

COMPANY REGISTRATION NUMBER: 02804119

Road Management Group Limited
Annual Report and Consolidated Financial
Statements
31 December 2019



Road Management Group Limited
Annual Report and Consolidated Financial Statements
Year Ended 31 December 2019

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Road Management Group Limited

Officers and Professional Advisers

The Board of Directors

David William Bowler
Lee Johnson
Matthew James Edwards
Victor Ensenat Coe
Peter John Meffan
Nicola Sparrow
Laura Grau Blasi

Company Secretary

Infrastructure Managers Limited

Registered Office

Cannon Place
78 Cannon Street
London
EC4N 6AF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Bankers

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

Solicitors

Dentons UKMEA LLP
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

Road Management Group Limited

Strategic Report

Year Ended 31 December 2019

The directors present their strategic report on Road Management Group Limited ("the Group") for the year ended 31 December 2019.

Principal Objectives and Strategies

Road Management Group Limited was established to be the holding company for two design, build, finance and operate contracts for sections of the A1 (M) and the A419/A417, which were both entered into with the Secretary of State for Environment, Transport and the Regions on 8 February 1996. The principal objective of the Group is to operate and maintain the Roadway Concessions in line with the contracted terms. In doing so the Group intends to ensure that the full amount of income is collected in the form of shadow toll revenues as entitled under the contracts. The contracts are currently in year 24 of their term and will expire in 2026.

Results and Dividends

The profit for the financial year, after taxation, amounted to £2,404k (2018: £2,333k).

The profit for the financial year will be transferred to reserves.

Performance Review

During the year the Group was fully compliant with the contractual terms and incurred no penalty points. The directors are satisfied with the overall performance of the Group, compared with the most recent forecasts.

The directors have considered the future financial impact to the Group of the Coronavirus, taking into account the sources of income and additional expenditure. The Group's total revenues are derived from the levels of traffic usage on the roadways and as such the government restrictions on movement of the population which commenced on 23 March 2020 will impact severely on the revenue in future periods. The traffic levels are being monitored weekly in an attempt by directors to quantify the full impact of the pandemic but at this stage the full impact cannot be known. The Group does not however envisage that additional costs will be incurred in maintaining and operating the roadway in line with its contractual requirements, but the directors are also monitoring this on a weekly basis. The cashflows that will be received will exceed the costs expected. As part of this monitoring forecasting has been undertaken using severe and plausible assumptions to consider the Group's cash flows and liabilities and to establish if the Group can meet the remainder of its obligations to the end of the contract. At the time of signing these financial statements the directors do not believe there to be reason to believe that the Company will not be in a position to meet those contractual and financial liabilities for the remainder of the concession, having run severe and plausible assumption scenarios. The directors have in particular focused on the Group's senior debt liabilities, which fall due at six monthly intervals, with the final repayment falling on 10 June 2021. The Group has accumulated significant cash balances over the past 24 years of the project, meaning that at the time of signing these financial statements the Group holds unencumbered cash balances in excess of the total senior debt due in 2021, including interest due on that debt. The Group has received acknowledgement from Highways England that they will adhere to the Cabinet Office guidance issued on 2 April 2020 with regards to payments due under Private Finance Initiative contracts. As such it is the directors view that the Group will repay the senior debt in full as and when it falls due up until the final repayment date.

The Group is required to maintain certain levels of cash under the ratio covenants of its loan agreements, and in the year these requirements were met. However due to the impact of Coronavirus on income in the coming year, the ratio will fall below the default level of 1.0. As stated above this will not impinge on the Group's ability to meet its debt obligations in full as they fall due.

As in previous years the credit rating assigned to the monoline insurer of the bonds issued by Road Management Consolidated PLC did not meet the minimum level required as part of the loan conditions for the Group's borrowings from the European Investment Bank ('EIB'). As a result of this situation EIB

Road Management Group Limited

Strategic Report *(continued)*

Year Ended 31 December 2019

would be entitled to request Road Management Consolidated PLC to obtain a replacement guarantor for the bonds. Road Management Consolidated PLC has received a written waiver from EIB which waives their right to request a replacement guarantor until at least December 2020, being the final repayment date of the debt due to EIB.

Refer to going concern section in the accounting policies for further details.

Future Developments

The directors intend for the business to continue to operate in line with the contractual terms and do not expect any strategic changes.

Key Performance Indicators

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

(1) The level of traffic passing along the roads and its growth. In the year traffic volumes were seen to drop and this is being monitored regularly by the directors. The Coronavirus pandemic is expected to significantly impact on the Group's revenues in future periods and at present it is not possible to estimate the full quantum of the event. The directors continue to monitor the traffic levels on a weekly basis. However, the current forecast projects results which are not expected to impact on the Group's ability to meet its obligations

(2) The achievement of cash flow targets as set out in the annual budgets. The annual budgets are accurate as a result of the experience gained during the last 24 years and did not vary significantly in 2019.

(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.

21 other KPIs, both financial and non-financial, 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.

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 periodically reviewed by the board. The principal risks facing the Group are broadly grouped as financial instrument, demand 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:

Road Management Group Limited

Strategic Report *(continued)*

Year Ended 31 December 2019

Price Risk

As at the year end the Group has invested surplus cash in the Aberdeen Standard Flexible 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 a cash investment, within investments.

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 speculative 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 Highways England, 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 Company's subsidiary undertaking Road Management Consolidated PLC will at all times hold 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 Group is required to maintain levels of net cash flow in each financial year equal to 1.2 times the annual debt service payments. This ratio was not achieved in the current year (1.13) meaning that no distributions could be made. The ratio was not below the default ratios of 1.0. However, the ratio in future periods will be impacted by the Coronavirus and the directors are liaising with the Credit Providers with regards to the default that will occur in 2020. Please refer to the performance review.

Demand Risk

The roadway concession cash-flows are generated from traffic flows paid in the form of shadow tolls by Highways England. 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 indirect 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.

Road Management Group Limited

Strategic Report *(continued)*

Year Ended 31 December 2019

S172 Statement

The following disclosure describes how the Board has had regard to the matters set out in section 172 (1) (a) to (f) and forms the Directors Statement required under section 414CZA of the Companies Act 2006.

The purpose of the Group is to design, build, finance and operate two contracts for sections of the A1 (M) and the A419/A417 over a concession period of 30 years to the satisfaction of Highways England. The Group's aim is to work in partnership with Highways England to provide effective infrastructure of a high quality standard. This shapes the Group's values and objectives and defines long term success. Decisions are taken in the context of this ethos of working in partnership. The Group has the long term funding in place, as described in the directors report. The detailed PFI contracts set out the relationships with Highways England, debt funders, maintenance and operations contractors. These parties are the Group's main stakeholders. The Group also works with the local authority to ensure their requirements are met. Debt funders are provided with operational and financial reports on a quarterly basis. The operational management team works closely with Highways England and the maintenance and operations contractors to programme major works on the road. Highways England receive regular updates on programmed works and applications for road closures to enable major works, so that disruption to the public can be kept to a minimum. The Group ensures that the road is maintained to the required standards. The Group does not have any employees.

The Board is an experienced team with representatives of all shareholders. The Board members have experience of workings with other key stakeholders, which enables them to identify the long term consequences of the principal decisions. The Board meet on a quarterly basis and information is provided at the meetings by the operational and financial management teams. This information will have regard to health and safety matters, the operational and financial performance of the project, planned major maintenance works and relationships with the client and the main subcontractors. The operational and financial management team make recommendations to the Board of directors. These are considered at the quarterly board meetings. These Board meetings are minuted and actions arising are monitored. Decisions made by the directors that have a financial impact are accounted for in a concession length forecast of financial performance.

Principal decisions of the Group are those that are key to the Group's success. These include but are not limited to: decisions impacting upon the relationships between the parties, decisions impacting upon the availability and safety of the road and decisions impacting the return to the shareholders.

The principal decisions made by the Board of directors during the year ended 31 December 2019 related in the main to major maintenance expenditure.

Major maintenance expenditure is planned following asset condition surveys, with the aim to maintain the asset at the required contractual standards and to ensure that the asset will meet the required contractual standards at the end of the concession. The delivery of these works is carefully planned with the maintenance and operation contractors and client, to ensure minimum disruption to the users of the roads and the safety of the contractors' employees.

Signed on behalf of the directors

Jun 25, 2020



Matthew Edwards

Director

Road Management Group Limited

Directors' Report

Year Ended 31 December 2019

The directors present their report and the audited Annual Report and Consolidated Financial Statements of Road Management Group Limited ("the Company") for the year ended 31 December 2019.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

David William Bowler

Lee Johnson

Matthew James Edwards

Victor Ensenat Coe

Peter John Meffan

Nicola Sparrow

(Appointed 17 July 2019)

Laura Grau Blasi

(Appointed 31 October 2019)

Larry Jay Henry

(Resigned 17 July 2019)

Javier Carol Vilarasau

(Resigned 30 September 2019)

Dividends

The directors do not recommend the payment of a dividend.

Events after the End of the Reporting Period

Particulars of events after the reporting date are detailed in note 23 to the Annual Report and Consolidated Financial Statements.

Qualifying Third Party Indemnity Provisions

The Group has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

The auditors, PricewaterhouseCoopers LLP, are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on Jun 25, 2020 and signed by order of the board by:



Infrastructure Managers Limited
Company Secretary

Road Management Group Limited

Directors' Responsibilities Statement

Year Ended 31 December 2019

The directors are responsible for preparing the Strategic Report, Directors' Report and the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Consolidated Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Consolidated Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Consolidated Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the Company and the profit or loss of the group for that period.

In preparing the Annual Report and Consolidated Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Consolidated Financial Statements; and
- prepare the Annual Report and Consolidated 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. They 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.

Road Management Group Limited

Independent Auditors' Report to the Members of Road Management Group Limited

Year Ended 31 December 2019

Report on the Audit of the Financial Statements

Opinion

In our opinion, Road Management Group Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2019; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements 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.

Our opinion is consistent with our reporting to the directors.

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 group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

We have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall group materiality: £160,000 (2018: £264,600), based on 5% of profit before tax.
- Overall company materiality: £144,000 (2018: £238,000), based on 1% of total assets.
- The group's financial statements consist of a parent company and its four subsidiaries, all of which were subject to a full scope audit.
- Our audit work over each entity was performed to a component materiality based upon the group's overall materiality.
- All audit work was undertaken by a single engagement team in the UK.
- Revenue recognition
- Impact of Covid-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK employment law, UK tax legislation and Health and Safety laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and manipulation of the revenue calculation. Audit procedures performed by the engagement team included:

- discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- understanding of management's controls designed to prevent and detect irregularities;

Road Management Group Limited

Independent Auditors' Report to the Members of Road Management Group Limited (continued)

Year Ended 31 December 2019

- review of board minutes;
- challenging management on assumptions and judgements made in their significant accounting estimates; and
- identifying and testing journal entries, in particular any journal entries considered unusual and impacting revenue.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The group operates and maintains two Roadway Concessions, the A417/419 between Swindon and Gloucester and the A1(M) between Alconbury and Peterborough. The group generates the majority of its revenue from this Roadway Concession. Amounts due under this concession are payable by Highways England.</p> <p>The revenue to be recognised is dependent upon the volume of journeys made by road users on these sections of road and the price per vehicle, which varies each year with RPI inflation.</p> <p>An expected level of road usage is agreed between the group and Highways England each year for the period April to March. Invoices are raised monthly through the year based on this expected usage.</p> <p>An annual reconciliation is performed in April each year based upon data from traffic counters. Any differences in traffic volumes from those in the agreed forecast are invoiced in May.</p> <p>Therefore, at the groups year-end, 31 December, it is necessary for the group to recognise an accrued revenue balance to account for the difference in traffic volumes for the period April to December. This is subject to final agreement with Highways England post year-end.</p> <p>Due to the complexity of the revenue accrual and, the inherent risk of fraud in revenue recognition we have identified this as a key audit matter.</p>	<p>Our audit procedures for the monthly invoiced revenue included:</p> <ul style="list-style-type: none">- selecting a sample of invoices raised during the year to Highways England; and- tracing payment of these invoices to subsequent bank receipts. <p>Our audit procedures for testing the accrued revenue balance at the year-end included:</p> <ul style="list-style-type: none">- testing the revenue accrual calculation for mathematical accuracy and consistency with the concession agreements;- validating traffic volume inputs to the data from the independent third party traffic counters;- validating pricing to the concession agreements, subject to adjustments for price inflation factors which we validated to third party sources; and- reviewing communications to the group from Highways England indicating agreement with the calculation of the revenue amounts accrued; and- testing the accrual through to subsequent invoicing and cash receipt. <p>We also tested a sample of journal entries posted to revenue and obtained audit support to ensure that they were appropriate. Our audit work did not highlight any issues and we therefore concluded that revenue was not materially misstated.</p>
<p>Impact of Covid-19</p> <p>Covid-19 was declared a pandemic by the World Health Organisation on 11 March 2020 and the on-going response is having an unprecedented impact on the wider economy and it is necessary to consider the impact on Road Management Group Limited.</p> <p>The directors have concluded that there are no material uncertainties that give rise to significant doubt over the group's ability to continue as a going concern for at least twelve months from the date of the approval of the financial statements.</p> <p>Given the inherent uncertainty associated with Covid-19, it is difficult to determine the full quantum of the event. Accordingly, management modelled financial scenarios using revised traffic flow assumptions. These included a scenario which assumed a reduction in traffic flow consistent with the 'lockdown' period gradually returning to 2019 levels by January 2022. The forecasted results are not expected to impact on the group's ability to meet its obligations. The reduction in traffic flows has impacted the financial ratios attached to the group's debt liabilities and resulted in a breach of its loan covenants subsequent to year end. The group however has accumulated significant cash balances, meaning that at the time of signing these financial statements the group holds unencumbered</p>	<p>We performed the following audit procedures which consider the impact of the uncertainty of the Covid-19 pandemic, included the following amongst others:</p> <ul style="list-style-type: none">- assessing management's going concern models for reasonableness, including the review of the inputs and assumptions used in those models;- testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;- performing look-back testing of the revised traffic volume assumptions per the model to actual volumes realised during the Covid-19 event to date;- performing a severe pandemic scenario in assessing the impact of future cash flows;- reading the terms of the senior loan to obtain an understanding of the debt covenants; ensured that there was sufficient cash available to repay the group's debt liabilities on demand as a result of the breach of its loan covenant; and- reviewing the going concern disclosures in accordance with the requirements of FRS 102 and ISA (UK) 570.

Road Management Group Limited

Independent Auditors' Report to the Members of Road Management Group Limited (continued)

Year Ended 31 December 2019

cash and cash investment balances in excess of the total debt liabilities due by 2021, including interest due on that debt.

As a result of the uncertain impact of Covid-19 on the group, we identified a key audit matter related to going concern due to the significant judgement required to conclude that there is not a material uncertainty related to going concern.

Based on our procedures, we determined that the directors' conclusion that there are no material uncertainties that give rise to significant doubt over the group and the company's ability to continue as a going concern to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group's financial statements comprise 5 components, each of which was subject to a full scope audit. Our audit work over each was performed to a component materiality based upon the group's overall materiality.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£160,000 (2018: £264,600).	£144,000 (2018: £238,000).
How we determined it	5% of profit before tax.	1% of total assets (capped to 90% of overall group materiality)
Rationale for benchmark applied	The group's financial statements comprise of 5 entities, all of which were subject to a full scope audit. Our audit work over each was performed to a component materiality based upon the group's overall materiality.	The company is a holding company to the group and as such total assets is considered the most appropriate benchmark. As the resulting materiality calculated was in excess of the group overall materiality, it was capped at £144,000.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £16,360 and £144,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the directors that we would report to them misstatements identified during our audit above £16,000 (Group and Company audit) (2018: £13,320) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and 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.

Road Management Group Limited

Independent Auditors' Report to the Members of Road Management Group Limited *(continued)*

Year Ended 31 December 2019

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, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements 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 group's and 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 group or 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.

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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 13 August 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2009 to 31 December 2019.



Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

25 June 2020

Road Management Group Limited
Consolidated Statement of Comprehensive Income
Year Ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	4	41,885	42,329
Gross profit		41,885	42,329
Administrative expenses		(28,926)	(25,550)
Operating profit	5	12,959	16,779
Other interest receivable and similar income	7	303	228
Interest payable and similar expenses	8	(10,062)	(11,714)
Profit before taxation		3,200	5,293
Tax on profit	9	(796)	(2,960)
Profit for the financial year		2,404	2,333
Fair value gain on investment		132	95
Total comprehensive income for the year		2,536	2,428

All the activities of the group are from continuing operations.

The notes on pages 18 to 34 form part of these Financial Statements.

Road Management Group Limited
Consolidated Statement of Financial Position
As at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	10	153,932	171,397
Investments	11	17,548	17,416
		<u>171,480</u>	<u>188,813</u>
Current assets			
Debtors: amounts falling due within one year	12	22,663	22,916
Cash at bank and in hand		34,206	39,553
		<u>56,869</u>	<u>62,469</u>
Creditors: amounts falling due within one year	13	(43,325)	(43,540)
Net current assets		<u>13,544</u>	<u>18,929</u>
Total assets less current liabilities		<u>185,024</u>	<u>207,742</u>
Creditors: amounts falling due after more than one year	14	(56,589)	(81,455)
Provisions for liabilities			
Taxation including deferred taxation	16	(3,020)	(3,408)
Net assets		<u>125,415</u>	<u>122,879</u>
Capital and reserves			
Called up share capital	19	25,335	25,335
Fair value reserve	20	2,129	1,997
Retained earnings	20	97,951	95,547
Total shareholders' funds		<u>125,415</u>	<u>122,879</u>

The Financial Statements were approved by the board of directors and authorised for issue on 25 June 2020, and are signed on behalf of the board by:



Matthew Edwards
Director

Company registration number: 02804119

The notes on pages 18 to 34 form part of these Annual Report and Consolidated Financial Statements.

Road Management Group Limited
Company Statement of Financial Position
As at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments	11	25,335	25,335
Current assets			
Debtors: amounts falling due within one year	12	45,065	40,136
Creditors: amounts falling due within one year	13	<u>(4,929)</u>	<u>(4,323)</u>
Net current assets		<u>40,136</u>	<u>35,813</u>
Total assets less current liabilities		<u>65,471</u>	<u>61,148</u>
Creditors: amounts falling due after more than one year	14	<u>(40,136)</u>	<u>(35,813)</u>
Net assets		<u>25,335</u>	<u>25,335</u>
Capital and reserves			
Called up share capital	19	25,335	25,335
Retained earnings	20	—	—
Total shareholders' funds		<u>25,335</u>	<u>25,335</u>

The profit for the financial year of the parent company was £Nil (2018: £Nil).

The Financial Statements were approved by the board of directors and authorised for issue on Jun-25, 2020..., and are signed on behalf of the board by:



Matthew Edwards
Director

Company registration number: 02804119

The notes on pages 18 to 34 form part of these Annual Report and Consolidated Financial Statements.

Road Management Group Limited
Consolidated Statement of Changes in Equity
Year Ended 31 December 2019

	Called up share capital £000	Fair value reserve £000	Retained earnings £000	Total £000
At 1 January 2018	25,335	1,902	93,214	120,451
Profit for the financial year			2,333	2,333
Other comprehensive income for the year:				
Fair value gain on investment	—	95	—	95
Total comprehensive income for the year	—	95	2,333	2,428
At 31 December 2018	25,335	1,997	95,547	122,879
Profit for the financial year			2,404	2,404
Other comprehensive income for the year:				
Fair value gain on investment	—	132	—	132
Total comprehensive income for the year	—	132	2,404	2,536
At 31 December 2019	<u>25,335</u>	<u>2,129</u>	<u>97,951</u>	<u>125,415</u>

The notes on pages 18 to 34 form part of these Financial Statements.

Road Management Group Limited
Company Statement of Changes in Equity
Year Ended 31 December 2019

	Called up share capital £000	Retained earnings £000	Total £000
At 1 January 2018	25,335	–	25,335
Profit for the financial year		–	–
At 31 December 2018	25,335	–	25,335
Profit for the financial year		–	–
At 31 December 2019	<u>25,335</u>	<u>–</u>	<u>25,335</u>

The notes on pages 18 to 34 form part of these Financial Statements.

Road Management Group Limited

Consolidated Statement of Cash Flows

Year Ended 31 December 2019

	Note	2019 £000	2018 £000
Cash generated from operations	21	27,316	33,080
Interest paid		(4,961)	(7,887)
Interest received		303	228
Tax paid		(2,575)	(749)
Net cash from operating activities		<u>20,083</u>	<u>24,672</u>
Cash flows from financing activities			
Repayments of borrowings		(25,430)	(22,958)
Net cash used in financing activities		<u>(25,430)</u>	<u>(22,958)</u>
Net (decrease)/increase in cash and cash equivalents		(5,347)	1,714
Cash and cash equivalents at beginning of year		<u>39,553</u>	<u>37,839</u>
Cash and cash equivalents at end of year		<u>34,206</u>	<u>39,553</u>

The notes on pages 18 to 34 form part of these Annual Report and Consolidated Financial Statements.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements

Year Ended 31 December 2019

1. General Information

Road Management Group Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

Road Management Group Limited is a special purpose vehicle company established to be the holding company for two design, build, finance and operate contracts for sections of the A1 (M) and the A419/A417, which were both entered into with the Secretary of State for Environment, Transport and the Regions on 8 February 1996. 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 contracts relating to Road Management Services (Peterborough) Limited and Road Management Services (Gloucester) Limited are both in year 24 of their terms and both expire in 2026.

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 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.

For further details please refer to the strategic report.

The Company and Group's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of Road Management Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Groups accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The directors have considered the future financial impact to the Company and the Group of the Coronavirus, taking into account the sources of income and additional expenditure. The Group's total revenues are derived from the levels of traffic usage on the roadway and as such the government restrictions on movement of the population which commenced on 23 March 2020 will impact severely on the revenue in future periods. The traffic levels are being monitored weekly in an attempt by directors to quantify the full impact of the pandemic but at this stage the full impact cannot be known. The Group does not however envisage that additional costs will be incurred in maintaining and operating the roadway in line with its contractual requirements, but the directors are also monitoring this on a weekly basis. The cashflows that will be received will exceed the costs expected. The directors have in particular focused on the Group's senior debt liabilities, which fall due every six months, with the final repayment due on 10 June 2021. The Group has accumulated significant cash balances over the past 24 years of the project, meaning that at the time of signing these financial statements the Group holds unencumbered cash balances in excess of the total senior debt due in 2021, including interest due on that debt. The directors have considered the impact of Coronavirus on the Group's projected profits and cash flows, which have been prepared on the basis of the Group's finance and contracts revised with severe but plausible assumptions based on actual traffic flow volumes incurred during the pandemic. Under these conditions and after repayment of senior debt outstanding the Group will still be able to settle its other liabilities as they fall due.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

The Group has received acknowledgment from Highways England that they will adhere to the Cabinet Office guidance issued on 2 April 2020 with regards to payments due under Private Finance Initiative contracts. As such it is the directors view that, the Group will repay the senior debt in full as and when it falls due up until the final repayment date. Please refer to the Strategic report for further details.

As in previous years the credit rating assigned to the monoline insurer of the bonds issued by Road Management Consolidated PLC did not meet the minimum level required as part of the loan conditions for the company's borrowings from the European Investment Bank ('EIB'). As a result of this situation EIB would be entitled to request Road Management Consolidated PLC to obtain a replacement guarantor for the bonds.

Road Management Consolidated PLC has received a written waiver from EIB which waives their right to request a replacement guarantor until at least December 2020, being the final repayment date of the debt due to EIB. Accordingly, the loan balances due to EIB are presented in line with the scheduled maturity profile.

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

(c) Disclosure exemptions

The parent Company satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following reduced disclosures available under FRS 102:

- (a) Disclosures in respect of each class of share capital have not been presented.
- (b) No cash flow statement has been presented for the Company.
- (c) Disclosures in respect of financial instruments have not been presented.
- (d) No disclosure has been given for the aggregate remuneration of key management personnel.

(d) Consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings. Where subsidiary undertakings are acquired during the period their results are included in the consolidated financial statements from the date of acquisition up to the date of the financial period end.

The parent company has applied the exemption contained in section 408 of the Companies Act 2006 and has not included its individual Statement of Comprehensive Income. The Company recorded a profit of £nil (2018: £nil).

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(e) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Group's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired, and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

(f) Revenue recognition

Turnover represents the income derived from the provision of two roadways to Highways England under 30 year contracts. Shadow tolls receivable from Highways England which were in excess of net operating, maintenance, depreciation costs and income were deferred up until the completion of the roadway improvements. Subsequent to the completion of the roadway improvements, all income earned has been recognised in the statement of comprehensive income and the deferred shadow tolls are being amortised over the remaining life of the concession in line with the depreciation charge.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(g) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(h) Tangible assets

All fixed assets are initially recorded at cost. The cost of the roadway concession asset represents expenditure on the improvements to the roadway up until the date of completion. This includes the direct cost of financing the improvements, up until the date of completion.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(i) 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. This method is adopted in order to reflect the increasing cashflows generated from the assets.

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

(j) Investments

The Company's Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses. Other investments are recorded at cost.

The Group's investment is a cash investment held within the Aberdeen Standard Sterling Flexible cash fund. This investment is available upon demand and carries variable returns based upon the market results of the fund's investments. The investment is carried at fair value.

(k) Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(m) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(n) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(o) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

4. Turnover

Turnover arises from:

	2019 £000	2018 £000
Sale of goods	—	1
Rendering of services	41,885	42,328
	<u>41,885</u>	<u>42,329</u>

The whole of the turnover is attributable to the principal activity of the group wholly undertaken in the United Kingdom.

5. Operating Profit

Operating profit or loss is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible assets	17,465	15,952
Fees payable for the audit of the annual report and consolidated financial statements	<u>46</u>	<u>44</u>

The auditor remuneration relates to the costs for all companies within the Group and was borne by Road Management Services (Peterborough) Limited and Road Management Services (Gloucester) Limited in equal proportions. The Road Management Group Limited company audit fee was £6K (2018 :£5K).

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

6. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2018: nil). The directors did not receive any remuneration from the Company during the year (2018: £nil).

7. Other Interest Receivable and Similar Income

	2019 £000	2018 £000
Interest on cash and cash equivalents	302	228
Other interest received	1	—
	<u>303</u>	<u>228</u>

8. Interest Payable and Similar Expenses

	2019 £000	2018 £000
Bank loans	4,961	7,143
Interest payable to controlling parties	4,929	4,323
Other interest payable and similar expenses	172	248
	<u>10,062</u>	<u>11,714</u>

9. Tax on Profit

Major components of tax income

	2019 £000	2018 £000
Current tax:		
UK current tax income	1,941	2,244
Adjustments in respect of prior periods	(757)	341
Total current tax	<u>1,184</u>	<u>2,585</u>
Deferred tax:		
Origination and reversal of timing differences	(388)	(185)
Adjustments in respect of prior period	—	560
Total deferred tax	<u>(388)</u>	<u>375</u>
Tax on profit	<u>796</u>	<u>2,960</u>

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

9. Tax on Profit *(continued)*

Reconciliation of tax expense

The tax assessed on the profit for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £000	2018 £000
Profit before taxation	3,200	5,293
Profit by rate of tax	608	1,005
Adjustment to tax charge in respect of prior periods	(757)	900
Effect of expenses not deductible for tax purposes	960	1,126
Group relief claims	(61)	–
Other timing differences	46	(71)
Total tax charge	796	2,960

Factors that may affect future tax expense

A change to the future UK corporation tax rate was announced in the March 2020 Budget. The rate will no longer drop to 17% with effect from 1 April 2020 but will remain at the previous rate of 19%. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. The effect of this change, if it applied to the deferred tax balance at 31 December 2019, would be to increase the deferred tax liability by £521K.

The introduction of legislation restricting the tax deductibility of interest for UK companies with effect from 1 April 2017 has resulted in adjustments to the taxable profits of both the current and the prior year. Interest disallowed in the year under this BEPS legislation was £4,930k (2018: £5,822K), producing an increase in the tax charge of £936K (2018: £1,107K).

10. Tangible Assets

Group	Land and buildings £000	Plant and machinery £000	Cost related to roadway concession £000	Total £000
Cost				
At 1 January 2019 and 31 December 2019	692	1,454	317,255	319,401
Depreciation				
At 1 January 2019	234	1,176	146,594	148,004
Charge for the year	14	75	17,376	17,465
At 31 December 2019	248	1,251	163,970	165,469
Carrying amount				
At 31 December 2019	444	203	153,285	153,932
At 31 December 2018	458	278	170,661	171,397

The company has no tangible assets.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

10. Tangible Assets *(continued)*

The concessions to operate the roadways have been acquired from Highways England 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 capitalised finance costs of £34,511K (2018: £34,511K).

11. Investments

Group	Cash Investments £000
Cost	
At 1 January 2019	17,416
Additions	132
At 31 December 2019	17,548
Impairment	
At 1 January 2019 and 31 December 2019	-
Carrying amount	
At 31 December 2019	17,548
At 31 December 2018	17,416
Company	Shares in Group companies £000
Cost	
At 1 January 2019 and 31 December 2019	25,335
Impairment	
At 1 January 2019 and 31 December 2019	-
Carrying amount	
At 1 January 2019 and 31 December 2019	25,335
At 31 December 2018	25,335
Subsidiaries, associates and other investments	

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

11. Investments *(continued)*

Cash investment

The additions to the Group's investments in the year relate to the movement in the fair value.

The cash investment is held within the Aberdeen Standard Flexible cash fund. This investment is available upon demand and carries variable returns based upon the market results of the fund's investments.

Shares in Group Companies

The investment represents 100% of the issued share capital of the following:

	% Holding of ordinary shares	Nature of business
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 PLC	100	Finance Company

Road Management Services (Peterborough) Limited and Road Management Services (Gloucester) Limited were established as the project companies to enter into design, build, finance and operation 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 22.35-kilometre section of the A1(M) between Alconbury and Peterborough and a 52.1-kilometre section of the A419/A417 between Swindon and Gloucester respectively.

The finance for the two projects was raised by the issue of £165,000K 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 £111,000K 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 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.

The registered address for each of the companies in which the Company holds an investment is Cannon Place, 78 Cannon Street, London EC4N 6AF.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

12. Debtors

Debtors amounts falling due within one year are as follows:

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Trade debtors	–	2,421	–	–
Amounts owed by Group undertakings	18,253	18,245	45,065	40,136
Prepayments and accrued income	4,410	2,250	–	–
	<u>22,663</u>	<u>22,916</u>	<u>45,065</u>	<u>40,136</u>

The loans by group undertakings are not interest bearing and are due on demand. However, the Company has agreed to not call upon the loan from its subsidiary for more than 12 months from the date of these financial statements.

13. Creditors: amounts falling due within one year

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Bank loans and overdrafts	11,733	10,661	–	–
Trade creditors	541	19	–	–
Amounts owed to Group undertakings	4,929	4,323	4,929	4,323
Accruals and deferred income	5,465	7,078	–	–
Corporation tax	1,103	2,494	–	–
Taxation and social security	607	1,388	–	–
Bond	15,966	14,596	–	–
Other creditors	2,981	2,981	–	–
	<u>43,325</u>	<u>43,540</u>	<u>4,929</u>	<u>4,323</u>

The amounts owed to Group undertakings are trading balances, are non interest bearing and are repayable on demand.

14. Creditors: amounts falling due after more than one year

	Group		Company	
	2019	2018	2019	2018
	£000	£000	£000	£000
Bank loans and overdrafts	–	11,721	–	–
Amounts owed to Group undertakings	40,136	35,813	40,136	35,813
Accruals and deferred income	7,923	9,412	–	–
Bond	8,530	24,509	–	–
	<u>56,589</u>	<u>81,455</u>	<u>40,136</u>	<u>35,813</u>

Road Management Group Limited

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Year Ended 31 December 2019

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

The Group has issued guaranteed secured bonds totalling £165,000K, due 2002-2021. 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 £111,000K 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 European Investment Fund. Both the bond and European Investment Bank loan proceeds are being on-lent to Road Management Services (Gloucester) Limited and Road Management Services (Peterborough) Limited.

The loan due to the European Investment Bank carries interest at a fixed rate of 9.1% per annum, with interest being payable six monthly in June and December. The loan is repayable in 6 monthly instalments, also payable in June and December, with the final repayment due in December 2020. The balance of the loan as at 31 December 2019 was £11,844K (2018: £22,677K).

Interest on the bonds is payable at a fixed rate of 9.18% with interest being payable six monthly in June and December. The principal is repayable in 6 monthly instalments, also payable in June and December, with the final repayment due in June 2021. The balance of the bond as at 31 December 2019 was £24,508K (2018: £39,105K).

Loans are stated net of issue costs of £123K (2018: £295K), which are amortised across the life of loans.

Amounts owed to Group relate to subordinated loan notes issued, together with interest on those loan notes which has been capitalised. As at 31 December 2019 the capitalised interest amounted to £30,501K (2018: £25,572K). Interest on the loan notes is charged at 12% per annum and is payable six monthly in March and September. The loan notes are fully repayable in June 2024.

15. Accruals and Deferred Income Group

Deferred shadow tolls

	2019 £000	2018 £000
Balance as at 1 January	10,479	11,463
Released during the year	(1,067)	(984)
Balance as at 31 December	<u>9,412</u>	<u>10,479</u>

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

16. Provisions for Liabilities

Group	Deferred tax (note 17) £000
At 1 January 2019	3,408
Deferred tax	(388)
At 31 December 2019	<u>3,020</u>

The Company does not have any provisions.

17. Deferred Tax

The deferred tax included in the Statement of Financial Position is as follows:

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Included in provisions for liabilities (note 16)	<u>3,020</u>	<u>3,408</u>	<u>-</u>	<u>-</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	3,036	3,380	-	-
Deferred tax - other timing differences	(16)	28	-	-
	<u>3,020</u>	<u>3,408</u>	<u>-</u>	<u>-</u>

The net deferred tax liability expected to reverse in 2020 is £428K. This primarily relates to the reversal of timing differences on capital allowances offset by expected utilisation of tax losses.

18. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

Financial assets measured at fair value through other comprehensive income

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Investments	<u>17,548</u>	<u>17,416</u>	<u>-</u>	<u>-</u>

Cash investments (see note 11) are carried at fair value with movements reflected through the fair value movement in Other Comprehensive Income. The movement in the year was £132K (2018: £95K). All other financial instruments are recorded at amortised costs.

Road Management Group Limited

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Year Ended 31 December 2019

19. Called Up Share Capital

Issued, called up and fully paid

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	<u>25,335,004</u>	<u>25,335,004</u>	<u>25,335,004</u>	<u>25,335,004</u>

20. Reserves

Retained earnings records retained earnings and accumulated losses.

Fair value reserve records fair value movements on unrecognised gains in the investment.

21. Cash Generated from Operations

	2019 £000	2018 £000
Profit for the financial year	2,404	2,333
<i>Adjustments for:</i>		
Depreciation of tangible assets	17,465	15,952
Other interest receivable and similar income	(303)	(228)
Interest payable and similar expenses	10,062	11,714
Tax on profit	796	2,959
<i>Changes in:</i>		
Trade and other debtors	253	273
Trade and other creditors	(2,294)	1,061
Decrease in deferred shadow tolls	(1,067)	(984)
	<u>27,316</u>	<u>33,080</u>

22. Analysis of Changes in Net Debt

	At 1 Jan 2019 £000	Cash flows £000	Other changes £000	At 31 Dec 2019 £000
Cash at bank and in hand	39,553	(5,347)	–	34,206
Debt due within one year	(14,984)	(25,430)	23,752	(16,662)
Debt due after one year	(47,534)	–	7,398	(40,136)
	<u>(22,965)</u>	<u>(30,777)</u>	<u>31,150</u>	<u>(22,592)</u>

See Note 11. An additional £17,000K is held as a cash investment which is available upon demand.

23. Events after the End of the Reporting Period

Coronavirus was declared a pandemic in March 2020 and since then there has been widespread disruption in the UK. As the pandemic impacted on the Group's performance after the year end this event has been classified as a non-adjusting post balance sheet event. As disclosed in the Directors' Report, the directors have considered the future financial impact to the Company of the Coronavirus. The likely full impact is unknown. As detailed within the Strategic Report, the group has breached its loan covenants in 2020 because of the impact of the pandemic.

Road Management Group Limited

Notes to the Annual Report and Consolidated Financial Statements *(continued)*

Year Ended 31 December 2019

24. Related Party Transactions

Company

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

	2019 £000	2018 £000
Salary recharges to the company by Kellogg Brown & Root Limited	3	65
Management fees charged to the company by Kellogg Brown & Root Limited	148	145
Management fees charged to the company by Abertis Motorways UK Limited	198	193
Management fees charged to the company by BIIF LP	593	570
Amounts included in creditors owed to Abertis Motorways UK Limited	49	–

The Group had loans due to and from controlling parties which are disclosed in notes 12, 13 and 14. These represent accrued interest on subordinated loans, principals due on subordinated loans as well as amounts due on loans to shareholders which are not interest bearing and amounts due with respect to consortium tax relief which is also not interest bearing.

25. Controlling Party

There is no ultimate parent and controlling party as Road Management Group Limited is jointly owned and controlled by Kellogg Brown & Root Limited, Abertis Motorways UK Limited and BIIF L.P.