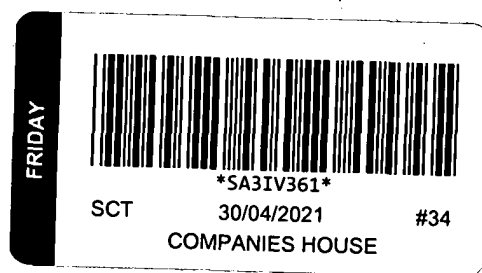


Company Registration No. 02939644 (England and Wales)

**UK HIGHWAYS M40 (HOLDINGS) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**



COMPANIES HOUSE

30 APR 2021

EDINBURGH MAILBOX

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	N Rae I R Gethin J Pritchard M Lopez-Simon
<b>Secretary</b>	Vercity Management Services Limited
<b>Company number</b>	02939644
<b>Registered office</b>	8 White Oak Square London Road Swanley Kent BR8 7AG
<b>Auditor</b>	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE
<b>Banker</b>	HSBC Bank PLC 8 Canada Square London E14 5HQ

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# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

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# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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The Directors present the strategic report for the year ended 31 December 2020.

### **Business Review and Principal Activities**

The principal activity of the Company is to act as a holding company, with a single subsidiary UK Highways M40 Limited.

The principal activity of the Group is to carry on the business of the design, financing, construction and operation of the property and undertaking known as the M40 motorway junctions 1 to 15, pursuant to and in accordance with the terms of an agreement with Her Majesty's Secretary of State for Transport (the "contract") which was signed on 8 October 1996. The Group commenced trading on 6 January 1997. The concession period is 30 years. Construction completed on 9 March 1999 when the operational phase of the contract commenced.

### *Business and Financial Performance*

Income and expenditure have been broadly in line with the Board's expectations. Turnover is linked to traffic volumes in a non-linear way; the charging mechanism is such that volume changes have to be significant to impact materially on reported turnover. Risks to turnover from normal traffic fluctuations are therefore seen to be relatively small. All operational costs are on fixed long-term contracts and risks to these costs are perceived as being small.

The Group profit after taxation for the year is £312,000 (2019: £16,722,000) and the net assets of the Group are £2,872,000 (2019: £7,860,000).

As detailed further in note 1.2, Covid-19 has impacted on traffic levels post the balance sheet date and during the year. The Directors continue to monitor traffic volumes on a weekly basis in light of going concern assumptions (as further explained in the Director's report and note 1).

### **Principal Risks and Uncertainties**

The Group's activities expose it to a number of financial risks including liquidity risk, interest rate risk, credit risk and lifecycle risk. These risks are further explained in the Directors' Report.

### **Development and performance**

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### Key Performance Indicators

The Group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the Design, Build, Finance, Operate contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following sections.

This year's traffic volumes on the M40 have decreased by 34.8% for cars and 14.5% for HGVs over the same period last year due to Covid related travelling restrictions. In the prior year, traffic volumes increased by 1.1% for cars and 3.0% for HGVs.

### Health & Safety Performance

Health and safety reports are provided at every board meeting and are reviewed regularly by the Directors. The Board considers any events which would indicate a pattern for further review and action if required. The health and safety of the project is considered to be satisfactory.

### Forecasts

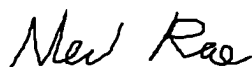
The Board regularly reviews costs and traffic levels against forecasts and accident statistics are compared against benchmarks. Traffic is monitored against independent forecasts provided by our advisors and costs are measured against both our own budgets and benchmarked against similar sub-contracts on other projects. An independent traffic reforecast was commissioned in 2019, the results of which have been incorporated into the traffic projections going forward.

### Lifecycle

The Group is responsible for all lifecycle costs on the project. The Directors manage this through close involvement in the project and regular monitoring of its performance. Regular surveys are done on the condition of the road and a full review of lifecycle forecasts is done every three years.

The required major maintenance accrual at the year end has reduced to £7.9m (2019: £9.5m) as a result of higher major maintenance costs incurred during the year of £10.0m (2019: £6.4m).

On behalf of the board



N Rae

Director

28 April 2021

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2020

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The Directors present their annual report and audited financial statements for the year ended 31 December 2020.

#### Principal activities

The principal activity of the Company is to act as a holding company, with a single subsidiary UK Highways M40 Limited.

The principal activity of the Group continued to be that of operating the property and undertaking known as the M40 motorway junctions 1 to 15 under the Design, Build, Finance, Operate contract.

There have not been any significant changes in the Group's principal activities in the year under review.

The Company is a joint venture between Semperian Subholdings M40 Limited (50%), a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited and Palio No 7 Limited (50%), a wholly owned subsidiary of Craighouse UK 3 Limited. Both of these companies are incorporated in Great Britain and registered in England.

#### Results and dividends

The results for the year are set out on page 11.

The decrease in pre-tax profit is mainly due to the reduction in toll revenue as a result of the decline in traffic volume on the road largely due to the Covid-19 pandemic.

Ordinary dividends were paid amounting to £5,920,000 (2019: £14,000,000). The Directors do not recommend payment of a final dividend.

#### Directors

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

N Rae  
I R Gethin  
J Pritchard  
M Lopez-Simon

#### Going concern

The Directors have assessed liquidity and covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Company to meet all loan and interest repayments including the potential impact of Covid-19 on the project. The Company earns a unitary payment from the authority linked to traffic volumes. Following Covid-19 and the implementation of UK lockdown, traffic volumes on the road declined. The unitary payment for the year ending 31 March 2021 is based on traffic volumes for the year ending 31 March 2020 (i.e. is retrospective), and therefore the impact of lower traffic volumes will only start to be seen within the year ending 31 March 2022 (i.e. from 1 April 2021). The Directors forecasts show that the Company can continue to fully meet its debt obligations (including covenant compliance and ensuring all reserves are all fully funded). The Directors have run various stress scenarios which show that the Company can continue to meet all its debt obligations (including covenant compliance and the funding of reserves) in the next twelve months, even if Other Vehicle traffic were to reduce by 37% and Heavy Goods Vehicle traffic by 10% compared to 2019-20 traffic over the year to March 2022. The Company would also have further mitigating actions available to mitigate any further decline in traffic including dividend reductions.

The Directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 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.

### Financial instruments

#### *Liquidity Risk*

The Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the Group negotiated debt facilities with an external party to ensure that the Group has sufficient funds over the life of the PFI concession.

#### *Interest Rate Risk*

The Group's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Group uses interest rate swaps to manage the risk and reduce its exposure to changes in interest rates.

#### *Credit Risk*

The Group's principal financial assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a government authority.

#### *Lifecycle Risk*

Lifecycle expenditure is the main risk to the business. The risk being that the allowance for key lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distributions. This is mitigated by regular lifecycle reviews undertaken by the management services provider and a detailed lifecycle review performed every three years.

### Future developments

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

### Auditor

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

### Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the Group is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the Group is aware of that information.

On behalf of the board



N Rae  
Director

28 April 2021

# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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The Directors are responsible for preparing the annual report and the 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company, and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

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#### Opinion

We have audited the financial statements of UK Highways M40 (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the group statement of comprehensive income, the group balance sheet, the company balance sheet, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED**

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#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

#### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's 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 auditor's 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.

# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED**

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As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit approach.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

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#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures can detect irregularities, including fraud is detailed below:

We identify and assess the risks of material misstatement of the group's or parent company's financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and noncompliance with laws and regulations, we considered the following:

- the nature of the industry;
- results of our enquiries of management about their own identification and assessment of the risks of irregularities; and;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, going concern and future maintenance costs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the legal and regulatory frameworks that the group and parent company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

Our procedures to respond to risks identified included the following:

- recalculation of unitary charge by applying contracted indexation to base cost;
- reviewing the application of calculated service margin to service costs to determine revenue amount recognised in the Statement of Comprehensive Income in the year;
- reviewing passthrough costs and related revenue to ensure these match and are legitimate passthrough costs in line with the contract;
- consider detailed lifecycle review, schedule of programmed maintenance report and condition surveys where available and compare with future forecasts as determined in the latest operating model;
- comparison of actual lifecycle expenditure to forecast;
- reviewing the financial statement disclosures to assess compliance with the laws and regulation described as having a direct effect on the financial statements;
- enquiring of management and directors regarding the actual or potential existence and extent of any litigation claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviewing board minutes for events that may impact the financial statement;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

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#### Use of our report

This report is made solely to the group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the group and the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Johnston Carmichael LLP*  
Irvine Spowart (Senior Statutory Auditor)  
For and on behalf of Johnston Carmichael LLP

28 April 2021

Chartered Accountants  
Statutory Auditor

7-11 Melville Street  
Edinburgh  
EH3 7PE

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Turnover	3	28,470	40,560
Cost of sales		(24,884)	(16,407)
<b>Gross profit</b>		<b>3,586</b>	<b>24,153</b>
Interest receivable and similar income	8	1,049	1,662
Interest payable and similar expenses	9	(4,169)	(5,171)
<b>Profit before taxation</b>		<b>466</b>	<b>20,644</b>
Tax on profit	10	(154)	(3,922)
<b>Profit for the financial year</b>		<b>312</b>	<b>16,722</b>
<b>Other comprehensive income</b>			
Cash flow hedges gain arising in the year	17	635	754
Tax relating to other comprehensive income	20	(15)	(128)
<b>Total comprehensive income for the year</b>		<b>932</b>	<b>17,348</b>

The group statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## GROUP BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	12		21,936		25,472
Investments	13		15,225		14,514
			<u>37,161</u>		<u>39,986</u>
<b>Current assets</b>					
Debtors falling due after more than one year	15	357		327	
Debtors falling due within one year	15	984		8,877	
Investments		-		15,813	
Cash at bank and in hand		37,437		22,604	
		<u>38,778</u>		<u>47,621</u>	
<b>Creditors: amounts falling due within one year</b>	16	(25,560)		(22,984)	
<b>Net current assets being current assets less current liabilities</b>			13,218		24,637
<b>Total assets less current liabilities</b>			<u>50,379</u>		<u>64,623</u>
<b>Creditors: amounts falling due after more than one year</b>	17		(47,507)		(56,763)
<b>Net assets</b>			<u>2,872</u>		<u>7,860</u>
<b>Capital and reserves</b>					
Called up share capital	21		3,550		3,550
Hedging reserve	21		(3,772)		(4,392)
Profit and loss reserves	21		3,094		8,702
<b>Total equity</b>			<u>2,872</u>		<u>7,860</u>

The financial statements were approved by the board of directors and authorised for issue on 28 April 2021 and are signed on its behalf by:



N Rae  
Director

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

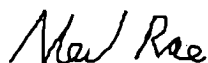
## COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	13		3,500		3,500
<b>Current assets</b>					
Debtors falling due after more than one year	15	3,680		4,221	
Debtors falling due within one year	15	811		747	
Cash at bank and in hand		4		4	
		<u>4,495</u>		<u>4,972</u>	
<b>Creditors: amounts falling due within one year</b>	16	<u>(654)</u>		<u>(589)</u>	
<b>Net current assets</b>			3,841		4,383
<b>Total assets less current liabilities</b>			<u>7,341</u>		<u>7,883</u>
<b>Creditors: amounts falling due after more than one year</b>	17		<u>(3,680)</u>		<u>(4,221)</u>
<b>Net assets</b>			<u>3,661</u>		<u>3,662</u>
<b>Capital and reserves</b>					
Called up share capital	21		3,550		3,550
Profit and loss reserves			111		112
<b>Total equity</b>			<u>3,661</u>		<u>3,662</u>

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year £5,920,000 (2019: £14,000,000 profit).

The financial statements were approved by the board of directors and authorised for issue on 28 April 2021 and are signed on its behalf by:



N Rae  
Director

Company Registration No. 02939644



# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

		Share capital	Hedging reserve	Profit and loss reserves	Total
	Notes	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2019</b>		3,550	(5,018)	5,980	4,512
<b>Year ended 31 December 2019:</b>					
Profit for the year		-	-	16,722	16,722
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	754	-	754
Tax relating to other comprehensive income		-	(128)	-	(128)
Total comprehensive income for the year		-	626	16,722	17,348
Dividends	11	-	-	(14,000)	(14,000)
<b>Balance at 31 December 2019</b>		3,550	(4,392)	8,702	7,860
<b>Year ended 31 December 2020:</b>					
Profit for the year		-	-	312	312
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	635	-	635
Tax relating to other comprehensive income		-	(15)	-	(15)
Total comprehensive income for the year		-	620	312	932
Dividends	11	-	-	(5,920)	(5,920)
<b>Balance at 31 December 2020</b>		3,550	(3,772)	3,094	2,872

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
<b>Balance at 1 January 2019</b>		3,550	112	3,662
<b>Year ended 31 December 2019:</b>				
Profit and total comprehensive income for the year		-	14,000	14,000
Dividends	11	-	(14,000)	(14,000)
<b>Balance at 31 December 2019</b>		3,550	112	3,662
<b>Year ended 31 December 2020:</b>				
Profit and total comprehensive income for the year		-	5,919	5,919
Dividends	11	-	(5,920)	(5,920)
<b>Balance at 31 December 2020</b>		3,550	111	3,661

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	Notes	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	17,225	20,251
Income taxes paid		(1,854)	(4,304)
<b>Net cash inflow from operating activities</b>		<u>15,371</u>	<u>15,947</u>
<b>Investing activities</b>			
Purchase of tangible fixed assets		-	(30)
EIB bond matured		15,997	-
Interest received		153	299
<b>Net cash generated from investing activities</b>		<u>16,150</u>	<u>269</u>
<b>Financing activities</b>			
Interest and other financing costs paid		(3,132)	(4,107)
Repayment of secured loan		(7,636)	(6,384)
Repayment of loan notes		-	(405)
Dividends paid to equity shareholders		(5,920)	(14,000)
<b>Net cash used in financing activities</b>		<u>(16,688)</u>	<u>(24,896)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>14,833</u>	<u>(8,680)</u>
Cash and cash equivalents at beginning of year		<u>22,604</u>	<u>31,284</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>37,437</u></u>	<u><u>22,604</u></u>

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

#### Company information

UK Highways M40 (Holdings) Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The group consists of UK Highways M40 (Holdings) Limited and all of its subsidiaries.

#### 1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value, and in accordance with FRS 102. The principal accounting policies adopted are set out below.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its parent financial statements. The Company is consolidated in these financial statements. Exemptions have been taken in these parent company financial statements in relation to presentation of a company statement of cashflows.

#### Amendments to FRS102: Interest rate reform

The group's hedged items and hedging instruments continue to be linked to Sterling LIBOR. The group has early adopted the transitional provisions set out in the amendments to FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Interest Rate Benchmark Reform, issued in December 2019, to those hedging relationships directly affected by IBOR reform. In accordance with these amendments, for the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the group assumes that the benchmark interest rate is not altered as a result of IBOR reform and can continue to apply hedge effectiveness throughout the transition period.

#### 1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 December each year. The subsidiary has a year ended of 31 December 2020.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### 1.3 Going concern

The Directors have assessed liquidity and covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Company to meet all loan and interest repayments including the potential impact of Covid-19 on the project. The Company earns a unitary payment from the authority linked to traffic volumes. Following Covid-19 and the implementation of UK lockdown, traffic volumes on the road declined. The unitary payment for the year ending 31 March 2021 is based on traffic volumes for the year ending 31 March 2020 (i.e. is retrospective), and therefore the impact of lower traffic volumes will only start to be seen within the year ending 31 March 2022 (i.e. from 1 April 2021). The Directors forecasts show that the Company can continue to fully meet its debt obligations (including covenant compliance and ensuring all reserves are all fully funded). The Directors have run various stress scenarios which show that the Company can continue to meet all its debt obligations (including covenant compliance and the funding of reserves) in the next twelve months, even if Other Vehicle traffic were to reduce by 37% and Heavy Goods Vehicle traffic by 10% compared to 2019-20 traffic over the year to March 2022. The Company would also have further mitigating actions available to mitigate any further decline in traffic including dividend reductions.

The Directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

#### 1.4 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Authority.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 1 Accounting policies

(Continued)

#### 1.5 Tangible fixed assets

Tangible fixed assets comprise:

- (i) leasehold properties and improvements, being the depots covered by the Concession Agreement.
- (ii) infrastructure assets, being that section of the M40 road covered by the Concession Agreement (the "Project Road") together with its associated landscaping and over/under bridges.
- (iii) other assets, including fixed electrical and mechanical equipment, plant and machinery and fixtures and fittings.

##### Leasehold properties

These were handed over to the Group at nil value. Improvements to the leasehold properties are recorded at cost and are depreciated upon commissioning, over the remaining life of the leasehold or concession, whichever is the shorter.

##### Infrastructure assets

The Group is a special purpose entity that has been established to provide services under certain private finance agreements with Her Majesty's Secretary of State for Transport. Under the terms of these Agreements, the Secretary of State (as grantor) controls the services to be provided by the Group over the contract term. Based on the contractual arrangements the Group has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements. The Group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10 (i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed and will continue to be recognised as a tangible fixed asset.

The Project Road was handed over to the Group at nil value. All expenditure on the Project Road specified in the Concession Agreement as related to increased capacity is treated as additions, which are included at cost less depreciation.

Depreciation is charged on additions over the life of the concession pro rata to usage. Annual depreciation is a function of the proportion of traffic for the year over the total estimated traffic for the period of the concession.

##### Other assets

Depreciation is calculated on a straight line basis in order to write down the costs of assets to their estimated residual value over their expected useful lives as follows:

Mechanical and electrical equipment	10 years
Plant, machinery and other equipment	3-10 years
Fixtures and fittings	3-5 years

#### 1.6 Fixed asset investments

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Fixed asset investments are held at cost (including accrued interest income on zero coupon bonds) less provision for any impairment. Cost includes rolled up notional interest which is calculated on a sum of the digits method reflecting the economic benefits received by the Group.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### 1.7 Cash and cash equivalents

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

#### 1.8 Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the balance sheet, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **Basic financial assets**

Basic financial assets, which include debtors, cash and bank balances and other financial assets, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

##### **Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

##### **Loans and receivables**

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

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

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

#### ***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

#### ***Classification of financial liabilities***

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 Group after deducting all of its liabilities.

#### ***Basic financial liabilities***

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. The effective interest method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

#### ***Other financial liabilities***

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.



# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

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 Group after deducting all of its liabilities.

#### ***Derecognition of financial liabilities***

Financial liabilities are derecognised when the Group's contractual obligations expire or are discharged or cancelled.

#### **1.9 Equity instruments**

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

#### **1.10 Derivatives**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in the group statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the group statement of comprehensive income depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The Group does not hold or issue derivative financial instruments for speculative purposes.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### **Hedge accounting**

The Group designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### **Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in the group statement of comprehensive income, and is included in the 'other gains and losses' line in this item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the group statement of comprehensive income in the periods when the hedged item is recognised in the group statement of comprehensive income in the same line as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability concerned.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Any gain or loss previously recognised in other comprehensive income is reclassified to the statement of comprehensive income when the hedge relationship ends. This occurs when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised, or the hedging instrument is terminated.

### 1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the group statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### **Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

#### **1.12 Major Maintenance Accrual**

Accrual for major maintenance of the Project Road is based on the expenditure required to maintain the Project Road in the condition laid down in the Concession Agreement. The charge made in the year reflects the costs to be borne by the Group in making good the wear and tear sustained by the road in the year. Cash expenditure is charged against the balance sheet provision as and when incurred, and to the extent that cash expenditure exceeds the amount provided to date, the balance is disclosed as a prepayment or accrual.

The annual cost of repair is calculated with reference to the expenditure required over the life of the Concession to maintain the Project Road to the specified standard and the annual traffic movements which give rise to the wear and tear. The annual cost of repair to structural and other assets is calculated with respect to the duration of the concession. The future cost has been discounted at a rate of 8.5% (2019: 8.5%). The unwinding of the discount is recognised in the income statement with other finance costs.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 2 Judgements and key sources of estimation uncertainty

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

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

#### **Critical judgements**

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### ***Hedge accounting***

The Directors consider the Group to have met the criteria for cash flow hedge accounting and the Group has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

The fair value of the swaps recorded in the accounts are based on Mark to Market estimates provided by the Bank. It is expected that changes to the hedging instrument and the loan will be materially consistent and limited to the transition from LIBOR to the new benchmark, as both the loan and the swap will be transitioned to the new benchmark at similar times in a broadly matching fashion.

#### **Key sources of estimation uncertainty**

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

#### ***Valuation of derivative financial instruments***

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Group uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £5,124,000 (2019: £5,727,000 liability). The Directors do not consider the impact of own credit risk to be material.

#### ***Major maintenance accrual***

The Directors use their judgement to estimate both the value of major maintenance work still to be completed and expected traffic levels over the remaining concession. Third party advice is periodically sought to support these judgements. The Directors also have to judge a suitable discount factor to apply to the calculation. When determining a suitable discount factor, the Directors have considered typical discount rates applied to companies with similar risk profiles and the level of expected major maintenance expenditure remaining to the end of the concession. Refer to note 16 for further details.

#### ***Depreciation***

Depreciation on infrastructure assets is charged over the concession pro rata to usage. As such, the Directors judgement of expected traffic levels over the remaining concession (as supported by third party projections) determines the value of this charge.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3 Turnover and other revenue

	2020 £'000	2019 £'000
<b>Turnover analysed by class of business</b>		
Shadow tolls	23,568	35,247
Variation income	4,486	4,748
Other income	416	565
	<u>28,470</u>	<u>40,560</u>
<b>Turnover analysed by geographical market</b>		
United Kingdom	<u>28,470</u>	<u>40,560</u>

### 4 Operating profit

	2020 £'000	2019 £'000
Operating profit for the year is stated after charging/(crediting):		
Major maintenance	7,630	(893)
Operational costs	12,656	12,923
Other operating charges	1,062	747
Depreciation of owned tangible fixed assets	<u>3,536</u>	<u>3,630</u>

### 5 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the group and company	<u>16</u>	<u>20</u>

Auditor's remuneration is payable to Johnston Carmichael LLP (2019: Deloitte LLP).

### 6 Employees

The Group had 0 employees during the current year (2019: 0).

### 7 Directors' remuneration

No directors received any remuneration for services to the Group during the current or prior year.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 8 Interest receivable and similar income

	2020 £'000	2019 £'000
<b>Interest income</b>		
Interest on bank deposits	153	243
Interest receivable on financial asset	896	1,419
Total income	<u>1,049</u>	<u>1,662</u>
Interest on financial assets not measured at fair value through profit or loss	<u>153</u>	<u>243</u>

### 9 Interest payable and similar expenses

	2020 £'000	2019 £'000
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest on bank overdrafts and loans	2,658	3,095
Interest payable to group undertakings	702	756
<b>Other finance costs:</b>		
Unwinding of discount on major maintenance provision	809	1,320
Total interest expense	<u>4,169</u>	<u>5,171</u>

### 10 Taxation

	2020 £'000	2019 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	199	4,008
<b>Deferred tax</b>		
Origination and reversal of timing differences	(45)	(86)
Total tax charge	<u>154</u>	<u>3,922</u>

For the year ended 31 December 2020, the UK corporation tax rate of 19% is applied.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The deferred tax asset as at 31 December 2020 has been calculated based on a rate of 19%.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 10 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £'000	2019 £'000
Profit before taxation	466	20,644
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	89	3,922
Effect of changes in tax rate	65	-
Taxation charge	154	3,922

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2020 £'000	2019 £'000
Deferred tax arising on: Revaluation of financial instruments treated as cash flow hedges	15	128

### 11 Dividends

	2020 £'000	2019 £'000
Recognised as distributions to equity holders:		
Final paid	3,620	5,500
Interim paid	2,300	8,500
	5,920	14,000

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 12 Tangible fixed assets

Group	Short leasehold properties and improvements £'000	Infrastructure assets £'000	Other assets £'000	Total £'000
<b>Cost</b>				
At 1 January 2020	85,011	828	795	86,634
Disposals	-	-	(40)	(40)
At 31 December 2020	85,011	828	755	86,594
<b>Depreciation and impairment</b>				
At 1 January 2020	59,781	615	766	61,162
Depreciation charged in the year	3,501	31	4	3,536
Depreciation on Disposal	-	-	(40)	(40)
At 31 December 2020	63,282	646	730	64,658
<b>Carrying amount</b>				
At 31 December 2020	21,729	182	25	21,936
At 31 December 2019	25,230	213	29	25,472

Included within infrastructure asset cost is £9,332,000 (2019: £9,332,000) of interest capitalised during the construction phase. The net book value of interest capitalised is £2,384,000 (2019: £2,768,000).

The Group has the right to the benefits derived from the operation of the Concession fixed assets throughout the term of the Concession, but in certain instances has no legal title to those assets. The Group has an obligation to maintain the Concession fixed assets throughout the Concession period and to hand them back to the Secretary of State at the end of the Concession in an agreed condition.

### 13 Fixed asset investments

	Notes	Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
Shares in group undertakings	14	-	-	3,500	3,500
Investments maturing after more than one year		-	14,514	-	-
Investments maturing within one year		15,225	15,813	-	-
		15,225	30,327	3,500	3,500

The investment in subsidiaries is an equity instrument measured at cost less impairment.



# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 13 Fixed asset investments

(Continued)

The Company's subsidiary undertaking, UK Highways M40 Limited, holds EIB zero coupon bonds which are used to fund major maintenance works on the motorway as and when they fall due. The bonds will mature at specified intervals through to 2021.

The interest in respect of these bonds is being recognised in the profit and loss account, even though no interest is received in cash, to spread the receipt of interest over the life of the bonds. The interest is being rolled up into the investments and will be realised in cash when the bonds mature.

#### Movements in fixed asset investments

Group	EIB Bonds £'000
<b>Cost or valuation</b>	
At 1 January 2020	30,327
Interest	895
Disposals	(15,997)
	<hr/>
At 31 December 2020	15,225
	<hr/>
<b>Carrying amount</b>	
At 31 December 2020	15,225
	<hr/>
At 31 December 2019	30,327
	<hr/>

#### Movements in fixed asset investments

Company	Shares in group undertakings £'000
<b>Cost or valuation</b>	
At 1 January 2020 and 31 December 2020	3,500
	<hr/>
<b>Carrying amount</b>	
At 31 December 2020	3,500
	<hr/>
At 31 December 2019	3,500
	<hr/>

### 14 Subsidiaries

Details of the Company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Class of shares held	% Held Direct
UK Highways M40 Limited	8 White Oak Square, London Road, Swanley, BR8 TAG	Ordinary shares	100.00

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 15 Debtors

		Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
<b>Amounts falling due within one year:</b>					
Corporation tax recoverable		413	-	-	-
Amounts owed by group undertakings		-	-	271	278
Other financial asset		-	-	540	468
Other debtors		15	-	-	-
Prepayments and accrued income		556	8,878	-	-
		<u>984</u>	<u>8,878</u>	<u>811</u>	<u>746</u>
<b>Amounts falling due after more than one year:</b>					
	<b>Notes</b>				
Amounts owed by group undertakings		-	-	3,680	4,221
Deferred tax asset	20	357	327	-	-
		<u>357</u>	<u>327</u>	<u>3,680</u>	<u>4,221</u>
<b>Total debtors</b>		<u>1,341</u>	<u>9,205</u>	<u>4,491</u>	<u>4,967</u>

#### Unsecured loan notes

At the year end, the Company was owed £4,220,000 (2019: £4,689,000) in unsecured loan notes and accrued interest of £114,000 (2019: £121,000) from its subsidiary, UK Highways M40 Limited. The loan notes are subject to to interest at 15% per annum and they are repayable by 1 May 2026, or before if funds allow.

### 16 Creditors: amounts falling due within one year

		Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
	<b>Notes</b>				
Unsecured loan notes	19	540	468	540	468
Bank loans	19	8,112	6,968	-	-
Trade creditors		199	51	-	-
Gross amounts owed to contract customers		398	284	-	-
Amounts owed to parent undertakings	19	114	121	114	121
Corporation tax payable		-	1,246	-	-
Other taxation and social security		371	636	-	-
Major maintenance accrual		7,904	9,519	-	-
Accruals and deferred income		7,922	3,691	-	-
		<u>25,560</u>	<u>22,984</u>	<u>654</u>	<u>589</u>

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 16 Creditors: amounts falling due within one year

(Continued)

##### Major Maintenance Accrual

The major maintenance accrual comprises the following elements:

	2020 £'000	2019 £'000
Balance at 1 January	(9,519)	(15,530)
Unwinding of discount	(809)	(1,320)
Current year cost	10,054	6,438
(Charge)/Release for the year	(7,630)	893
Balance at 31 December	<u>(7,904)</u>	<u>(9,519)</u>

#### 17 Creditors: amounts falling due after more than one year

		Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
	Notes				
Unsecured loan notes	19	3,680	4,221	3,680	4,221
Bank loans and overdrafts	19	38,703	46,815	-	-
Derivative financial instruments measured at fair value through profit or loss		5,124	5,727	-	-
		<u>47,507</u>	<u>56,763</u>	<u>3,680</u>	<u>4,221</u>

##### Derivative financial instruments

The swaps have a fixed interest rate of 3.98% and expire in 2025. The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swap.

The fair value of the derivative financial instrument above comprises the fair value of the interest rate swap designated in an effective hedging arrangement. The change in fair value of the interest rate swap that was recognised in other comprehensive income in the year was a gain of £635,000 (2019: gain £754,000).

Amounts included above which fall due after five years are as follows:

Payable by instalments	<u>8,685</u>	<u>8,472</u>	<u>1,713</u>	<u>1,500</u>
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# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18 Financial instruments

	Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
<b>Carrying amount of financial liabilities</b>				
Measured at fair value through profit or loss				
- Other financial liabilities	5,124	5,727	-	-

### 19 Loans and overdrafts

	Group 2020 £'000	2019 £'000	Company 2020 £'000	2019 £'000
Unsecured loan notes	4,220	4,689	4,220	4,689
Bank loans	46,815	53,783	-	-
	51,035	58,472	4,220	4,689
Payable within one year	8,652	7,436	540	468
Payable after one year	42,383	51,036	3,680	4,221
	51,035	58,472	4,220	4,689

#### Bank loans

Bank borrowings relate to a term loan facility granted on 8 October 1996 by a banking syndicate with HSBC PLC acting as agent. The facility is secured by way of a first legal mortgage over the leasehold property. The loan is repayable in six monthly installments based on an agreed percentage of the total amount drawn down. Interest is charged on the facility based on floating LIBOR.

#### Unsecured loan notes

Amounts owed to parent undertakings include loan notes of £4,220,000 (2019: £4,689,000) in unsecured loan notes and accrued interest of £114,000 (2019: £121,000). The loan notes were issued to the shareholders in amounts proportionate to their percentage of shareholding. The loan notes are subject to an interest rate at an agreed arms length rate of 15% and they are repayable by 1 May 2026, or before if funds are available.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 20 Deferred taxation

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

	Assets 2020 £'000	Assets 2019 £'000
<b>Group</b>		
Short term timing differences	21	-
Deferred tax on interest rate swap fair value	885	900
Fixed asset timing differences	(549)	(573)
	<u>357</u>	<u>327</u>

	Group 2020 £'000	Company 2020 £'000
<b>Movements in the year:</b>		
Asset at 1 January 2020	(327)	-
Credit to profit or loss	(45)	-
Charge to other comprehensive income	15	-
Asset at 31 December 2020	<u>(357)</u>	<u>-</u>

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

### 21 Called up share capital

	Group and company 2020 £'000	2019 £'000
<b>Ordinary share capital</b>		
<b>Authorised</b>		
40,000,000 Ordinary Shares of £1 each	<u>40,000</u>	<u>40,000</u>
<b>Issued and fully paid</b>		
3,550,000 Ordinary Shares of £1 each	<u>3,550</u>	<u>3,550</u>

#### Other reserves

The Group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 22 Related party transactions

#### Transactions with related parties

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

	Semperian PPP Investment Partners Limited and subsidiaries		Jura Infrastructure Limited and subsidiaries	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Group</b>				
Directors' fees	61	60	61	60
Loan note interest charged	351	378	351	378
Loan notes owed at 31 December	2,110	2,344	2,110	2,344
Loan note interest owed at 31 December	58	61	58	61

### 23 Controlling party

The Company is a joint venture between Semperian Subholdings M40 Limited (50%), a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited and Palio No 7 Limited (50%), a wholly owned subsidiary of Craighouse UK 3 Limited. Both of these companies are incorporated in Great Britain and registered in England.

### 24 Cash generated from group operations

	2020 £'000	2019 £'000
Profit for the year after tax	312	16,722
Adjustments for:		
Taxation charged	153	3,922
Finance costs	3,360	5,171
Investment income	(1,049)	(1,662)
Movements in deferred income	(375)	(564)
Non-cash expense (depreciation)	3,537	3,630
Non-cash expense (unwinding of discount provision)	809	1,320
Movements in working capital:		
Decrease in debtors	12,460	46
(Decrease) in creditors	(1,982)	(8,334)
<b>Cash generated from operations</b>	<b>17,225</b>	<b>20,251</b>