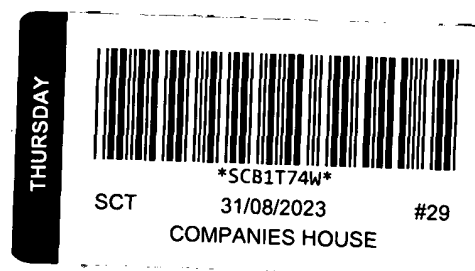


Highway Management M80 Investment Limited
Financial Statements
31 December 2022



Highway Management M80 Investment Limited

Financial Statements

Year ended 31 December 2022

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Highway Management M80 Investment Limited

Directors' Report

Year ended 31 December 2022

The directors present their report and the audited financial statements of the group for the year ended 31 December 2022.

Principal activities and business review

The principal activity of the company is that of a holding company with a single, directly-held subsidiary, Highway Management (Scotland) Holding Limited. The company indirectly owns 100% of the issued share capital in Highway Management (Scotland) Limited.

The principal activity of the group is the provision of operational and maintenance services on the M80 Stepps to Haggs project in Scotland, in accordance with a Project Agreement the group entered into with Scottish Ministers.

The group is currently running the operation and maintenance services for the period to 22 September 2041, providing a full range of operation and maintenance services under a contractual agreement that provides a regular income stream, which is subject to deductions for service shortfall and unavailability of the M80 Stepps to Haggs motorway. Final completion was achieved with effect from 31 May 2012.

The result for the group for the year is shown in the Consolidated Profit and Loss Account and Statement of Comprehensive Income on page 8.

Directors

The directors who served the company during the year were as follows:

A Deacon
A Naafs
F Schramm
N Woodburn

Dividends paid and payable

The directors recommended a dividend of £nil (2021: £nil) during the year. No dividends were declared post year-end.

Donations

The group and company made no political donations during the year (2021: £nil).

Disclosure of information to the auditor

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

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

Highway Management M80 Investment Limited

Directors' Report *(continued)*

Year ended 31 December 2022

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Johnston Carmichael LLP will therefore continue in office.

Going concern

The directors have reviewed the group's projected cash flows by reference to a financial model covering the accounting periods up to 31 December 2042. The directors have also examined the current status of the group's principal contracts and likely developments for a period of at least twelve months from the date of approval of the financial statements. Having reviewed the available information, the directors consider that the group and company will be able to meet their financial obligations on the due dates for the foreseeable future.

Small company exemption

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006. The directors have taken advantage of the small companies exemptions provided by Sections 415A and 415B of the Companies Act 2006, which includes those in relation to the exemption from certain requirements of the Directors' report and the available exemption to not prepare a Strategic report.

This report was approved by the board of directors on ^{30 / 08 / 2023} and signed on behalf of the board by:

Albert Naafs

A Naafs
Director

Registered office:
Part First Floor
1 Grenfell Road
Maidenhead
Berkshire
SL6 1HN

Highway Management M80 Investment Limited

Directors' Responsibilities Statement

Year ended 31 December 2022

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group 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.

This report was approved by the Board of directors on 30 / 08 / 2023 and signed on behalf of the Board by:

Albert Naafs

A Naafs
Director

Registered office:
Part First Floor
1 Grenfell Road
Maidenhead
Berkshire
SL6 1HN

Highway Management M80 Investment Limited

Independent Auditor's Report to the Members of Highway Management M80 Investment Limited

Year ended 31 December 2022

Opinion

We have audited the financial statements of Highway Management M80 Investment Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Profit and Loss Account and Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement 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). In our opinion the financial statements:

- Give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of its 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 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 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 group 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.

Highway Management M80 Investment Limited

Independent Auditor's Report to the Members of Highway Management M80 Investment Limited (continued)

Year ended 31 December 2022

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 the audit:

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

Matters on which we are required to report by exception

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

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

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- 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; or
- The Directors' were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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 group's and 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 group or parent company or to cease operations, or have no realistic alternative but to do so.

Highway Management M80 Investment Limited

Independent Auditor's Report to the Members of Highway Management M80 Investment Limited *(continued)*

Year ended 31 December 2022

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.

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 the group and the parent company and the sector in which they operate, 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:

- Companies Act 2006;
- Corporation taxes legislation; and
- UK Generally Accepted Accounting Practice.

We gained an understanding of how the group and the parent company are 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 group's 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. We identified a heightened fraud risk in relation to:

- Management override of controls
- Revenue recognition

Highway Management M80 Investment Limited

Independent Auditor's Report to the Members of Highway Management M80 Investment Limited *(continued)*

Year ended 31 December 2022

Extent the audit was considered capable of detecting irregularities, including fraud (continued)

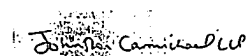
In addition to the above, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- 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 parent company's and group'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 parent company's and group'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.

Use of our report

This report is made solely to the parent 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 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Grant Roger (Senior Statutory Auditor)

For and on behalf of
Johnston Carmichael LLP
Statutory Auditor
7-11 Melville Street
Edinburgh
EH3 7PE

30 / 08 / 2023

Highway Management M80 Investment Limited

Consolidated Profit and Loss Account and Statement of Comprehensive Income

Year ended 31 December 2022

	Note	2022 £000	2021 £000
Turnover	4	9,144	6,996
Cost of sales		(4,888)	(4,112)
Gross profit		4,256	2,884
Administrative expenses		(260)	(255)
Operating profit	5	3,996	2,629
Interest receivable and similar income	8	13,763	14,200
Interest payable and similar expenses	9	(16,416)	(16,851)
Profit/(loss) before taxation		1,343	(22)
Tax on profit/(loss)	10	(336)	388
Profit for the financial year		1,007	366
Fair value movements on cash flow hedging instruments		36,852	15,592
Tax relating to components of other comprehensive income	10	(9,213)	(655)
Other comprehensive income for the year		27,639	14,937
Total comprehensive income for the year		28,646	15,303

All the activities of the group are from continuing operations.

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Consolidated Balance Sheet

As at 31 December 2022

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	11	398	418
Current assets			
Debtors: amounts falling due within one year	13	8,479	7,829
Debtors: amounts falling due after more than one year	13	249,367	267,151
Restricted cash	14	17,611	—
Cash at bank and in hand		8,773	25,857
		<u>284,230</u>	<u>300,837</u>
Creditors: amounts falling due within one year	15	<u>(17,776)</u>	<u>(16,979)</u>
Net current assets		<u>266,454</u>	<u>283,858</u>
Total assets less current liabilities		<u>266,852</u>	<u>284,276</u>
Creditors: amounts falling due after more than one year	16	<u>(276,622)</u>	<u>(322,692)</u>
Net liabilities		<u>(9,770)</u>	<u>(38,416)</u>
Capital and reserves			
Called up share capital	19	14,492	14,492
Cash flow hedge reserve	20	(1,205)	(28,844)
Profit and loss account		(23,057)	(24,064)
Total equity		<u>(9,770)</u>	<u>(38,416)</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

30 / 08 / 2023 These financial statements were approved by the board of directors and authorised for issue on and are signed on behalf of the board by:

Albert Naafs

A Naafs
Director

Company registration number: 07390625

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Company Balance Sheet

As at 31 December 2022

	Note	2022 £000	2021 £000
Fixed assets			
Investments	12	23,337	22,301
Current assets			
Debtors: amounts falling due within one year	13	2,123	2,217
Debtors: amounts falling due after more than one year	13	41,336	41,364
Cash at bank and in hand		1	1
		<u>43,460</u>	<u>43,582</u>
Creditors: amounts falling due within one year	15	<u>(5,196)</u>	<u>(4,860)</u>
Net current assets		<u>38,264</u>	<u>38,722</u>
Total assets less current liabilities		<u>61,601</u>	<u>61,023</u>
Creditors: amounts falling due after more than one year	16	<u>(41,720)</u>	<u>(42,418)</u>
Net assets		<u>19,881</u>	<u>18,605</u>
Capital and reserves			
Called up share capital	19	14,492	14,492
Revaluation reserve	20	4,805	3,769
Profit and loss account		584	344
Total equity		<u>19,881</u>	<u>18,605</u>

The profit for the financial year of the parent company was £240,000 (2021: £217,000).

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

These financial statements were approved by the board of directors and authorised for issue on 30 / 08 / 2023, and are signed on behalf of the board by:

Albert Naafs

A Naafs
Director

Company registration number: 07390625

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Note	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2021		14,492	(43,781)	(24,430)	(53,719)
Profit for the financial year		–	–	366	366
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments		–	15,592	–	15,592
Tax relating to components of other comprehensive income	10	–	(655)	–	(655)
Total comprehensive income for the year		–	14,937	366	15,303
At 31 December 2021		14,492	(28,844)	(24,064)	(38,416)
Profit for the financial year		–	–	1,007	1,007
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments		–	36,852	–	36,852
Tax relating to components of other comprehensive income	10	–	(9,213)	–	(9,213)
Total comprehensive income for the year		–	27,639	1,007	28,646
At 31 December 2022		<u>14,492</u>	<u>(1,205)</u>	<u>(23,057)</u>	<u>(9,770)</u>

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Company Statement of Changes in Equity

Year ended 31 December 2022

	Called up share capital £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2021	14,492	3,414	127	18,033
Profit for the financial year	–	–	217	217
Other comprehensive income for the year:				
Revaluation of investments	–	355	–	355
Total comprehensive income for the year	–	355	217	572
At 31 December 2021	14,492	3,769	344	18,605
Profit for the financial year	–	–	240	240
Other comprehensive income for the year:				
Revaluation of investments	–	1,036	–	1,036
Total comprehensive income for the year	–	1,036	240	1,276
At 31 December 2022	14,492	4,805	584	19,881

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Consolidated Cash Flow Statement

Year ended 31 December 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Profit for the financial year	1,007	366
<i>Adjustments for:</i>		
Amortisation of intangible assets	20	21
Interest receivable and similar income	(13,763)	(14,200)
Interest payable and similar expenses	16,416	16,851
Tax on profit/(loss)	336	(388)
<i>Changes in:</i>		
Trade and other debtors	7,545	7,345
Trade and other creditors	(1,098)	(502)
Cash generated from operations	10,463	9,493
Interest paid	(16,455)	(16,647)
Interest received	13,763	14,200
Net cash from operating activities	7,771	7,046
Cash flows from financing activities		
Repayment of bank loans	(7,244)	(6,617)
Repayment of subordinated debt	–	(692)
Net cash used in financing activities	(7,244)	(7,309)
Net increase/(decrease) in cash and cash equivalents	527	(263)
Cash and cash equivalents at beginning of year	25,857	26,120
Cash and cash equivalents at end of year	26,384	25,857

The notes on pages 14 to 27 form part of these financial statements.

Highway Management M80 Investment Limited

Notes to the Financial Statements

Year ended 31 December 2022

1. General information

The company is a private company limited by shares incorporated in the United Kingdom, which is registered and domiciled in the United Kingdom at Part First Floor, 1 Grenfell Road, Maidenhead, Berkshire, SL6 1HN. The company's principal activity is that of a holding company with a single, directly-held subsidiary, Highway Management (Scotland) Holding Limited.

2. Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is Pound Sterling and is rounded to the nearest thousand.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

3. Summary of significant accounting policies

Measurement convention

The financial statements were prepared under the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investments in subsidiary undertakings.

Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible changes in operations, believe that the group and company will be able to settle liabilities as they fall due for payment for a period of at least twelve months from the date of approval of the financial statements. Accordingly, the directors believe it is appropriate for the financial statements to be prepared on the going concern basis.

Exemptions for qualifying entities under FRS 102

The company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemption available under FRS 102 in respect of the following disclosure:

- Cash Flow Statement and related notes.
- Basic Financial Instruments and Other Financial Instrument Issues.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Certain critical accounting estimates in applying the group's accounting policies are described below:

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

3. Summary of significant accounting policies *(continued)*

Critical accounting estimates and judgements *(continued)*

Accounting for the service concession requires an estimation of service margins which is based on the forecasted results of the PFI contract. Quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. Variances are investigated and consideration given to the impact of any major variances. The financial model is updated on a six-monthly basis, to reflect actual performance to date and accommodate any changes in economic assumptions such as, RPI and the UK corporation tax rate. These processes ensure that the project remains robust and viable throughout the life of the contract.

Investments in subsidiary undertakings are measured at fair value. The fair value is based upon the forecasted cash flows of the investment discounted at an appropriate rate to account for the risk of the specific project. At year-end, a discount rate of 6.9% was deemed by the directors as the most appropriate rate to calculate the fair value of investments.

Interest payable on the senior secured funding is calculated using the effective interest rate method. The effective interest rate calculations are based on a Compounded Reference Rate (SONIA), under the terms of the funding agreements. The transition from LIBOR to SONIA was approved by the Board on 31 May 2022 and subsequently approved by the lender on 9 September 2022.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings, Highway Management (Scotland) Holding Limited and Highway Management (Scotland) Limited up to 31 December 2022. The acquisition method of accounting has been adopted. The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

Turnover

Turnover represents the value of services rendered, excluding sales related taxes, and is recognised to the extent that the group obtains the right to consideration in exchange for its performance. During the construction phase, which completed on 31 May 2012, revenues in excess of net operating and finance costs were deferred until completion of construction, and are now being released to the Profit and Loss Account over the remaining life of the concession. During the operational phase, turnover is recognised as contract activity progresses at a mark-up on costs related to the provision of services. In line with FRS 102 23.22(a), the mark-up is calculated based upon the forecast service revenues and costs over the concession period.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

3. Summary of significant accounting policies *(continued)*

Taxation *(continued)*

Deferred tax is recognised on trading losses carried forward and on the fair value of the swap derivative.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Intangible fixed assets

Intangible fixed assets relates to purchased and non-purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations. Goodwill is amortised to nil on a straight-line basis over its estimated useful economic life. While there is a presumption that the useful economic life of goodwill does not normally exceed a maximum period of ten years, the directors have rebutted this presumption and will amortise the goodwill balance over the remaining life of the underlying concession contract to which this goodwill relates. Where the directors have elected to amortise goodwill over a period of which exceeds 10 years, the directors are required to test this goodwill balance annually for impairment.

The directors evaluate the carrying value of goodwill at each balance sheet date by assessing if recoverable amount of goodwill is lower than the carrying value. When it is determined that the carrying value exceeds the recoverable amount, the impairment to goodwill is written off to the Profit and Loss Account.

Investments

Investments are held at fair value with changes in the fair value going through other comprehensive income and the revaluation reserve.

The fair value has been calculated by the directors based upon the forecast cash flows of the investment discounted at an appropriate rate to account for the risk of the specific project.

Financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method, less any impairment losses.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

3. Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and treasury deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

The group has entered into an interest rate swap and designated these as hedges for highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Profit and Loss Account immediately.

The transition from LIBOR to SONIA was approved by the Board on 31 May 2022 and subsequently approved by the lender on 9 September 2022.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

3. Summary of significant accounting policies *(continued)*

Finance debtor

The group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the group under FRS 102 section 34.12C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and the finance debtor using an asset specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23.22(a). The group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated on-going financing fees. Interest payable is recognised in the Profit and Loss Account, using the effective interest rate method.

Interest receivable

Interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

4. Turnover

Turnover arises from:

	2022 £000	2021 £000
Service income	9,144	6,996

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

5. Operating profit

Operating profit or loss is stated after charging:

	2022 £000	2021 £000
Amortisation of intangible assets	20	21

6. Auditor's remuneration

	2022 £000	2021 £000
Fees payable for the audit of the financial statements	3	3

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

6. Auditor's remuneration *(continued)*

The audit fee for the company for the year was £3,465 (2021: £3,150), which was borne on the company's behalf by a subsidiary of Highway Management M80 Investment Limited. The audit fees for the audit of the company's subsidiaries was £16,715 (2021: £14,425) which were borne by Highway Management (Scotland) Limited.

7. Staff costs and directors' remuneration

The group had no employees during the year (2021: nil). No key management personnel received any remuneration during the year (2021: nil). The directors have no contract of service with the group. During the year the group incurred charges of £82,000 (2021: £94,000) from BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A., and £82,000 (2021: £94,000) from Infrastructure Investments Holdings Limited (a 50% shareholder of the company), for making available the services of the directors.

8. Interest receivable and similar income

	2022 £000	2021 £000
Bank interest receivable	222	2
Finance debtor interest receivable	13,541	14,198
	<u>13,763</u>	<u>14,200</u>

Interest is imputed on the finance debtor using an asset specific interest rate of 5.32%.

9. Interest payable and similar expenses

	2022 £000	2021 £000
Interest payable on bank loans	12,347	12,690
Interest payable on subordinated debt	3,990	4,082
Other interest payable and similar expenses	79	79
	<u>16,416</u>	<u>16,851</u>

10. Tax on profit/(loss)

Major components of tax expense/(income)

	2022 £000	2021 £000
Deferred tax:		
Origination and reversal of timing differences	336	(388)
Tax on profit/(loss)	<u>336</u>	<u>(388)</u>

Tax recognised as other comprehensive income or equity

The aggregate deferred tax relating to items recognised as other comprehensive income or equity for the year was £(9,213,000) (2021: £(655,000)). The effect of changes in tax rates and laws is £nil (2021: £2,308,000).

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

10. Tax on profit/(loss) *(continued)*

Reconciliation of tax expense/(income)

The tax assessed on the profit/(loss) on ordinary activities for the year is higher than (2021: lower than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022 £000	2021 £000
Profit/(loss) on ordinary activities before taxation	1,343	(22)
Profit/(loss) on ordinary activities by rate of tax	255	(4)
Effect of tax losses utilised in the year	(255)	–
Effect of changes in tax rates	–	(384)
Origination and reversal of timing differences	336	–
Tax on profit/(loss)	336	(388)

Tax rate changes

On 1 April 2023, the UK corporation tax rate will increase to 25%. This will increase the group's future current tax charge accordingly. Deferred tax at 31 December 2022 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

11. Intangible assets

Group	Goodwill £000
Cost	
At 1 January 2022 and 31 December 2022	620
Accumulated amortisation	
At 1 January 2022	202
Charge for the year	20
At 31 December 2022	222
Carrying amount	
At 31 December 2022	398
At 31 December 2021	418

The company has no intangible assets (2021: £nil).

The directors have conducted such a review of the carrying balance at 31 December 2022 and are satisfied that the carrying value of the goodwill is not impaired. In assessing the goodwill balance for impairment, the directors have used a discount rate of 6.90% (2021: 6.57%). The goodwill is being amortised over a 30-year period coinciding with the term of the contract which forms the principal activity of the group.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

12. Investments

Company	Investment in subsidiary undertakings £000
Cost	
At 1 January 2022	22,301
Revaluation of investments	1,036
At 31 December 2022	23,337
Accumulated impairment	
At 1 January 2022 and 31 December 2022	-
Carrying amount	
At 31 December 2022	23,337
At 31 December 2021	22,301

The company holds more than 20% of the share capital of the following companies:

Subsidiary undertaking

Highway Management (Scotland) Holding Limited - 100% - Ordinary Share Capital (which is registered and domiciled in the United Kingdom at Part First Floor, 1 Grenfell Road, Maidenhead, Berkshire, SL6 1HN).

Highway Management (Scotland) Limited - 100% - Ordinary Share Capital (held indirectly) (which is registered and domiciled in the United Kingdom at Part First Floor, 1 Grenfell Road, Maidenhead, Berkshire, SL6 1HN).

13. Debtors

Debtors falling due within one year are as follows:

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Trade debtors	2	18	-	-
Amounts owed by group undertakings	-	-	2,123	2,217
Finance debtor	8,193	7,773	-	-
Prepayments and accrued income	284	38	-	-
	8,479	7,829	2,123	2,217

Debtors falling due after more than one year are as follows:

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Amounts owed by group undertakings	-	-	41,336	41,364
Deferred tax asset	1,746	11,335	-	-
Finance debtor	247,621	255,816	-	-
	249,367	267,151	41,336	41,364

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

13. Debtors *(continued)*

Amounts owed by group undertakings are unsecured, fully repayable by 2041 and attract interest at 10.50%.

14. Restricted cash

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Restricted cash	17,611	–	–	–

The group is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance amounts to £7,064,000 at the year-end (2021: £6,446,000). The prior year balance has not been restated on the balance sheet for presentation purposes but the amount of restricted cash for the prior year has been disclosed.

The group is also required to keep a debt service reserve account in accordance with the funding documents. This restricted cash balance amounts to £10,400,000 at the year-end (2021: £10,352,000). The prior year balance has not been restated on the balance sheet for presentation purposes but the amount of restricted cash for the prior year has been disclosed.

The group is also required to keep an insurance reserve account in accordance with the funding documents. This restricted cash balance amounts to £147,000 at the year-end (2021: £114,000). The prior year balance has not been restated on the balance sheet for presentation purposes but the amount of restricted cash for the prior year has been disclosed.

15. Creditors: amounts falling due within one year

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Bank loans	10,733	10,077	–	–
Trade creditors	139	124	–	–
Other taxation and social security	993	880	–	–
Amounts owed to group undertakings	42	42	42	42
Subordinated debt (including accrued interest)	5,154	4,818	5,154	4,818
Retention	18	18	–	–
Accruals and deferred income	697	1,020	–	–
	<u>17,776</u>	<u>16,979</u>	<u>5,196</u>	<u>4,860</u>

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

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

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Bank loans	218,781	226,435	–	–
Subordinated debt	41,720	42,422	41,720	42,418
Deferred tax liability	81	121	–	–
Derivative financial liability	1,607	38,459	–	–
Accruals and deferred income	14,433	15,255	–	–
	276,622	322,692	41,720	42,418

Included within Bank loans is an amount repayable after five years of £186,949,000 (2021: £195,755,000) and included within subordinated debt are amounts repayable after five years of £35,956,000 (2021: £39,641,000).

Bank loan relates to senior secured funding granted by a consortium of banks (Barclays Bank Plc, National Australia Bank, Sumitomo Mitsui Banking Corporation Europe Limited, Siemens GmbH and KfW IPEX Bank GmbH) and funding granted by the European Investment Bank ("EIB"). The senior loan facilities are for a total value of £297,315,000.

The senior loan facility consists of three separate facilities: a change of law facility of £8,302,000 with Barclays Bank Plc, which has not yet been drawn down, a fixed rate facility of £150,000,000 with the EIB, repayable in 52 six-monthly instalments ending September 2040 and a term loan facility of £139,013,000 with Barclays Bank Plc, repayable in 52 six-monthly instalments ending March 2041.

As at 31 December 2022, the EIB loan includes an outstanding loan facility of £116,846,000 (2021: £120,824,000) and an effective interest rate adjustment of £(974,000) (2021: £(1,055,000)) in relation to the EIB loan facility. Interest is charged on amounts drawn under the facility at a fixed rate of 4.35%. At the year-end, interest payable on the EIB loan facility was £1,272,000 (2021: £1,315,000).

As at 31 December 2022, the term loan includes an outstanding loan facility of £112,445,000 (2021: £115,711,000) and an effective interest rate adjustment of £(1,841,000) (2021: £(2,063,000)) in relation to the term loan facility. Interest is based on a Compounded Reference Rate (SONIA). At the year-end, interest payable on the term loan facility was £1,655,000 (2021: £605,000).

The group has entered into swap arrangements with Barclays Bank Plc, Sumitomo Mitsui Banking Corporation Europe Limited and National Australia Bank Limited in order to fix the base interest rate (SONIA) at 4.1% on the term loan facility to 2041. At the year-end, interest payable on the swap facilities was £111,000 (2021: £1,175,000).

The senior loan facility is secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the group and by a floating charge over the group's undertakings and assets.

Subordinated debt of £46,874,000 (2021: £47,240,000) includes an unsecured loan facility of £43,879,000 (2021: £43,879,000) due to BBGI Investments S.C.A. and Infrastructure Investments Limited Partnership, and an effective interest rate adjustment of £(2,159,000) (2021: £(1,457,000)) in relation to the subordinated loan facility and is fully repayable by 2041. The subordinated loan facility bears interest at a fixed rate of 10.50%. At the year-end, interest payable on the subordinated loan facility was £5,154,000 (2021: £4,818,000).

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

17. Deferred tax

The deferred tax included in the group balance sheet is as follows:

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Included in debtors (note 13)	<u>1,746</u>	<u>11,335</u>	<u>-</u>	<u>-</u>

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

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Deferred tax on revaluation of fair value of derivatives	402	9,615	-	-
Deferred tax in relation to trading losses carried forward	<u>1,344</u>	<u>1,720</u>	<u>-</u>	<u>-</u>
	<u>1,746</u>	<u>11,335</u>	<u>-</u>	<u>-</u>

18. Financial instruments

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

Financial liabilities measured at fair value through profit or loss

	Group		Company	
	2022	2021	2022	2021
	£000	£000	£000	£000
Interest rate swap	<u>(1,607)</u>	<u>(38,459)</u>	<u>-</u>	<u>-</u>

(b) Financial instruments measured at fair value

Derivative financial instruments

Market values have been used to determine the fair value of the swap arrangement.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

18. Financial instruments *(continued)*

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102.29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect profit and loss:

	Carrying Amount £000	Within 1 year £000	Between 1-2 years £000	Between 2-5 years £000	5 years and over £000
31 December 2022					
Interest rate swap	<u>(1,607)</u>	<u>(2,335)</u>	<u>(2,278)</u>	<u>(6,308)</u>	<u>(16,484)</u>
31 December 2021					
Interest rate swap	<u>(38,459)</u>	<u>(3,464)</u>	<u>(2,335)</u>	<u>(6,568)</u>	<u>(18,052)</u>

The group has entered into swap arrangements with Barclays Bank Plc, Sumitomo Mitsui Banking Corporation Europe Limited and National Australia Bank Limited in order to fix the base interest rate (SONIA) at 4.1% on the term loan facility to 2041. At the year-end all the group's floating rate borrowings were at fixed rates after taking account of interest rate swaps.

The transition from LIBOR to SONIA was approved by the Board on 31 May 2022 and subsequently approved by the lender on 9 September 2022.

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2022 £000	2021 £000
Interest rate swap	<u>(1,607)</u>	<u>(38,459)</u>

19. Called up share capital

Group and company

Issued, called up and fully paid

	2022		2021	
	No.	£000	No.	£000
Ordinary shares of £1 each	<u>14,491,880</u>	<u>14,492</u>	<u>14,491,880</u>	<u>14,492</u>

20. Reserves

Cash flow hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

21. Analysis of changes in net debt

	At 1 Jan 2022 £000	Cash flows £000	Other changes £000	At 31 Dec 2022 £000
Cash at bank and in hand	25,857	527	–	26,384
Debt due within one year	(14,895)	7,244	(8,236)	(15,887)
Debt due after more than one year	(268,857)	–	8,356	(260,501)
Net debt	<u>(257,895)</u>	<u>7,771</u>	<u>120</u>	<u>(250,004)</u>

22. Related parties

Group

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

	Transactions with related parties		Payables to related parties	
	2022 £000	2021 £000	2022 £000	2021 £000
BBGI Management HoldCo S.à r.l.	82	94	25	52
BBGI Investments S.C.A.	1,995	2,041	23,437	23,620
Infrastructure Investments Holdings Limited	82	94	25	43
Infrastructure Investments Limited Partnership	<u>1,995</u>	<u>2,041</u>	<u>23,437</u>	<u>23,620</u>

The group incurred directors' fees of £82,000 (2021: £94,000) during the year payable to BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A.). At the year-end there was £25,000 (2021: £52,000) payable to BBGI Management HoldCo S.à r.l. in respect of directors' fees.

The group incurred interest of £1,995,000 (2021: £2,041,000) on the subordinated loan facility payable to BBGI Investments S.C.A. (an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A.). At the year-end there was £23,437,000 (2021: £23,620,000) payable to BBGI Investments S.C.A. in respect of the subordinated loan facility.

The group incurred directors' fees of £82,000 (2021: £94,000) during the year payable to Infrastructure Investments Holdings Limited (a 50% shareholder of the company, and a wholly owned subsidiary of Infrastructure Investments Limited Partnership). At the year-end there was £25,000 (2021: £43,000) payable to Infrastructure Investments Holdings Limited in respect of directors' fees.

The group incurred interest of £1,995,000 (2021: £2,041,000) on the subordinated loan facility payable to Infrastructure Investments Limited Partnership (a wholly owned subsidiary of HICL Infrastructure Company Limited). At the year-end there was £23,437,000 (2021: £23,620,000) payable to Infrastructure Investments Limited Partnership in respect of the subordinated loan facility.

Highway Management M80 Investment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2022

23. Parent undertaking

At 31 December 2022 and 31 December 2021, 50% of the share capital in Highway Management M80 Investment Limited was held by Highway Management M80 TopCo Limited (an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A., with the remaining 50% held by Infrastructure Investments Holdings Limited (a direct and wholly owned subsidiary of Infrastructure Investments Limited Partnership).

BBGI Global Infrastructure S.A. is a Luxembourg investment company, listed on the London Stock Exchange.

Infrastructure Investments Limited Partnership is wholly owned by HICL Infrastructure Company Limited, a company registered in Guernsey, the Channel Islands, and is listed on the London Stock Exchange.

The largest and smallest group in which the results of the company are consolidated is that headed by Highway Management M80 Investment Limited, which is registered and domiciled in the United Kingdom at Part First Floor, 1 Grenfell Road, Maidenhead, Berkshire, SL6 1HN. Copies of Highway Management M80 Investment Limited financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.