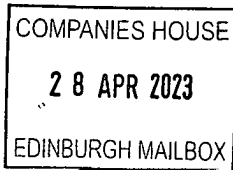


Company registration number 03045707 (England and Wales)



UK HIGHWAYS M40 LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



UK HIGHWAYS M40 LIMITED

COMPANY INFORMATION

Directors	N Rae M Lopez-Simon L Falero
Secretary	Vercity Management Services Limited
Company number	03045707
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	Johnston Carmichael LLP Bishops Court 29 Albyn Place Aberdeen AB101YL
Banker	HSBC Bank PLC 8 Canada Square London E14 5HQ

UK HIGHWAYS M40 LIMITED

CONTENTS

	Page
Strategic report	1 - 3
Directors' report	4 - 5
Directors' responsibilities statement	6
Independent auditor's report	7 - 10
Statement of comprehensive income	11
Balance sheet	12
Statement of changes in equity	13
Notes to the financial statements	14 - 29

UK HIGHWAYS M40 LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present the strategic report for the year ended 31 December 2022.

Business Review and Principal Activities

The principal activity of the Company 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 Company 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 Company loss after taxation for the year is £1,456,000 (2021: £8,011,000 profit) and the net assets of the Company are £12,401,000 (2021: £12,077,000). The decrease in pre-tax profit was due to the increase in major maintenance costs following the three yearly review of lifecycle expenditure.

Principal Risks and Uncertainties

The Company'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 Company's activities in the next year.

Key Performance Indicators

The Company'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 increased by 17.2% for cars and 2.8% for HGVs compared to the previous year. In the prior year, traffic volumes increased by 21.6% for cars and 14.8% for HGVs compared to the previous year due to Covid related travelling restrictions.

Penalty points are awarded by the client for poor or substandard performance, as stipulated in the contract, and these are monitored regularly by the Board. The project consistently produces acceptable results and few penalty points are accumulated at any one time.

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 2022, the results of which have been incorporated into the traffic projections going forward.

UK HIGHWAYS M40 LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Key Performance Indicators (continued)

Lifecycle

The Company is responsible for all lifecycle or major maintenance 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 provision at the year end has increased to £28.8m (2021: £11.5m) as a result of changes to the quantum and timing of the remaining major maintenance to the end of concession which was revised during the year. The major maintenance costs incurred during the year of £21.6m were higher than the prior year (2021: £10.0m) following the three yearly review of lifecycle expenditure. The revised projections were reviewed by an independent third party.

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies Act 2006 ("section 172").

The directors have identified the company's main stakeholders as the following:

- The company's shareholders and credit providers

Principal considerations of the board are whether the investment in the company is meeting shareholder expectations and the how the manager implements the objectives. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder briefing meetings to ensure that shareholder engagement is optimised.

The Credit provider, HSBC PLC, hold security interest over the assets of the company against the loan facility. The board regularly discusses the obligations under this facility and how the manager is fulfilling these at board meetings. The board frequently engages with the credit providers and keeps them updated on matters as required.

- The client

The board recognises the importance of working in partnership with its public sector client to successfully deliver a key public infrastructure asset. On behalf of the company, the manager fosters this partnership through regular meetings with the client representative and other key managers. The manager provides regular monthly reporting to the public sector client on the performance of its obligations under the PFI arrangement. Periodically the directors will also meet with the public sector client to discuss key service delivery matters.

- The service providers

On behalf of the company, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the company contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. Periodically the directors will also meet with the service provider to discuss key service delivery matters.

- The manager

The delivery by the manager of its services is fundamental to the long-term success of the company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

UK HIGHWAYS M40 LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

- The likely consequences of any decision in the long term

The company has outsourced the management of the company to Vercity Management Services Limited ("Vercity"), the manager. The delivery by the manager of its services is fundamental to the long-term success of the company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

- The interests of the company's employees

As an externally managed company, the company's activities are all outsourced and therefore it does not have any employees. The company does however, pay due regard to the interests and safety of all those engaged by contractors to the company to perform services on its behalf.

- The need to foster the company business relationships with suppliers, customers and others

The company is committed to upholding the underlying principle of PFI of working in partnership with all parties to the arrangement. As noted above, the company has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that company obligations to its public sector client and service providers can be upheld.

- The impact of the company's operations on the community and the environment

The company has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the company is committed to minimising environmental disruption from its activities. The board upholds the company's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises that the company is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

- The desirability of the company maintaining a reputation for high standards of business conduct

The company is committed, in its day-to-day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

- The need to act fairly as between members of the company

The members of the Company are represented at board meetings by their appointed directors. Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regard to it.

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the company's key stakeholders and reflect the board's belief that the long-term sustainable success of the company is linked directly to its key stakeholders.

On behalf of the board



N Rae
Director

25 / 04 / 2023

Date:

UK HIGHWAYS M40 LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report and audited financial statements for the year ended 31 December 2022.

Principal activities

The principal activity of the Company 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 Company'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 No7 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 increase in the major maintenance provision following the three yearly lifecycle review.

No ordinary dividends were paid. 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

(Resigned 5 December 2022)

J Pritchard

(Resigned 21 April 2023)

M Lopez-Simon

L Falero

(Appointed 5 December 2022)

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in the accounting policies in the notes to the financial statements.

Qualifying third party indemnity provisions

The Company 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 risk management objectives and policies

Liquidity Risk

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

Interest Rate Risk

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

UK HIGHWAYS M40 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Credit Risk

The Company's principal financial assets are cash, financial assets and trade and other receivables. The Company'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.

Major Maintenance Expenditure 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 Company'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

Each of the Directors in office at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board



.....
N Rae
Director

25 / 04 / 2023

Date:

UK HIGHWAYS M40 LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

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 Company and of the profit or loss of the Company 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; and
- 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 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.

UK HIGHWAYS M40 LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF UK HIGHWAYS M40 LIMITED

Opinion

We have audited the financial statements of UK Highways M40 Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity 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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

- Give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss 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 responsibilities for the audit of the financial statements section of our report. We are independent of the company 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 Directors' 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 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.

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the Strategic Report and the Directors' Report 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.

UK HIGHWAYS M40 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF UK HIGHWAYS M40 LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- The 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 Directors' Responsibilities Statement set out on page 6, 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 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

UK HIGHWAYS M40 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF UK HIGHWAYS M40 LIMITED

Extent 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 are capable of detecting irregularities, including fraud is detailed below.

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to company and the sector in which it operates, focusing on those provisions that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- FRS 102
- Companies Act 2006
- Corporation Tax legislation
- VAT legislation

We gained an understanding of how the company is complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls.

In addition to the above, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the company's procurement of legal and professional services
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Completion of appropriate checklists and use of our experience to assess the Company's compliance with the Companies Act 2006; and
- Agreement of the financial statement disclosures to supporting documentation.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that 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 intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed 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.

UK HIGHWAYS M40 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF UK HIGHWAYS M40 LIMITED

Use of our report

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

Johnston Carmichael LLP

Jenny Junnier

(Senior Statutory Auditor)

For and on behalf of Johnston Carmichael LLP

Chartered Accountants

Statutory Auditor

Bishops Court

29 Albyn Place

Aberdeen

AB101YL

25 / 04 / 2023

Date:

UK HIGHWAYS M40 LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Turnover	3	43,088	41,128
Cost of sales		(41,478)	(27,708)
Gross profit		<u>1,610</u>	<u>13,420</u>
Interest receivable and similar income	8	387	294
Interest payable and similar expenses	9	(3,897)	(3,689)
(Loss)/profit before taxation		<u>(1,900)</u>	<u>10,025</u>
Tax on (loss)/profit	10	444	(2,014)
(Loss)/profit for the financial year		<u>(1,456)</u>	<u>8,011</u>
Other comprehensive income			
Cash flow hedges gain arising in the year		2,373	2,569
Tax relating to other comprehensive income		(593)	(363)
Total comprehensive income for the year		<u><u>324</u></u>	<u><u>10,217</u></u>

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

UK HIGHWAYS M40 LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2022

		2022		2021	
	Notes	£'000	£'000	restated £'000	£'000
Fixed assets					
Tangible assets	12		14,783		18,390
Current assets					
Debtors falling due after more than one year	13	167		-	
Debtors falling due within one year	13	40,407		8,447	
Cash at bank and in hand		25,145		47,631	
		65,719		56,078	
Creditors: amounts falling due within one year	14	(15,870)		(16,573)	
Net current assets			49,849		39,505
Total assets less current liabilities			64,632		57,895
Creditors: amounts falling due after more than one year	15		(23,230)		(34,311)
Provisions for liabilities					
Provisions	17	28,808		11,460	
Deferred tax liability	18	193		47	
			(29,001)		(11,507)
Net assets			12,401		12,077
Capital and reserves					
Called up share capital	19		3,500		3,500
Hedging reserve			214		(1,566)
Profit and loss account			8,687		10,143
Total shareholders' funds			12,401		12,077

25 / 04 / 2023

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



N Rae
Director

Company Registration No. 03045707

UK HIGHWAYS M40 LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

		Share capital	Hedging reserve	Profit and loss reserves	Total
	Notes	£'000	£'000	£'000	£'000
Balance at 1 January 2021		3,500	(3,772)	2,982	2,710
Year ended 31 December 2021:					
Profit for the year		-	-	8,011	8,011
Other comprehensive income:					
Cash flow hedges gains		-	2,569	-	2,569
Tax relating to other comprehensive income		-	(363)	-	(363)
Total comprehensive income for the year		-	2,206	8,011	10,217
Dividends	11	-	-	(850)	(850)
Balance at 31 December 2021		3,500	(1,566)	10,143	12,077
Year ended 31 December 2022:					
Loss for the year		-	-	(1,456)	(1,456)
Other comprehensive income:					
Cash flow hedges gains		-	2,373	-	2,373
Tax relating to other comprehensive income		-	(593)	-	(593)
Total comprehensive income for the year		-	1,780	(1,456)	324
Balance at 31 December 2022		3,500	214	8,687	12,401

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

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

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 under 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.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the Company are consolidated in the financial statements of UK Highways M40 (Holdings) Limited. Copies of the consolidated accounts are available from Companies House.

Amendments to FRS102: Interest rate reform

The Company's hedged items and hedging instruments are now linked to SONIA.

1.2 Going concern

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.4 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 Company 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 Company 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 Company over the contract term. Based on the contractual arrangements the Company 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 Company 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 Company 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

1.5 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.

Restricted cash

Included in cash at bank is an amount of £10,764,000 (2021: £31,147,000) and Other financial assets £15,000,000 (2021: Nil) restricted from use in the business, being held in the Company's reserve accounts under the terms of its Senior Loan facility.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.6 Financial instruments

The Company 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 Company's balance sheet when the Company 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 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.

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 Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

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 Company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, and loans from fellow group companies 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 rate method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

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, 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.

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 Company after deducting all of its liabilities.

Derecognition of financial liabilities

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

1.7 Equity instruments

Equity instruments issued by the Company 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 Company.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.8 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 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 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 Company does not hold or issue derivative financial instruments for speculative purposes.

Hedge accounting

The Company designates certain hedging instruments, including derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Company 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 Company 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 statement of comprehensive income and is included in the 'other gains and losses' line.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the statement of comprehensive income in the periods when the hedged item is recognised in the 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.

1.9 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 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 Company'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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 when the Company has 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.

1.10 Provisions

Provision 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 Company 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.

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% (2021: 8.5%). The unwinding of the discount is recognised in the income statement with other finance costs.

1.11 Reclassification of comparative information

The following reclassification of comparative information has been made to more appropriately reflect its nature:

Note 17 - The amount payable in respect of Major Maintenance provision of £11,460k was moved from creditors < 1 year to Provisions.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

2 Judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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 Company to have met the criteria for cash flow hedge accounting; the Company 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 financial statements 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, as both the loan and the swap transitioned to the new benchmark.

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 Company 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 an asset of £189,000 (2021: £2,464,000 liability). The Directors do not consider the impact of own credit risk to be material.

Major maintenance provision

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 17 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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

3 Turnover and other revenue

	2022 £'000	2021 £'000
Turnover analysed by class of business		
Shadow tolls	38,146	36,662
Variation income	4,918	4,335
Other income	24	131
	<u>43,088</u>	<u>41,128</u>
Turnover analysed by geographical market		
United Kingdom	<u>43,088</u>	<u>41,128</u>

4 Operating profit

	2022 £'000	2021 £'000
Operating profit for the year is stated after charging:		
Major maintenance	21,666	10,162
Operational costs	15,093	13,004
Other operating charges	1,110	970
Depreciation of owned tangible fixed assets	<u>3,609</u>	<u>3,573</u>

5 Auditor's remuneration

	2022 £'000	2021 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	<u>20</u>	<u>17</u>

6 Employees

The Company had no employees during the current or prior year.

7 Directors' remuneration

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

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Interest receivable and similar income

	2022 £'000	2021 £'000
Interest income		
Interest on bank deposits	387	110
Interest receivable on fixed asset investment	-	184
	<u>387</u>	<u>294</u>
Total income	<u>387</u>	<u>294</u>

9 Interest payable and similar expenses

	2022 £'000	2021 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	1,949	2,399
Interest payable to parent undertakings	673	618
Other finance costs:		
Unwinding of discount on major maintenance provision	1,275	672
	<u>3,897</u>	<u>3,689</u>
Total interest expense	<u>3,897</u>	<u>3,689</u>

10 Taxation

	2022 £'000	2021 £'000
Current tax		
UK corporation tax on profits for the current period	3	1,973
	<u>3</u>	<u>1,973</u>
Deferred tax		
Origination and reversal of timing differences	(447)	41
	<u>(447)</u>	<u>41</u>
Total tax (credit)/charge	<u>(444)</u>	<u>2,014</u>

For the year ended 31 December 2022, the UK corporation tax rate of 19% is applied.

The Finance Act 2021 was substantially enacted in May 2021 and has increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. The deferred taxation balances have been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

10 Taxation

(Continued)

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

	2022 £'000	2021 £'000
(Loss)/profit before taxation	(1,900)	10,025
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(361)	1,905
Adjustments in respect of prior years	3	(1)
Effect of changes in tax rates	(86)	110
Taxation (credit)/charge for the year	(444)	2,014

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

	2022 £'000	2021 £'000
Deferred tax arising on: Revaluation of financial instruments treated as cash flow hedges	593	363

11 Dividends

	2022 £'000	2021 £'000
Interim paid	-	850

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

12 Tangible fixed assets

	Short leasehold properties and improvements	Infrastructure assets	Other assets	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2022	85,011	857	755	86,623
At 31 December 2022	85,011	857	755	86,623
Depreciation and impairment				
At 1 January 2022	66,818	679	734	68,231
Depreciation charged in the year	3,572	33	4	3,609
At 31 December 2022	70,390	712	738	71,840
Carrying amount				
At 31 December 2022	14,621	145	17	14,783
At 31 December 2021	18,193	178	21	18,392

Included within Short leasehold properties and Improvements asset cost is £9,332,000 (2021: £9,332,000) of interest capitalised during the construction phase. The net book value of interest capitalised is £1,605,000 (2021: £1,997,000).

The Company 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 Company 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 Debtors

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	4	53
Corporation tax recoverable	1,370	273
Derivative financial instruments	22	-
Other financial assets	15,000	-
Other debtors	13,379	11
Prepayments and accrued income	10,632	8,110
	40,407	8,447

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

13 Debtors (Continued)

	2022 £'000	2021 £'000
Amounts falling due after more than one year:		
Derivative financial instruments	167	-
Total debtors	40,574	8,447

Other financial assets comprises £15,000,000 (2021: £nil) cash placed on short term deposits.

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' SONIA. The Company 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 Company'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 £2,373,000 (2021: gain £2,569,000).

The company uses derivative financial instruments in the form of interest rate swaps to reduce its exposure to interest rate fluctuations on the company's floating rate bank loan. A new interest rate swap agreement to transition to SONIA was signed on 3 February 2022. An amendment to the Facility Agreement with the loan provider was simultaneously signed on the same date. As a result, the company is not exposed to any additional risk because of the interest rate reform and loans will remain effectively hedged.

On 3 February 2022 the company signed agreements with its swap provider to transition the floating interest rates from LIBOR to SONIA. The SONIA rate will be determined five business days before the end of each calendar month, with an agreed margin of 0.2766%. The transition commenced on 1 April 2022.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

14 Creditors: amounts falling due within one year

	Notes	2022 £'000	2021 £'000 restated
Unsecured loan notes	16	1,626	904
Bank loans and overdrafts	16	9,177	8,631
Trade creditors		171	80
Gross amounts owed to contract customers		335	540
Amounts owed to parent undertakings	16	1,239	566
Other taxation and social security		36	853
Derivative financial instruments		-	1,281
Bank loan accrued interest		-	126
Accruals and deferred income		3,286	3,592
		<u>15,870</u>	<u>16,573</u>

Major Maintenance Accrual has been reclassified to Provisions

15 Creditors: amounts falling due after more than one year

	Notes	2022 £'000	2021 £'000
Unsecured loan notes	16	2,334	3,056
Bank loans and overdrafts	16	20,896	30,072
Derivative financial instruments measured at fair value through profit or loss		-	1,183
		<u>23,230</u>	<u>34,311</u>

16 Loans and overdrafts

	2022 £'000	2021 £'000
Unsecured loans notes	3,960	3,960
Bank loans	30,073	38,703
	<u>34,033</u>	<u>42,663</u>
Payable within one year	10,803	9,535
Payable after one year	23,230	33,128
	<u>34,033</u>	<u>42,663</u>

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

16 Loans and overdrafts

(Continued)

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 historic SONIA.

Unsecured loan notes

Amounts owed to parent undertakings include loan notes of £3,960,000 (2021: £3,960,000) and accrued interest of £1,083,000 (2021: £410,000). 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.

17 Provisions for liabilities

	Notes	2022 £'000	2021 £'000 restated
Major Maintenance Provision		28,808	11,460
Deferred tax liabilities	18	193	47

Movements on provisions apart from deferred tax liabilities:

	Major Maintenance Provision £'000
At 1 January 2022	11,460
Unwinding of discount	1,275
Current year cost	(5,593)
Charge/(Release) for the year	21,666
At 31 December 2022	28,808

The major maintenance provision is based on projected future cashflows and has been discounted at a rate of 8.5% (2021: 8.5%), which is considered to be an appropriate rate of discount. Applying a discount rate of 7.5% gives rise to a provision of £29,996,000 and applying a discount rate of 9.5% gives rise to a provision of £27,665,000.

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

18 Deferred taxation

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

	Liabilities 2022 £'000	Liabilities 2021 £'000
Balances:		
Tax losses	(296)	-
Short term timing difference	(59)	-
Deferred tax on interest rate swap fair value	71	(522)
Fixed asset timing differences	477	569
	<u>193</u>	<u>47</u>
Movements in the year:		2022 £'000
Liability at 1 January 2022		(47)
Credit to profit or loss		447
Charge to other comprehensive income		(593)
Liability at 31 December 2022		<u>(193)</u>

19 Share capital

	2022 Number	2021 Number	2022 £'000	2021 £'000
Ordinary share capital Issued and fully paid				
Ordinary Shares of £1 each	<u>3,500,000</u>	<u>3,500,000</u>	<u>3,500</u>	<u>3,500</u>

Other reserves

The Company'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.

20 Related party transactions

Transactions with related parties

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

UK HIGHWAYS M40 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

20 Related party transactions

(Continued)

	Semperian PPP Investment Partners Limited and subsidiaries		Craighouse UK 3 Limited and subsidiaries	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Directors' fees	66	62	66	62
Loan note interest charged	336	309	336	309
Loan notes owed at 31 December	1,980	1,980	1,980	1,980
Loan note interest owed at 31 December	542	205	542	205

21 Ultimate controlling party

The Company's immediate parent undertaking is UK Highways M40 (Holdings) Limited, a company incorporated in Great Britain and registered in England and Wales, with a registered address of 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG. The smallest and largest group in which its results are consolidated is UK Highways M40 (Holdings) Limited. Copies of the consolidated accounts are available from Companies House.

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.

The Directors consider there to be no ultimate controlling entity.