair value through profit or loss	**(268)**
Total	**(15,837)**

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £000
Financial assets	
Derivative financial instruments	**2,692**
Deferred tax assets	**2,692**

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 2016 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Movement in deferred tax during the period

	At start of period £000	Recognised in income £000	Recognised in equity £000	31 December 2016 £000
Financial assets				
Derivative financial instruments	-	-	2,692	2,692
	-	-	2,692	2,692

Notes *(continued)*

11 Trade and other receivables

	2016 £000
Trade receivables	-
Other receivables	10,469
Prepayments	467
	10,936
Analysed:	
Non-current	77
Current	10,859
	10,936

Notes *(continued)*

12 Other interest-bearing loans and borrowings

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

	Carrying value 2016 £000
Non-current	**112,637**
Current	**-**
Total	**112,637**

The carrying value is stated above after taking into account interest and fees accounted for under International Financial Reporting Standards.

As at 31 December 2016, the amount utilised on the fixed term loan facilities was £44,741,000 against a facility of £106,901,000. As at 31 December 2016, the amount utilised on variable term loan facilities was £71,678,000 against a facility of £135,603,000. The variable term loan facility was paid off in full on 25 September 2016.

Term loan facilities are provided by Credit Agricole (£135,603,000) and the European Investment Bank (EIB) (£106,901,000) which are secured by fixed charge on the group'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 2019. Interest is charged on amounts drawn under the facilities based on: floating LIBOR for Credit Agricole bank facilities and on a fixed rate basis for the European Investment Bank facility.

The group has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. For the term loan facility provided by Credit Agricole, four hedging agreements have been entered into with DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Sumitomo Mitsubushi Banking Corporation, KfW IPEX GmbH and Credit Agricole all fixing the interest rate at 2.343%. For the equity bridge loan facility provided by Credit Agricole, three hedging agreements have been entered into with DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Sumitomo Mitsubushi Banking Corporation, KfW IPEX GmbH all fixing the interest rate at 0.969%.

The fair value of these agreements are disclosed in note 18.

	Nominal interest rate	Period of maturity	Fair value 2016 £000
Variable rate loans – Credit Agricole		2048	**64,075**
Fixed rate loans – EIB	3.053%	2048	**32,030**
			96,105

Notes *(continued)*

13 Trade and other payables

	2016 £000
Current	
Trade payables	174
Non-trade payables and accrued expenses	16,577
Interest payable	175
Corporation tax payable	1,143
	18,069
Non-current	
Other trade payables	-
	18,069

14 Capital commitments

Under the terms of a contract with Carillion Construction Limited dated 11 December 2015, the group was committed at 31 December 2016 to payments totalling £177,924,000 in respect of design and construction services to be provided over the next two years.

15 Share capital

	Ordinary shares 2016 £000
Number of allotted, called up and fully paid ordinary £1 shares at the beginning and at the end of the period	1

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 meetings of the group.

Notes *(continued)*

16 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Hedging reserve	Gains or losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge
Retained earnings	All other net gains or losses and transactions with owners not recognised elsewhere

	Hedging reserve £000	Retained earnings £000	Total £000
Balance brought forward at the start of the period	-	-	-
Profit for the period	-	4,562	4,562
Other comprehensive income	(13,145)	-	(13,145)
Balance carried forward at 31 December 2016	(13,145)	4,562	(8,583)

17 Financial instruments

16 (a) 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.

Notes *(continued)*

18 Financial instruments *(continued)*

***18(a) Fair values of financial statements** (continued)*

Interest-bearing borrowings

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

Derivative financial instruments

The fair value of interest rate and RPI swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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:

	Carrying amount 2016 £000	Fair value 2016 £000
Financial assets		
Other financial assets (note 8)	**124,176**	**124,176**
Loans and receivables		
Trade and other receivables (note 11)	**10,936**	**10,936**
Cash and cash equivalents	**157**	**157**
Deferred tax (note 10)	**2,692**	**2,692**
Total loans and receivables	**13,785**	**13,785**
Total financial assets	**137,961**	**137,961**

Notes *(continued)*

18 Financial instruments *(continued)*

18 (a) Fair values of financial instruments (continued)

	Carrying amount	Fair value
	2016	**2016**
	£000	**£000**
Financial liabilities designated as fair value through profit or loss		
Other financial liabilities (note 9)	**(15,837)**	**(15,837)**
Total financial liabilities at fair value through profit or loss	**(15,837)**	**(15,837)**
Financial liabilities measured at amortised Cost		
Other interest-bearing loans and borrowings (note 12)	**(112,637)**	**(96,105)**
Trade and other payables (note 13)	**(18,069)**	**(18,069)**
Total financial liabilities measured at amortised Cost	**(130,706)**	**(114,174)**
Total financial liabilities	**(146,543)**	**(130,011)**
Total financial instruments	**(8,582)**	**7,950**

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.

2016	**Level 2**
	£000
Derivative financial liabilities	
Interest rate swaps	**(15,837)**
	(15,837)

Notes *(continued)*

18 Financial instruments *(continued)*

18 (b) 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 group's exposure to credit risk is reduced.

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 £124,176,000 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:

	2016 £000
United Kingdom	**124,176**
	124,176

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

	2016 £000
Government backed institutions – Sandwell and West Birmingham NHS Trust	**124,176**
	124,176

Credit quality of financial assets and impairment losses

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

	2016 £000
Government backed institutions – Sandwell and West Birmingham NHS Trust:	
– not past due	**124,176**
	124,176

Notes *(continued)*

18 Financial instruments *(continued)*

18 (c) Liquidity risk

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

The group 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

		2016				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities						
Secured loans	112,637	375,634	4,865	35,149	38,654	296,966
Trade and other payables	18,069	18,069	18,069	-	-	-
Derivative financial liabilities						
Interest rate swaps used for hedging	15,837	15,837	268	1,489	1,625	12,455
		409,540	23,202	36,638	40,279	309,421

18(d) Cash flow hedges

The group's policy on derivative financial instruments is set out in Note 1 Accounting Policies. The group 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 group maintains both an interest rate and inflation rate swap, the cash flows for which are estimated in Note 18(c) above.

Notes *(continued)*

18 Financial instruments *(continued)*

18 (e) 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 group'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 group's interest-bearing financial instruments was

	2016 £000
Fixed rate instruments	
Financial assets	124,176
Variable rate instruments	
Financial liabilities	(71,678)
	52,498

Sensitivity analysis

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

18(f) 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.

19 Related parties

Other related party transactions

	Purchase of goods and services incurred Period ended 31 December 2016 £000
Carillion Construction Limited	99,285
Carillion AMBS Limited	1,369
TPS Consult Limited	5
Dukehill Developments Limited	436
IUK Investments Limited	66
	101,161

Notes *(continued)*

19 Related parties *(continued)*

Other related party transactions (continued)

	Payables outstanding
	2016
	£000
Carillion Construction Limited	3
	3

20 Parent undertakings

There is no ultimate parent company.

As at 31 December 2016, 50% of the company's share capital was held by Carillion Private Finance (2015) Limited and 40% by Dukehill Developmentss Limited and 10% by IUK Investments Limited. All these companies are incorporated in Great Britain.