Company Registration No. SC493676 (Scotland)

IHS LOTHIAN LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IHS LOTHIAN LIMITED

COMPANY INFORMATION

Directors	Mr M Bradshaw Mr A Rose Mr J McDonagh Mr S Gordon Mr R Osborne
Secretary	HCP Social Infrastructure (UK) Limited
Company number	SC493676
Registered office	15 Lauriston Place Edinburgh EH3 9EP
Auditor	PricewaterhouseCoopers LLP Level 4 Atria One 144 Morrison Street Edinburgh EH3 8EX

IHS LOTHIAN LIMITED

CONTENTS

IHS LOTHIAN LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2018

Principal Activities
The principal activities of the company are the design, construction, financing, commissioning and maintenance of a new hospital for children and a department of clinical neurosciences, in accordance with the terms of an agreement with NHS Lothian ("NHSL").

Review of the business
The project reached financial close during February 2015, with construction also commencing in February 2015. Construction is due to complete in the second half of 2018 at which point the hospital will be commissioned and will be transferred to NHSL, then becoming operational.

Financial performance and financial position
The contract between the company and NHSL follows the Non-Profit Distributing programme. This means any profit the company makes is distributed back to NHSL. At 31 March 2018 a provision was held for £1,638,000 for profit made in the period from incorporation to 31 March 2018. The distribution of these profits will commence once the hospital is operational. The construction costs are capitalised forming the financial asset on the Statement of Financial Position. The directors consider the financial asset to be recoverable over the concession period.

Key Performance Indicators
The Company has financial and non-financial key performance indicators, each of which impacts its results for the period and will impact its future performance. The key performance indicators of the Company are:

- Progress against the financial model. The Company created a model before the commencement of the project which forecasts all income and expenditure. The Company tracks its progress against the financial model. The activities of the Company continue to progress in line with financial model.

- The level of service provided. This is measured through the availability of the asset and therefore the deductions to unitary payments levied by NHS Lothian when the asset is partially or completely unavailable for use. This is not currently considered as the facilities are under construction but this will be a key measure of performance once the facilities are operational.

- Financial covenants. The directors consider anticipated future performance and position of the Company and it is expected all financial covenants, as required by the finance agreements, will be met.

- Progress against construction schedule. During 2017 there were delays to the construction works. This meant construction did not complete in 2017 as planned. During 2018 a key contractor, Crummock, went into administration and a flood occurred at site. These two events further impacted the delays and construction completion is now expected to take place late 2018. There are no financial implications of the delay to the SPV, additional costs incurred as a result will be covered by liquidated damages received.

Principal risks and uncertainties
NHS Lothian is the company's sole client. However, the directors consider that no significant risk arises from such a small client base as the Scottish Executive has underwritten NHSL's obligations. Risk as a result of any construction delays has been passed down to the company's building contractor who will suffer liquidated damage should this occur. The company will have an obligation to maintain the fabric of the hospital over the life of its concession to a specified standard. This obligation has been passed down to the company's service provider.

On behalf of the board

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Mr S Gordon
Director
27 July 2018

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2018

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

Principal activities
The principal activities of the company are discussed in the Strategic Report.

Results and dividends
The results for the year are set out on page 8. There were no dividends declared during the year.

Financial Risk Management
The financial risk management policy of the Company is designed to identify and manage risk at the earliest possible point. These risks are reviewed by the Board on a quarterly basis.

The Company does not undertake financial instrument transactions that do not align with the Company's trading activities. Board approval would be required for the use of any new financial instrument and the Company's ability to enter into any transaction is constrained by the financial covenants within the finance agreements.

The Company's management of price risk, credit risk, liquidity risk and interest rate cash flow risk is detailed below:

Price risk

The Company's price risk is managed by the 25 year service delivery element of the project agreement with NHS Lothian which provides for payments that are fixed subject to performance and inflation. The terms are mirrored with the key supplier, being the facilities management provider, through the services contract.

Credit risk

Cash flows are generated from the availability of the hospital and from the maintenance provided to NHS Lothian. Cash flows are secured under a long term contract with NHS Lothian, whose liabilities are effectively underwritten by the Scottish Government.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings which are tailored to match the expected costs and revenues arising from the contract under the Non Profit Distributing program.

Interest rate cash flow risk

The Company has interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances which earn interest at variable rates. Interest bearing liabilities include senior debt, senior subordinated debt and loan notes, all of which bear interest at a fixed rate. No preference dividends were paid. The directors do not recommend payment of a final dividend.

Directors
The directors, who served throughout the year and up to the date of signature of the financial statements, were as follows:

Mr M Bradshaw	
Mr A Rose	
Mr J McDonagh	
Mr A Clapp	(Resigned 6 July 2018)
Mr S Gordon	(Appointed 6 July 2018)
Mr R Osborne	(Appointed 29 May 2018)

Directors' indemnities
The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the reporting date.

Future developments
The Company will continue the construction works. At the end of the construction period the Company will continue to provide planned and reactive maintenance work until the end of the concession in July 2042.

Auditor
The auditor, PricewaterhouseCoopers LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going Concern
The Directors have considered a number of factors in determining whether the Company remains a going concern.

The key factors and related conclusions are summarised below:

- The Directors have considered the ability of NHS Lothian to meet future contractual payments. The Directors have concluded that they do not currently consider this to be a material risk;
- The Directors have considered the impact of changes in the performance of key subcontractors, and their ability to continue to meet contractual commitments. The Directors do not currently consider this to be a material risk;
- The Company is funded by a secured loan facility of £73,975,000 with The Prudential Assurance Company Limited and Prudential Retirement Income Limited of which the full amount of £73,975,000 had been drawn down at the period-end; a secured loan facility of £72,431,000 with the European Investment Bank (EIB) of which the full amount of £72,431,000 has been drawn down at the period-end; an "on-loan" agreement with fellow group undertaking IHS Lothian Holdings Limited which has secured a £10,743,000 loan facility of which the full amount £10,743,000 has been drawn down at the period-end; and an "on-loan" agreement with fellow group undertaking IHS Lothian Holdings Limited which has secured a £10,514,000 loan facility of which the full amount £10,514,000 has been drawn down at the period-end. The Directors have considered the continued availability of finance from the Company's lenders. During the investment phase of the project, the Directors regularly monitor the creditworthiness of the lenders and do not currently consider this to be a material risk; and
- The Directors have considered the Company's compliance with financial covenant tests. The Directors do not consider there to be a material risk that these covenants will be breached in the foreseeable future.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors consider that it is appropriate for the financial statements of the Company to be prepared on a going concern basis.

On behalf of the board

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Mr S Gordon
Director
27 JULY 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF IHS LOTHIAN LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, IHS Lothian Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF IHS LOTHIAN LIMITED

Other required reporting
Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 July 2018

IHS LOTHIAN LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	31 March 2018 £000	31 March 2017 £000
Revenue	4	30,698	67,987
Cost of sales		(28,833)	(66,240)
Gross profit		1,865	1,747
Administrative expenses		(2,272)	(2,031)
Operating loss		(407)	(284)
Finance income	8	7,209	4,147
Finance costs	9	(6,802)	(3,863)
Result before taxation		-	-
Income tax expense		-	-
Result for the year		-	-

The income statement has been prepared on the basis that all operations are continuing operations.
The notes on pages 13 to 25 form part of these financial statements.

IHS LOTHIAN LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	31 March 2018 £000	31 March 2017 £000
Result for the year	-	-
Other comprehensive income		
Total other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-

The notes on pages 13 to 25 form part of these financial statements.

IHS LOTHIAN LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Financial asset	11	161,536	140,091
Current assets			
Trade and other receivables	11	6,333	1,679
Cash and cash equivalents		11,499	22,876
Financial asset		1,166	408
		18,998	24,963
Total assets		180,534	165,054
Current liabilities			
Trade and other payables	16	(5,969)	(6,217)
Provisions	17	(1,638)	(930)
		(7,607)	(7,147)
Non-current liabilities			
Borrowings	12	(172,927)	(157,907)
Total liabilities		(180,534)	(165,054)
Net assets		-	-
Equity			
Called up share capital	18	-	-
Retained earnings		-	-
Total equity		-	-

The financial statements were approved by the Board of directors and authorised for issue on 27 July 2018
Signed on its behalf by:

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Mr S Gordon
Director

Company Registration No. SC493676

The notes on pages 13 to 25 form part of these financial statements.

IHS LOTHIAN LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Share capital £000	Retained earnings £000	Total £000
Balance at 31 March 2016		-	-	-
Result for the year		-	-	-
Balance at 31 March 2017		-	-	-
Result for the year		-	-	-
Balance at 31 March 2018		-	-	-

The notes on pages 13 to 25 form part of these financial statements.

IHS LOTHIAN LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Cash absorbed by operations	19		(21,386)		(66,794)
Net cash outflow from operating activities			(21,386)		(66,794)
Financing activities					
Interest paid		(5,471)		(3,863)	
Proceeds from borrowings		14,579		10,508	
Proceeds of new loans		5,356		67,492	
Repayment of bank loans		(4,455)			
Net cash generated from financing activities			10,009		74,137
Net (decrease)/increase in cash and cash equivalents			(11,377)		7,343
Cash and cash equivalents at beginning of year/period			22,876		15,533
Cash and cash equivalents at end of year/period			11,499		22,876

The notes on pages 13 to 25 form part of these financial statements.

1 Accounting policies

Company Information
IHS Lothian Limited is a private company limited by shares incorporated in Scotland. The registered office is 15 Lauriston Place, Edinburgh, EH3 9EP.

1.1 Accounting convention
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, except as otherwise stated.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted, which have been applied consistently are set out below.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates and all values are rounded to the nearest £000s, except where otherwise indicated.

1.2 Going concern
The directors have at the time of approving the financial statements, a reasonable expectation that the company 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. Going concern is discussed in the Directors' Report on page 4.

1.3 Revenue
Service income is recognised in accordance with the financial asset and services income accounting policy shown under 'Accounting for Non-Profit Distributing (NPD) contracts' policy and excludes VAT.

1.4 Fair value measurement
IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The resulting calculations under IFRS 13 affected the principles that the Company uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed. IFRS 13 mainly impacts the disclosures of the Company. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

1.5 Cash and cash equivalents
Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and short term deposits with original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash and short term deposits as defined above.

1.6 Financial assets
Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

1 Accounting policies **(Continued)**

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those 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 of the investment have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.7 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially recognised at proceeds, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

1.8 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1 Accounting policies **(Continued)**

1.9 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1.10 Accounting for Non-Profit Distributing (NPD) Contracts

The Company has been established to undertake the design, build, operation and maintenance of a new hospital and department for clinical neuroscience. The Company has subsequently entered into agreements with finance providers and sub-contractors. Based on the contractual arrangements, the Company has classified the project as a service concession arrangement, and has accounted for the principal assets and income streams from the project in accordance with IFRIC 12 Service Concession Arrangements

During construction, revenue will be recognised at cost, plus a deemed profit margin. A sale of the construction cost is recorded in the statement of financial position as revenue amounting to cumulative asset spend plus an appropriate margin. Revenue taken will increase the financial asset by the same amount. The financial asset represents a long term receivable due from NHS Lothian. It represents the cumulative asset spend attributable to the availability based revenues with imputed interest on the balance.

During the operational phase the unitary charge received will be applied to revenue, capital repayment of the financial asset and interest income, applying the effective interest rate method. Revenue will be calculated based on cost plus an appropriate profit margin. The financial asset will be decreased to residual value over the life of the concession.

As the contract is NPD, a provision equalling the net profit is created, recognising the amount that is due to be paid to the Board, rather than being available for distribution to the shareholders. The provision will then be cleared by cash payments to the Board on the contractual payment dates.

2 Adoption of new and revised standards and changes in accounting policies
Standards which are in issue but not yet effective

2.1.2 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the company.

(b) New standards, amendments and interpretations not yet adopted A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following, set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is still underway.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to EU endorsement. The impact of IFRS 15 is being assessed by management. Implementation of IFRS15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some changes in the recognition of royalty income leading to earlier recognition of some income although the amounts involved are relatively immaterial. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

3 Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key area of accounting where the directors are making estimates and judgements is revenue recognition and the creation of the financial asset, as detailed in accounting policy 1.10 Accounting for Non-Profit Distributing (NPD) Projects.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical judgements

Carrying amount of the financial asset

The carrying amount of the service concession financial asset is measured using the following estimates:

(i) Construction margin applied to construction costs is nil.
(ii) Financial asset interest rate is 4.76%
(iii) Margin applied to administrative costs is 20.00%

4 Revenue

An analysis of the company's revenue is as follows:

	2018	2017
	£000	£000
Construction income	30,698	67,987

All turnover arose within the United Kingdom.

5 Auditor's remuneration

	2018	2017
Fees payable to the company's auditor and associates:	£000	£000
For audit services		
Audit of the company's financial statements	13	13

6 Employees

The company had no employees (excluding directors) during the period. (2017: Nil)

7 Directors' remuneration

	2018 £000	2017 £000
Sums paid to third parties for directors' services	14	15

8 Finance income

	2018 £000	2017 £000
Interest income		
Bank deposits	6	45
Financial asset	7,203	4,102
	7,209	4,147

9 Finance costs

	2018 £000	2017 £000
Interest on loans	6,281	3,412
Other interest payable	521	451
Total interest expense	6,802	3,863

10 Credit risk

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

There are no debtors that are past due on the reporting date. The maximum credit risk exposure relating to financial assets is represented by the carrying value at the balance sheet date.

11 Trade and other receivables

	Current		Non-current	
	2018 £000	2017 £000	2018 £000	2017 £000
Financial asset	1,166	408	161,536	140,091
VAT recoverable	58	1,275	-	-
Prepayments	6,275	404	-	-
	7,499	2,087	161,536	140,091

Amortisation of the financial asset balance will commence once the company is operational using the effective interest rate method.

12 Borrowings

	2018 £000	2017 £000
Secured borrowings at amortised cost		
Loans	137,954	137,697
Other loans	34,973	20,210
	172,927	157,907

Other loans within secured borrowings at amortised cost is shown net of unamortised issue costs of £349,000. Loans within secured borrowings at amortised cost is shown net of unamortised issue costs of £3,904,000.

Analysis of borrowings

Borrowings are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2018 £000	2017 £000
Non-current liabilities	172,927	157,907

On 13 February 2015 the Company entered into an Institutional Investor Senior Subordinated On-Loan Agreement with IHS Lothian Holdings Limited, a fellow group undertaking, under which IHS Lothian Holdings Limited guaranteed it a £10,743,000 loan facility attracting a fixed interest rate of 4.538% due in July 2040, of which the full amount has been drawn down. It also entered into an EIB Senior Subordinated On-Loan Agreement with IHS Lothian Holdings Limited, under which IHS Lothian Holdings Limited guaranteed it a £10,514,000 loan facility attracting a fixed rate of 4.560% due in July 2040, of which the full amount has been drawn down.

On 13 February 2015 the Company entered into an Institutional Investor Senior Facility Agreement with The Prudential Assurance Company Limited and Prudential Retirement Income Limited as Institutional Investor Senior Lenders. The Institutional Investor Senior Lenders guaranteed the Company a £73,975,000 loan facility attracting a fixed interest rate of 3.288% due in July 2040, of which the full amount has been drawn down. It also entered into a Senior Finance Contract with the European Investment Bank (EIB) where EIB guaranteed it a £72,431,000 loan facility attracting a fixed interest rate of 2.881% due in July 2040, of which the full amount has been drawn down.

All loans are repayable in six monthly instalments starting in September 2017. The loans are secured by a fixed charge over all property, bank accounts, receivables, investments, intellectual property, plant and machines, insurances and all rights, title and interest.

13 Fair value of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments.

	Carrying Value	Fair Value
	2017	**2017**
	£000	**£000**
Financial Assets		
Cash at bank	22,876	22,876
Finance debtor under construction	140,091	140,091
	162,967	162,967
Financial Liabilities		
Loans	137,697	137,697
Amounts due to a fellow group undertaking.	20,210	20,210
	157,907	157,907
	2018	**2018**
	£000	**£000**
Financial Assets		
Cash at bank	11,499	11,499
Finance debtor under construction	162,702	162,702
	174,201	174,201
Financial Liabilities		
Loans	137,954	137,954
Amounts due to a fellow group undertaking.	34,973	34,973
	172,927	172,927

13 Fair value of financial assets and liabilities **(Continued)**

Determining the fair value of financial assets and liabilities

Due to the fact the debt is only partially drawn down and was therefore recently negotiated, the directors consider fair value to equal book value. This will be re-assessed in future years.

All financial instruments for which fair value is disclosed are categorised within the fair value hierarchy described below. The categorisation is based on the lowest level input that is significant to the fair value measurement as a whole.

- **Level 1** Quoted prices in an active market (that are unadjusted) for identical assets or liabilities
- **Level 2** Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
- **Level 3** Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

Level 1

Cash at bank has been classified as level 1. The fair value is equal to the book value of £11,499.

Level 2

The company has no financial instruments classified as level 2.

Level 3

The financial instruments classified as level 3 are the finance debtor under construction, the Loans and the amounts due to a fellow group undertaking. At 31 March 2018 the fair value of the finance debtor under construction is equal to the book value of £162,702,000; the fair value of the Loan is equal to the book value of £137,954,000; and the fair value of the amounts owed to a fellow group undertaking is equal to the book value of £34,973,000.

During the period there were no transfers between levels.

14 Market risk

Market risk management

Interest rate risk

The directors consider the interest rate risk to the company to be minimal. All of the company's debt is fixed rate and this therefore means the borrowings are not impacted by any interest rate fluctuations. Since the year end the company has made short term cash deposits of less than three months, any changes to interest rate may impact the interest income received on future deposits.

15 Liquidity risk

	Less than 1 year £000	1 – 5 years £000	5+ years £000	Total £000
At 31 March 2017				
Loans	4,189	24,323	72,825	101,337
Amounts due to a fellow group undertaking	734	4,054	12,138	16,926
Accruals	5,871	-	-	5,871
Profit distribution provision	-	-	930	930
	10,794	28,377	85,893	125,064
At 31 March 2018				
Loans	9,863	39,141	146,735	195,739
Amounts due to a fellow group undertaking	3,135	12,110	65,748	80,993
Accruals	1,582	-	-	1,582
Profit distribution provision	-	-	1,638	1,638
	14,580	51,251	214,121	279,952

16 Trade and other payables

	Current 2018 £000	2017 £000
Trade payables	3,349	346
Accruals	2,620	5,871
	5,969	6,217

17 Provisions

	2018 £000	2017 £000
Profit distribution provision	1,638	930

Analysis of provisions
Provisions are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2018 £000	2017 £000
Current liabilities	1,638	930

(Continued)

17 Provisions

The above provision relates to surpluses payable to NHS Lothian as a distribution of profit under the Non-Profit distributing model.

18 Share capital

	2018	2017
	£	£000
Authorised, allotted, called up and fully paid		
100 ordinary A shares of £1 each	100	100
1 ordinary B share of £1 each	1	1
	101	101

On the 18th of December 2014, the company issued 1 ordinary share of £1 each to IHS Lothian Holdings Limited for a cash consideration of £1. This share was converted into an ordinary A share on the 12th February 2015.

In February 2015, the company issued 1 ordinary B share of £1 each to Lothian Health Board for a cash consideration of £1. In February 2015, the company issued 99 ordinary A shares of £1 each to IHS Lothian Holdings Limited for a cash consideration of £99.

19 Cash absorbed by operations

	2018	2017
	£000	£000
Profit for the year	-	-
Adjustments for:		
Finance costs recognised in profit or loss	6,802	3,863
Investment income recognised in profit or loss	(7,209)	-
Movements in working capital:		
Increase in trade and other receivables	(21,480)	(70,764)
Decrease in trade and other payables	(207)	(439)
Increase in provisions	708	546
Cash absorbed by operations	(21,386)	(66,794)

20 Capital commitments

Future capital expenditure on the financial asset which is contracted but not provided for in these financial statements amounts to £1,559,000. The total contracted value of the works to be undertaken is £150,374,000.

21 Capital risk management

The Company's capital and debt structure is set out in the concession term financial model at the commencement of the project. The equity and debt has been subscribed for in accordance with this model to date.

The Company's operations expose it to a variety of financial risks that include credit risk, interest rate risk and liquidity risk which are discussed in separate notes to the financial statements. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. HCP Management Services Limited, as a provider of financial services to the Company under a management services agreement, implements the policies set by the Board of Directors.

The Company has raised finance through loans from The Prudential Assurance Company Limited, Prudential Retirement Income Limited and the European Investment Bank. In addition the Company also raised finance through loans from a fellow subsidiary undertaking, IHS Lothian Holdings Limited, which had received loans from a fellow group undertaking, IHS Lothian Investments Limited, which secured loans from The Prudential Assurance Company Limited, Prudential Retirement Income Limited and the European Investment Bank. The Company operates a long term business and its policy is to finance it with long term borrowings.

IHS Lothian Limited will service these loans with cash-flows generated from its NPD concession asset. Based upon the projected future cash-flows the Directors consider that they will be able to meet their obligations as they fall due for the foreseeable future.

22 Related party transactions

Other transactions with related parties
During the year the company entered into the following transactions with related parties:

	2018	2017
	£000	£000
Purchase of services		
Entities with joint control or significant influence over the company	1,237	1,532

At the year end £550,000 was still owed to entities with joint control or significant influence over the company

23 Controlling party

As at 31 March 2018, the company was a wholly owned subsidiary of IHS Lothian Holdings Limited. In the director's opinion, the ultimate parent undertaking and controlling party was IHS Lothian Corporate Holdings Limited which is incorporated in Great Britain and registered in England and Wales.

The smallest and largest group in which the results of the company are consolidated is that headed by IHS Lothian Corporate Holdings Limited. The consolidated Financial Statements are available at:

IHS Lothian Corporate Holdings Limited
One, London Wall, London, England, EC2Y 5AB