

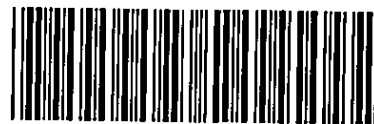
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Road Management Group Limited

Report and Financial Statements

31 December 2008

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28/09/2009

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COMPANIES HOUSE

Road Management Group Limited

Registered No. 02804119

Directors

P Smith
L J Henry
J Graells Ferrandez
G Carvalho
D Vilanova Abad
S J Usher

Secretary

Infrastructure Managers Limited

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Lloyds TSB Bank Plc
St George's House
6-8 Eastcheap
London EC3M 1LL

Solicitors

Freshfields
65 Fleet Street
London EC4Y 1HS

Registered Office

Fifth Floor
100 Wood Street
London EC2V 7EX

Directors' report

The directors present their report and group financial statements for the year ended 31 December 2008.

Results and dividends

The group profit for the year, after taxation amounted to £6,463,000 (2007 – £29,849,000). The prior year profit after taxation included an exceptional deferred tax credit of £23,182,000 as described in note 8(a) to the financial statements. The directors have not declared or paid any dividends (2007 – £530,000).

Principal activity and review of the business

On 8 February 1996, two subsidiaries of Road Management Group Limited entered into separate contracts with the Secretary of State for Environment, Transport and the Regions to design, build, finance, operate and maintain sections of the A1(M) and the A417/A419 trunk roads respectively. The A1(M) project is an upgrade to motorway standard of existing stretches of the A1 trunk road between Alconbury and Peterborough. The A417/A419 project involves upgrading the existing road to all-purpose dual carriageway standard, including the construction of three new bypass schemes and the operation and maintenance of the existing stretch of the road between Swindon and Gloucester.

The finance for the two projects was raised by the issue of £165,000,000 in guaranteed secured bonds due 2002-2021 issued by Road Management Consolidated PLC, a special purpose company which is also a subsidiary of Road Management Group Limited. The bonds are listed on the London Stock Exchange and have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by the monoline insurer AMBAC. Further funds were raised by means of a £111,000,000 loan facility provided by the European Investment Bank. A portion of this loan facility has the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by monoline insurers European Investment Fund. Both the bond and European Investment Bank loan proceeds are being on-lent to the project companies.

Financial close on the two projects was achieved on 28 March 1996 and progress has been satisfactory on all aspects of the Design, Build, Finance and Operate contracts since that time. The construction phase of the A417/A419 project was successfully completed on 1 July 1998 whilst the A1(M) construction phase was completed on 18 December 1998. Following the completion of the new works the group has been successfully carrying out routine maintenance functions to the satisfaction of the Highways Agency.

Three key performance indicators are used to measure the performance of the group:

(1) The level of traffic passing along the road and its sustained growth. Traffic growth in the year was below expectations, showing a decrease of 2.2% for A1(M) and 1.3% for A417/419 on the previous year on ordinary vehicles as a result of the economic downturn experienced during the year. The directors are confident that the traffic volumes will show a year on year increase from 2009 onwards. HGV's continue to perform well on both roads with traffic volumes exceeding the highest revenue-generating traffic-bands.

(2) The achievement of cash flow targets as set out in the annual budgets. The annual budgets are very accurate as a result of the experience gained during the last 13 years and did not vary significantly in 2008. Major maintenance on the roadways is occasionally deferred to suit site requirements.

(3) The maintenance or improvement of the shareholders' internal rate of return as projected in financial models which are produced on a six-monthly basis. A recently updated financial model shows sufficient levels of cash flow for the company to meet its financial obligations to its creditors and to maintain returns to shareholders.

21 other KPIs are monitored on a monthly basis and regularly show an excellent performance. They cover a broad range of subjects including response times, health and safety, network availability and traffic monitoring.

Directors' report

Supplier payment policy

The group recognises the importance of good relationships with its suppliers, therefore its established payment policy is to:

- (a) agree payment terms in advance of any commitment being entered into;
- (b) ensure suppliers are made aware of these terms by inclusion of the terms of payment on the order or contract; and
- (c) ensure that payments are made in accordance with the terms of the contract or order, providing that the presented documentation is complete and accurate.

At 31 December 2008 trade creditors represented 5 days (2007 – 34 days) of purchases.

Directors and their interests

The directors who served during the year ended 31 December 2008 and up to the date of this report were:

S F Kibblewhite	(resigned 6 March 2008)
B R B Pope	(appointed 15 February 2008, resigned 4 March 2008)
J P Chamberlain	(resigned 24 January 2008)
L J Henry	
P A Evans	(resigned 26 June 2009)
P Smith	
D G Hawkins	(resigned 31 December 2008)
J McDonagh	(appointed 4 March 2008, resigned 19 March 2009)
M J Ryan	(appointed 4 March 2008, resigned 19 June 2009)
J Graells Ferrandez	
A Garcia Zarandieta	(resigned 30 September 2008)
P Dodd	(resigned 31 January 2008)
M J Rawlinson	(resigned 6 March 2008)
S Shankland	(appointed 8 February 2008, resigned 4 March 2008)
G Carvalho	(appointed 19 March 2009)
D Vilanova Abad	(appointed 30 September 2008)
S J Usher	(appointed 26 January 2009)
P Simpson	(resigned 21 January 2009)

Principal risks and uncertainties

The risk management policy of the group is designed to identify and manage risk at the earliest point. The group keeps a detailed risk register which is formally reviewed by the board on a quarterly basis. The principal risks facing the group are broadly grouped as financial instrument and legislative risk.

Financial instrument risk

The group has raised finance through guaranteed secured bonds and bank borrowings, and places surplus cash in a fund of short term investments. All borrowings are made at fixed rates of interest. The group operates a long-term business and its policy is to finance it with long-term borrowings.

The group's exposure to and management of price risk, credit risk, interest rate risk and liquidity risk is detailed below:

Directors' report

Price risk

As at the year end the group has invested surplus cash in a Scottish Widows Investment Partnership Sterling short term cash fund. The movement in the market price of the units held has an impact on the carrying value of the short term investment which is classified as an "available for sale" financial asset.

The fund's objectives are to achieve superior returns to those of a direct money market investment by investing in short term instruments; however the value of the fund will be affected by normal market fluctuations, which may result in a change of value.

It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

Credit risk

The group's credit risk is concentrated as its principal cash-flows are due from the roadway concession assets.

The roadway concession cash-flows are secured under contract from the Highways Agency, a government body.

Interest rate risk

The group's policy is to manage its cost of borrowing using fixed rate debt. The fixed rate debt is not exposed to cash-flow interest rate risk but there is no opportunity for the group to enjoy a reduction in borrowing costs when rates fall. In addition, the fair value risk inherent in fixed rate borrowing means that the group would be exposed to unplanned costs should debt be repaid early as part of the liquidity management process.

Liquidity risk

The group aims to mitigate liquidity risk by at all times holding funds in a special reserve account equal to the sum required for the next debt service payment. This managed fund consists of a diversified portfolio of high quality sterling denominated money market instruments which can be realised within 24 hours. In addition the two operating subsidiary undertakings are required to maintain levels of net cash flow in each year equal to 1.2 times the annual debt service payments.

The roadway concession cash-flows are generated from traffic flows paid in the form of shadow tolls by the Highways Agency. The financial models for each project are regularly updated to reflect actual traffic performance and road maintenance experience. The financial models are subject to regular sensitivity tests to ensure that the group is able to meet its debt service cover ratios.

Legislative risks

The group faces legislative risks including increased fuel costs and vehicle taxation as a result of government policy, which could adversely affect the traffic flows on the two roadways.

The group currently receives tax relief for the capital cost of its roadway assets by claiming capital allowances in the form of Industrial Buildings Allowances (IBAs). In the UK Budget statement of 21 March 2007, it was announced that from 2008-09 IBAs would be gradually phased out, with the final withdrawal of this regime by 2010-11. This was enacted in the Finance Bill 2008.

Subsequent to the balance sheet date the Directors have come to an agreement with HM Revenue & Customs to adopt an alternative taxation treatment for the group. The group is likely to apply a Composite Trader Tax Treatment from 1 January 2010 onwards. In the interim the group will continue to claim IBAs. The adoption of this treatment does not have an adverse impact on the operations of the group.

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board

Director

Date:

Guille P.F. Carullo
22/09/2009

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Road Management Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Road Management Group Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Road Management Group Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

Date: *24 September 2009*

Group profit and loss account

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover	2	41,773	41,354
External charges		(4,786)	(5,039)
Depreciation charge		(5,960)	(5,412)
Other operating charges		(2,484)	(1,173)
		(13,230)	(11,624)
Operating profit	4	28,543	29,730
Bank interest receivable		2,399	1,992
Interest payable and similar charges	9	(23,045)	(23,836)
		(20,646)	(21,844)
Profit on ordinary activities before taxation		7,897	7,886
Exceptional deferred tax credit	8(a)	-	23,182
Tax on profit on ordinary activities (excluding exceptional deferred tax credit)	8(a)	(1,434)	(1,219)
Tax on profit on ordinary activities		(1,434)	21,963
Profit for the financial year		6,463	29,849

All amounts relate to continuing operations.

Group statement of total recognised gains and losses

for the year ended 31 December 2008

	2008 £000	2007 £000
Profit for the year after taxation	6,463	29,849
	6,463	29,849
Transfer to profit and loss account on disposal of short term 'available for sale' investment	-	53
Fair value adjustment on short term 'available for sale' investment	71	(11)
Total recognised gains and losses relating to the year	6,534	29,891

Group balance sheet

at 31 December 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Tangible assets	10	276,671	282,566
Current assets			
Debtors	12	26,627	30,944
Short-term investments		15,480	15,408
Cash at bank and in hand		28,513	20,183
Creditors: amounts falling due within one year	13	70,620 (17,680)	66,535 (17,407)
Net current assets		52,940	49,128
Total assets less current liabilities		329,611	331,694
Creditors: amounts falling due after more than one year			
Loans	14	(220,317)	(230,214)
Provisions for liabilities and charges			
Deferred taxation	15	(5,696)	(4,041)
Accruals and deferred income			
Deferred shadow tolls	16	(16,898)	(17,273)
		(242,911)	(251,528)
		86,700	80,166
Capital and reserves			
Called up share capital	17	25,335	25,335
Profit and loss account	18	61,305	54,842
Fair value reserve	18	60	(11)
Equity shareholders' funds		86,700	80,166

Director
Date:

Gerard P.F. Carle
22/09/09

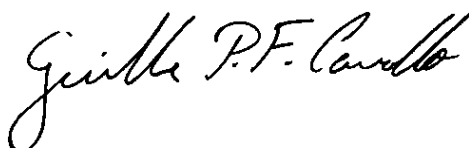
Company balance sheet

at 31 December 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Investments	11	25,335	25,335
Current assets			
Debtors	12	12,753	12,866
Creditors: amounts falling due within one year	13	(921)	(1,034)
Net current assets		11,832	11,832
Total assets less current liabilities		37,167	37,167
Creditors: amounts falling due after more than one year			
Loans	14	(11,832)	(11,832)
		25,335	25,335
Capital and reserves			
Called up share capital	17	25,335	25,335
Profit and loss account	18	–	–
Equity shareholders' funds		25,335	25,335

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

Director



22 SEP 2009

Group statement of cash flows

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities	20(a)	38,200	35,251
Returns on investments and servicing of finance	20(b)	(20,303)	(21,853)
Taxation	20(b)	–	141
Capital expenditure	20(b)	(65)	–
Equity dividend paid	20(b)	–	(530)
Management of liquid resources	20(b)	(1)	(83)
Financing	20(b)	(9,501)	(8,689)
Increase in cash		<u>8,330</u>	<u>4,237</u>

Reconciliation of net cash flow to movement in net debt

		2008 £000	2007 £000
Increase in cash		8,330	4,237
Decrease in loans		9,501	8,689
Increase in liquid resources		1	83
Other non-cash movements		(432)	(477)
Movement in net debt	20(c)	<u>17,400</u>	<u>12,532</u>
Net debt at 1 January	20(c)	<u>(204,124)</u>	<u>(216,656)</u>
Net debt at 31 December	20(c)	<u>(186,724)</u>	<u>(204,124)</u>

Notes to the financial statements

at 31 December 2008

1. Accounting policies

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards and the Companies Act 1985.

In particular as the group has listed bonds it has complied with the requirements of FRS 26 'Financial Instruments: Measurement' and FRS 29 'Financial Instruments: Disclosures'.

1.2 Going concern

The directors have reviewed the group's projected profits and cash flows which have been prepared on the basis of a detailed analysis of the group's finances, contracts and likely future traffic trends, covering accounting periods up to 31 December 2026.

Following this review the directors are confident that the group will be able to comply with its loan covenant requirements and settle its liabilities as they fall due and accordingly that it is appropriate to prepare the financial statements on a going concern basis.

1.3 Basis of consolidation

The group financial statements consolidate the financial statements of Road Management Group Limited and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for Road Management Group Limited as permitted by section 230 of the Companies Act 1985. The group retained profit includes £nil contributed by the parent undertaking.

1.4 Fixed assets

All fixed assets are initially recorded at cost. The cost of the road concession assets represents expenditure on the construction of the roadways up until the date of completion. This includes the direct cost of financing the construction, up until the date of completion.

1.5 Depreciation

Depreciation of the road concession assets is calculated on the annuity basis over the remaining period of the concession contract after completion of the roadways.

All other fixed assets are depreciated at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition of each asset over its expected useful life, as follows:

Plant and machinery	–	over 5 to 15 years
Land and buildings	–	over 26 years

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

1.6 Recognition of income

Shadow tolls receivable from the Highways Agency which were in excess of net operating costs, maintenance, depreciation costs and income were deferred up until completion of the roadway improvements. Subsequent to the completion of the roadway improvements, all income earned has been recognised in the profit and loss account and the deferred shadow tolls are being amortised over the remaining life of the concession in line with the depreciation charge.

1.7 Financial assets and liabilities

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

(i) Financial assets

The group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end.

Financial assets are initially measured at fair value, plus, in the case of financial assets not at 'fair value through profit or loss', directly attributable transactions costs.

'Available for sale' assets are non-derivative financial assets that are designated as such or are not classified as either 'fair value through profit and loss', 'held to maturity investments' or 'loans and receivables'. 'Available for sale' assets are carried in the balance sheet at fair value with gains or losses recognised in reserves via the statement of total recognised gains and losses until the financial asset is derecognised or determined to be impaired, at which time the cumulative gain or loss held in the fair value reserve is recognised in the profit and loss account.

'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market do not qualify as trading assets and have not been designated as either 'fair value through profit or loss' or 'available for sale'. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(ii) Financial liabilities

Loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Finance charges and directly attributable transaction costs are accounted for in the profit and loss account, except during the construction phase when they are capitalised into the cost of the fixed asset, using the effective interest rate method, and added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

1.8 Taxation

(i) *Current tax*

The charge for current taxation for the year is based on the profit for the year, adjusted for non assessable or disallowable items.

(ii) *Deferred tax*

Full provision has been made for deferred taxation in respect of timing differences that have originated, but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except that:

- Provision is made for tax on gains on disposal of assets that have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned.
- Provision is not made for the remittance of a subsidiary, associate or joint venture's earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which the timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Turnover

Turnover, which is stated excluding VAT, represents amounts earned from the Highways Agency in the form of shadow tolls.

3. Sector analysis

The group has one continuing activity, the operation of the Design, Build, Finance and Operate contracts and this is undertaken entirely in the United Kingdom.

Notes to the financial statements

at 31 December 2008

4. Operating profit

This is stated after charging:

	2008	2007
	£000	£000
Depreciation of owned fixed assets	5,960	5,412
Auditors' remuneration (see note 5)	60	98
	<u>60</u>	<u>98</u>

5. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2008	2007
	£000	£000
Audit of the financial statements	4	11
Other fees to auditors – statutory audit of subsidiary undertakings	56	46
– other services	-	10
– taxation services	-	31
	<u>60</u>	<u>98</u>

6. Directors' emoluments

	2008	2007
	£	£
Emoluments (including pension contributions)	125,236	135,038

The emoluments excluding pension contributions of the highest paid director were £70,939 (2007 – £81,454).

During the year the executive directors were P.A. Evans, D.G. Hawkins and P. Smith. The executive directors receive their emoluments directly from and are members of pension schemes in, shareholder companies. The emoluments disclosed have been estimated as being a fair proportion in respect of their time incurred in connection with the management of the affairs of this group.

The non-executive directors do not receive any emoluments (2007: £nil).

7. Staff costs

The group does not have any direct employees (2007 – none), the staff charges are from the shareholder companies from whom the staff are seconded.

Notes to the financial statements

at 31 December 2008

8. Tax

(a) Tax on profit on ordinary activities

	2008	2007
	£000	£000
<i>Current tax:</i>		
UK corporation tax	198	416
Adjustments in respect of previous periods	(419)	1,281
Total current tax (note 8(b))	(221)	1,697
<i>Deferred tax:</i>		
Origination and reversal of timing differences	59	(188)
Reversal of IBA deferred tax liability	-	(23,182)
Adjustment in respect of prior periods	470	(198)
Utilisation of tax losses	1,140	196
Effect of decreased tax rate	(14)	(288)
Tax charge/(credit) on profit on ordinary activities	1,434	(21,963)

(b) Factors affecting the current tax charge for the year

The tax assessed on the profit on ordinary activities for the year is lower (2007 –lower) than the standard rate of corporation tax in the UK of 28.5% (2007 – 30%). The differences are reconciled below:

	2008	2007
	£000	£000
Profit on ordinary activities before tax	7,897	7,886
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	2,251	2,366
Effects of:		
Permanent differences	(898)	(1,948)
Non-taxable income	-	6
Accelerated capital allowances and depreciation of capitalised interest	(15)	188
Adjustments in respect of previous years	(419)	1,281
Utilisation of tax losses	(1,140)	(196)
Total current tax (credit)/charge (note 8(a))	(221)	1,697

Notes to the financial statements

at 31 December 2008

8. Tax (continued)

(c) Factors that may affect future tax charges

The Directors have come to an agreement with HM Revenue & Customs to adopt an alternative taxation treatment for the group. The group is likely to apply a Composite Trader Tax Treatment from 1 January 2010 onwards. In the interim the group will continue to claim IBAs. The adoption of this treatment does not have an adverse impact on the operations of the group.

9. Interest payable and similar charges

Group

	2008	2007
	£000	£000
Bank loans	8,562	8,909
Bond loans	12,393	12,863
Issue expenses amortised	503	519
Interest payable to controlling parties	1,587	1,516
Other interest	–	29
	<u>23,045</u>	<u>23,836</u>

Notes to the financial statements

at 31 December 2008

10. Tangible fixed assets

<i>Group</i>	<i>Cost related to road concessions £000</i>	<i>Plant and machinery £000</i>	<i>Land and buildings £000</i>	<i>Total £000</i>
Cost:				
At 1 January 2008	317,254	590	692	318,536
Additions	–	65	–	65
At 31 December 2008	317,254	655	692	318,601
Depreciation:				
At 1 January 2008	35,329	560	81	35,970
Provided during the year	5,925	23	12	5,960
At 31 December 2008	41,254	583	93	41,930
Net book value:				
At 31 December 2008	276,000	72	599	276,671
At 1 January 2008	281,925	30	611	282,566

The concessions to operate the roadways have been acquired from the Highways Agency for a period of thirty years. Expenditure on improvements to both of the roadways which were completed during 1998 is reflected in the Roadway Concession Asset and includes net capitalised finance costs of £34,511,000 (2007 – £34,511,000).

11. Investments

<i>Company</i>	<i>£000</i>
Shares in unlisted subsidiary undertakings at cost:	
At 1 January 2008	25,335
Additions	–
At 31 December 2008	25,335

The investment represents 100 per cent of the issued share capital of the following:

	<i>% Holding of ordinary shares</i>	<i>Nature of business</i>
Road Management Services (Peterborough) Limited	100	Road Concession Operator
Road Management Services (Gloucester) Limited	100	Road Concession Operator
Road Management Limited	100	Management Services
Road Management Consolidated Public Limited Company	100	Finance Company

Notes to the financial statements

at 31 December 2008

11. Investments (continued)

Road Management Services (Peterborough) Limited and Road Management Services (Gloucester) Limited were established as the project companies to enter into DBFO contracts with the Secretary of State for Environment, Transport and the Regions. Under these contracts they were granted the right, and undertook the obligation to design, build, finance and, for the 30-year contract term, operate and maintain a 21-kilometre section of the A1(M) between Alconbury and Peterborough and a 52-kilometre section of the A419/A417 between Swindon and Gloucester respectively.

The finance for the two projects was raised by the issue of £165,000,000 in guaranteed secured bonds due 2002-2021 issued by Road Management Consolidated PLC, a special purpose company which is also a subsidiary of Road Management Group Limited. The bonds are listed on the London Stock Exchange and have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by the monoline insurer AMBAC. Further funds were raised by means of a £111,000,000 loan facility provided by the European Investment Bank. A portion of this loan facility has the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by monoline insurers European Investment Fund. Both the bond and European Investment Bank loan proceeds are being on-lent to the project companies.

Road Management Limited was set up for the purpose of the general administration of the Road Management Group companies and to enable them to bid for additional contracts of a similar nature.

12. Debtors

<i>Group</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	4,239	5,018
Other debtors	251	299
Amounts owed on loans to controlling parties	21,734	25,548
Prepayments and accrued income	403	79
	<u>26,627</u>	<u>30,944</u>
<i>Company</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Interest receivable on loan to subsidiary undertaking	921	1,034
Loans to subsidiary undertaking, due after more than one year	11,832	11,832
	<u>12,753</u>	<u>12,866</u>

Notes to the financial statements

at 31 December 2008

13. Creditors: amounts falling due within one year

<i>Group</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Trade creditors	72	2,960
Other creditors	2,271	746
Accruals	1,598	594
Amounts owed to shareholder companies	108	-
Current element of Bond and EIB loans (note 14)	10,400	9,501
Current interest due on loan from controlling parties	921	1,033
Current interest due on Bond and EIB loans	1,148	1,196
Corporation tax creditor	208	416
Other taxes and social security	954	961
	<u>17,680</u>	<u>17,407</u>
<i>Company</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Current interest due on loan from controlling parties	921	1,034
	<u>921</u>	<u>1,034</u>

14. Loans

<i>Group</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
<i>Not wholly repayable within five years:</i>		
£165,000,000 of 9.18% Guaranteed Secured Bonds repayable in six-monthly instalments commencing 10 December 2000	127,643	132,578
EIB loan of £111,000,000 at 9.10% per annum repayable in six-monthly instalments commencing 10 June 2003	91,242	95,305
Loan from controlling parties at 12% per annum	11,832	11,832
	<u>230,717</u>	<u>239,715</u>
Less: included in creditors amounts falling due within one year:		
Bond and EIB loans	(10,400)	(9,501)
	<u>220,317</u>	<u>230,214</u>

Notes to the financial statements

at 31 December 2008

14. Loans (continued)

<i>Company</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
<i>Not wholly repayable within five years:</i>		
Loan from controlling parties at 12% per annum	11,832	11,832
	<u>11,832</u>	<u>11,832</u>

The maturity of loans may be analysed as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year	10,400	9,501	-	-
In more than one year but not more than two years	11,369	10,399	-	-
In more than two years but not more than five years	40,896	36,250	-	-
	<u>62,665</u>	<u>56,150</u>	<u>-</u>	<u>-</u>
In more than five years	171,599	187,615	11,832	11,832
	<u>234,264</u>	<u>243,765</u>	<u>11,832</u>	<u>11,832</u>
Less: unamortised issue expenses	(3,547)	(4,050)	-	-
	<u>230,717</u>	<u>239,715</u>	<u>11,832</u>	<u>11,832</u>

The loans are secured by charges and assignments over all the assets of Road Management Services (Peterborough) Limited, Road Management Services (Gloucester) Limited and Road Management Consolidated plc.

15. Provisions for liabilities and charges

Deferred taxation

<i>Group</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Provision at 1 January	4,041	27,701
Charge/ (credit) for the year	1,655	(23,660)
Provision at 31 December	<u>5,696</u>	<u>4,041</u>

Notes to the financial statements

at 31 December 2008

15. Provisions for liabilities and charges (continued)

The deferred tax provision has been provided in full in the financial statements as follows:

	2008	2007
	£000	£000
Advanced capital allowances and depreciation of capitalised interest	9,339	9,315
Tax losses and other timing differences	(3,643)	(5,274)
	<u>5,696</u>	<u>4,041</u>

16. Accruals and deferred income

Group

	2008	2007
	£000	£000
		<i>Deferred shadow tolls</i>
Balance as at 1 January	17,273	17,591
Released during the year	(375)	(318)
Balance as at 31 December	<u>16,898</u>	<u>17,273</u>

17. Share capital

	2008	2007
	£000	£000
<i>Authorised</i>		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and fully paid</i>	<i>£000</i>	<i>£000</i>
25,335,004 ordinary shares of £1 each	<u>25,335</u>	<u>25,335</u>

Notes to the financial statements

at 31 December 2008

18. Reconciliation of shareholders' funds and movement on reserves

Group

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Fair value reserve £000</i>	<i>Total share- holders' funds £000</i>
At 1 January 2007	25,335	25,523	(53)	50,805
Profit for the year	–	29,849	–	29,849
Fair value gain on investment for the year	–	–	42	42
Dividend paid	–	(530)	–	(530)
At 31 December 2007	25,335	54,842	(11)	80,166
Profit for the year	–	6,463	–	6,463
Fair value gain on investment for the year	–	–	71	71
At 31 December 2008	25,335	61,305	60	86,700

Company

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total share- holders' funds £000</i>
At 1 January 2007	25,335	–	25,335
Dividend received	–	530	530
Dividend paid	–	(530)	(530)
At 31 December 2007	25,335	–	25,335
Result for year	–	–	–
At 31 December 2008	25,335	–	25,335

Notes to the financial statements

at 31 December 2008

19. Financial instruments

An explanation of the group's financial instrument risk management objectives, policies and strategies can be found in the Directors' report.

Capital management

The group's capital and debt structure was set out in the concessions term financial model at the commencement of operations and remains unchanged.

Fair values of financial assets and financial liabilities

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

	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial assets				
Cash at bank and in hand	28,513	28,513	20,183	20,183
Short term investments	15,480	15,480	15,408	15,408
Financial liabilities				
Bond loan (including accrued interest)	(128,321)	(129,811)	(133,287)	(163,478)
EIB loan (including accrued interest)	(91,712)	(118,928)	(95,792)	(121,142)
Loan from controlling parties (including accrued interest)	(12,753)	(12,753)	(12,866)	(12,866)

Market values have been used to determine the fair value of the short term investments and listed bond loan. The fair value of the other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The other financial instruments of the group that are not included in the above tables are short term items where the carrying amount is a reasonable approximation of fair value.

Interest rate risk profile of financial assets and financial liabilities

The disclosures below set out the carrying amount, by maturity, of the group's financial instruments that are exposed to interest rate risk.

Year ended 31 December 2008

	<i>Within</i>	<i>1-2</i>	<i>2-3</i>	<i>3-4</i>	<i>4-5</i>	<i>Over</i>	
	<i>1 year</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fixed rate							
EIB loan	(4,451)	(4,861)	(5,317)	(5,805)	(6,349)	(64,459)	(91,242)
Bond loan	(5,469)	(6,051)	(6,688)	(7,384)	(8,146)	(93,905)	(127,643)
Loan from controlling parties	-	-	-	-	-	(11,832)	(11,832)

Year ended 31 December 2008

	<i>Within</i>	<i>1-2</i>	<i>2-3</i>	<i>3-4</i>	<i>4-5</i>	<i>Over</i>	
	<i>1 year</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Floating rate							
Cash at bank and in hand	28,513	-	-	-	-	-	28,513
Short term investments	15,480	-	-	-	-	-	15,480

Notes to the financial statements

at 31 December 2008

19. Financial instruments (continued)

Year ended 31 December 2007

	<i>Within 1 year £000</i>	<i>1-2 years £000</i>	<i>2-3 years £000</i>	<i>3-4 years £000</i>	<i>4-5 years £000</i>	<i>Over 5 years £000</i>	<i>Total £000</i>
Fixed rate:							
EIB loan	(4,063)	(4,451)	(4,862)	(5,317)	(5,805)	(70,807)	(95,305)
Bond loan	(4,937)	(5,469)	(6,051)	(6,688)	(7,384)	(102,049)	(132,578)
Loan from controlling parties	-	-	-	-	-	(11,832)	(11,832)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Floating rate							
Cash at bank and in hand	20,183	-	-	-	-	-	20,183
Short term investments	15,408	-	-	-	-	-	15,408
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The fixed rate liabilities comprise a 9.18% bond loan, a 9.1% EIB loan and a 12% loan from the controlling parties.

The floating rate financial assets comprise cash and short term investments. The return on the short term investments is determined by the market value of the assets. The return on cash is determined at bank market interest rates.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Credit risk

The group will service its loans with cash-flows generated from its roadway concession assets. The roadway concession assets cash-flows are secured under contract from the Highways Agency, a government body. The maximum credit risk exposure relating to financial assets is represented by the carrying value at the balance sheet date. There are no debtors that are past due or impaired on the reporting date.

Notes to the financial statements

at 31 December 2008

19. Financial instruments (continued)

Liquidity risk

The table below summarises the maturity profile of the group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted payments.

Year ended 31 December 2008

	<i>On demand £000</i>	<i>Less than 3 months £000</i>	<i>3 to 12 months £000</i>	<i>1 to 5 years £000</i>	<i>Over 5 years £000</i>	<i>Total £000</i>
Trade and other creditors and accruals	–	5,211	–	–	–	5,211
Shareholder loan	–	–	–	–	59,447	59,447
EIB loan	–	6,327	6,328	50,605	94,833	158,093
Bond loan	–	8,929	8,929	71,435	133,934	223,227
	<u>–</u>	<u>14,167</u>	<u>15,257</u>	<u>122,040</u>	<u>228,114</u>	<u>359,578</u>

Year ended 31 December 2007

	<i>On demand £000</i>	<i>Less than 3 months £000</i>	<i>3 to 12 months £000</i>	<i>1 to 5 years £000</i>	<i>Over 5 years £000</i>	<i>Total £000</i>
Trade, tax and other creditors and accruals	–	5,677	–	–	–	5,677
Shareholder loan	–	–	1,591	–	51,116	52,707
EIB loan	–	6,322	6,323	50,609	101,213	164,467
Bond loan	–	8,929	8,930	71,436	151,804	241,099
	<u>–</u>	<u>14,928</u>	<u>16,844</u>	<u>122,045</u>	<u>202,929</u>	<u>356,846</u>

The group's policies for managing its liquidity are set out in the Directors Report.

20. Notes to the statement of group cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>2008 £000</i>	<i>2007 £000</i>
Operating profit	28,543	29,730
Decrease in deferred shadow tolls	(375)	(318)
Decrease/(increase) in debtors	4,330	(275)
Increase/(decrease) in creditors	(258)	702
Depreciation	5,960	5,412
Net cash inflow from operating activities	<u>38,200</u>	<u>35,251</u>

Notes to the financial statements

at 31 December 2008

20. Notes to the statement of group cash flows (continued)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2008	2007
	£000	£000
Returns on investments and servicing of finance:		
Interest received	2,399	1,992
Interest paid	(22,702)	(23,845)
	<u>(20,303)</u>	<u>(21,853)</u>
Taxation:		
Corporation tax received/(paid)	-	141
Capital expenditure:		
Payments to acquire tangible fixed assets	(65)	-
	<u>-</u>	<u>(530)</u>
Equity dividends payable	-	(530)
	<u>-</u>	<u>(83)</u>
Management of liquid resources:		
Acquisition of short term investments	(1)	(83)
	<u>-</u>	<u>-</u>
Financing:		
Payment of loans	(9,501)	(8,689)
	<u>-</u>	<u>-</u>

Liquid resources include government securities held in the balance sheet as current asset investments.

(c) Analysis of changes in net debt:

	1 January	Cash	Other	At
	2008	flow	non-cash	31 December
	£000	£000	movements	2008
			£000	£000
Cash at bank and in hand	20,183	8,330	-	28,513
Current asset investments	15,408	1	71	15,480
Debt due within one year	(9,501)	9,501	(10,400)	(10,400)
Debt due after more than one year	(230,214)	-	9,897	(220,317)
	<u>(204,124)</u>	<u>17,832</u>	<u>(432)</u>	<u>(186,724)</u>

Notes to the financial statements

at 31 December 2008

21. Related party transactions

During the year the group had the following transactions and balances with the shareholders of Road Management Group and their subsidiaries:

	2008	2007
	£000	£000
Salary recharges to the company	910	934
Management fees charged to the company	426	416
Included in trade creditors	–	33
Included in accruals	263	79
	<u> </u>	<u> </u>

The group had the following transactions and balances with Road Management Services (A13) PLC, a related company operating another DBFO project with two of the same ultimate shareholders:

	2008	2007
	£000	£000
Bid cost recovery and fees charged	487	248
Included in debtors	132	66
	<u> </u>	<u> </u>

In addition the group had the following transactions and balances with Road Management Services (Darrington) Limited, a related company operating another DBFO project with two of the same ultimate shareholders.

	2008	2007
	£000	£000
Bid cost recovery and fees charged	192	293
Included in debtors	119	135
	<u> </u>	<u> </u>

In addition to these amounts the group had loans due to and from controlling parties which are disclosed in notes 12, 13 and 14.

22. Controlling parties

Road Management Group Limited is owned and jointly controlled by Kellogg Brown & Root Limited, Abertis Motorways UK Limited and Barclays Integrated Infrastructure Fund LP.