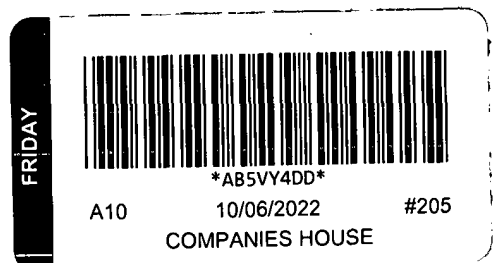


Company Registration No. 08168976 (England and Wales)

ISLAND ROADS INVESTMENT LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021



ISLAND ROADS INVESTMENT LIMITED

COMPANY INFORMATION

Directors

A F E Judet
S I Benmussa
C Stanbury
C de Carmoy
C Braunwald (Appointed 1 July 2021)

Company secretary

Fulcrum Infrastructure Management Limited

Company number

08168976

Registered office

105 Piccadilly
London
W1J 7NJ

Independent auditors

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Bankers

The Bank of Tokyo-Mitsubishi UFJ Ltd
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9AN

ISLAND ROADS INVESTMENT LIMITED

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ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

INTRODUCTION

Island Roads Investment Limited ("the Company") was incorporated on 7 August 2012, and is a limited company incorporated in Great Britain registered and domiciled in England and Wales. Its principal activity is to act as a holding company for its subsidiaries, Island Roads Services Limited and Island Roads Investment 2 Limited (together "the Group").

The Isle of Wight Council (the "Authority") entered into a contract with the Group on 26 September 2012 for works and services relating to the rehabilitation, maintenance, management and operation of the project network in accordance with the Government's Private Finance Initiative (the "Contract").

Under the terms of the Contract the Group is obliged to perform the operation and maintenance of the Isle of Wight's highway network and associated highway assets. The project incorporates all aspects of the existing asset, including but not limited to: carriageway, unclassified roads, footway, footpaths, cycle tracks, bridges, street lighting, drainage, gullies, highway trees, verges, street cleansing, horticulture and arboriculture maintenance.

The project had an initial 7-year core investment period, during which time significant capital work was undertaken to the network to provide a step change in condition of the overall highway environment to achieve a pre-defined quality and service level, following which time the Group will provide a sustained level of service for the remaining life of the project. The total duration of the concession is 25 years.

The Group is a special purpose vehicle formed to manage the Highways Maintenance Contract. Our vision is to create an efficient highway network and public realm, providing sustainable, high quality, value for money services to residents and visitors, while acting as a catalyst for social and economic regeneration of the island.

The non-financial objectives set out above are consistent with the objectives of the Contract. The Group aims to achieve these objectives through fostering a strong partnership with Isle of Wight Council, excellent communications, demonstrable compliance with the Contract and statutory obligations, robust management of risk and the development of a strong partnership with our supply chain partners.

The Group's financial objectives are to ensure compliance with the terms of its Credit Agreement and generate return on investment for its shareholders.

BUSINESS REVIEW

In March 2020 when Covid-19 reached the UK, the Group and its main subcontractor implemented strict procedures to allow continued delivery of services. This involved safe hygiene and social distancing for all operations, both in the office and out on the network, in order to adhere to Government guidelines. With most staff working from home during lockdowns in 2021 and operatives continuing safe practices, the impact of the pandemic has been minimised and the situation is being regularly reviewed by the management team.

The final milestone for completion of the construction period, MS14, is still on-going, as agreed between the Group and the Isle of Wight Council in April 2021. Good progress is being made by the main subcontractor on several fronts. The rest of the milestones have been certified by the independent contractor.

ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

BUSINESS REVIEW (CONTINUED)

In the current year the Group has made progress in continuing to deliver construction and upgrade schemes and in improving adherence to performance standards. Completed schemes during the period included:

- the 2021 programme of carriageway schemes and footway works;
- the ongoing programme of structures renewal schemes which also continued to achieve the required increase in bridge condition standards; and
- a varied programme of additional Local Transport Plan works including the St. George's Way improvement scheme - a larger improvement project that was completed late in 2021 on time and under budget.

The Group continues to take a proactive approach to Health and Safety, sharing best practice with shareholders including lessons learnt from regular safety flashes/alerts from across their businesses and the wider construction industry.

The Board also commissioned a comprehensive review of health and safety management practice which provided positive feedback on the approach taken within the business. This review is undertaken annually by a specialist external health and safety provider to provide an objective review of IRSL compliance with required health and safety legislation and to promote good practice.

The Group had a Lost Time Incident Frequency Rate of zero until October 2020, having achieved the milestone of six years without a lost time incident. Unfortunately, there were two incidents in 2021, one in January and one in April, where an operative was injured. The Group continues to aspire to an injury-free workplace. During 2021 the Group promoted a wellbeing strategy to ensure that mental and physical health issues are given a similar emphasis to the avoidance of accidents and injuries, and this focus continues. This included work on wellbeing themes with other organisations in the local area.

The wellbeing strategy was developed further with a focus on providing greater information and support to enable staff to better understand and manage their mental health. This approach has proved particularly beneficial due to the potential impact of the Covid-19 pandemic on project personnel. Near miss reporting continues, with an emphasis on quality reporting. During 2021, 481 near misses were reported (2020 - 255). The Group believes that the continuous monitoring and high quality of near miss reporting reduces the risk of accidents happening and that the worries and concerns of the pandemic period may have contributed to safety related incidents during that time.

During the year, the Group and its principal sub-contractor have expended considerable effort on the improvement of O&M performance, with recruitment of new staff and implementation of new processes. This has resulted in more consistent performance and a significant reduction in the level of service failure items.

The Group and its principal sub-contractor have also maintained their best efforts to develop their collaboration and partnership with the Authority contract management team despite the challenges of the ongoing commercial negotiation of the MS14 extension agreement.

An annual customer satisfaction survey is conducted among all Isle of Wight residents in February each year. The results are used to identify service improvement and communication issues. This will lead to a focus on the key items identified in 2022.

ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

PRINCIPAL RISKS AND UNCERTAINTIES

The risk management policy of the Group is designed to identify and manage risk at the earliest point practically possible. Following the extension of the Core Investment Period the Group remains exposed to construction risk until milestone completion criteria are met, which is shared with the principal sub-contractor. This could result in additional costs being incurred and the Group regularly monitors construction progress against the programme through a senior board, jointly with the Authority.

The other principal risk is that maintenance costs exceed those forecast in the financial model agreed at financial close. The risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the network, as well as the substantial transfer of risk and responsibilities to the sub-contractor. Lifecycle risk on the project network is fully passed through to the operational sub-contractor.

Other risks include energy price risk, which is transferred to the subcontractor and the risk of inclement weather affecting the ability to perform works which is mitigated by the extension of the construction programme and the ability of the sub-contractor to flex resources. Later in 2021, the Group also saw the effects of materials availability in the wider supply markets, and while the risk of such effects are fully passed to the principal sub-contractor, this could potentially represent a risk to the timely delivery of works in some specialist activities.

The Group's exposure to inflationary risk, particularly in relation to the investment, operation and maintenance cost base is mitigated by having revenue indexing provisions in the Contract, which are passed through to the principal sub-contractor.

The Group is also exposed to interest rate risk on its senior loan. This risk is mitigated through an interest rate swaps agreement.

The Directors are monitoring the ongoing impact of the Coronavirus pandemic on the Group's operations and those of its client and major contractor, and on all individuals involved with the project. The Directors continue to review the situation to ensure that the Group can continue to deliver services and that the actions of the Group and its major sub-contractor remain consistent with Government advice to limit the spread of infection as far as possible.

FINANCIAL RISK MANAGEMENT

The Group's principal assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables from the Authority. The Board of Directors is of the opinion that the risk of default is limited.

The Directors believe that the Group's cash balance and projected revenues are sufficient to maintain liquidity and ensure that sufficient funds are available for ongoing operations and future liabilities. The Group has fully drawn its principal debt facility.

See note 8 for details of Financial Risk Management.

KEY PERFORMANCE INDICATORS

- The project is currently behind schedule as the construction phase was due to be completed by March 2020. The final milestone of the Core Investment Period, Milestone 14, has now been extended until March 2023 (with a possible extension to March 2024). The extended Core Investment Period, however, only relates to the specific area of highway structures and the largest proportion of the works required on the project have been certified as complete during 2021.

ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

KEY PERFORMANCE INDICATORS (CONTINUED)

- The level of service provided. This is measured through the availability of the network and therefore the deductions to unitary payments levied by the Authority when the network is partially or completely unavailable for use. Deductions may also be incurred where services fail to meet the contractual performance standards. There were availability deductions of £79,418 and performance deductions of £9,127 levied in the year and passed through to the operational sub-contractor. The thorough review of the annual customer satisfaction survey (leading to the implementation of a yearly improvement plan) and the close monitoring of media activity also enhance services delivery. The rolling balance of points in respect of service delivery failures has decreased in the course of the year and this improvement is consistent with general improvements in operating standards. The Board is of the opinion that the balance remains at an acceptable level in light of current expectations. The principal subcontractor has implemented proper plans to mitigate associated risks.
- The costs incurred as compared to budget. The Group continued to operate within the Board agreed operating expenses and overhead budgets in respect of the period.

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

CORPORATE AND SOCIAL RESPONSIBILITY

The Group is a member of the Isle of Wight Foundation (the "Foundation"). The aims of the Foundation are to achieve a public benefit on the Isle of Wight, through supporting social inclusion, access to employment by supporting organisations that offer funding and guidance to individuals with no qualifications to enter the working world and encourage good citizenship. Also, as part of the Group corporate and social responsibility objectives, the sub-contractor provides a number of two-year apprenticeship places each year together with placements for graduates. During the Foundation's 2021 Grant Call – a further 11 organisations benefited from grant funding and to date £635,000 has been donated to island-based good causes since the launch of the Foundation.

GOING CONCERN

The Directors have considered a number of factors in determining whether the Group remains a going concern.

The key factors and related conclusions are summarised below:

- The Directors have considered the ability of the Authority to meet future contractual payments. The Directors have concluded that they do not currently consider this to be a material risk;
- The Directors have considered the impact of changes in the performance of key sub-contractors, and their ability to continue to meet contractual commitments. The Directors do not currently consider this to be a material risk;
- The Group has secured bank facilities totalling £93.9 million, which is now fully drawn down.
- The Directors note that the Group is reporting a statement of financial position deficit of £7,210,739 as at 31 December 2021. This has resulted from market movements in the valuation of the Group's derivative financial instruments. The Directors do not expect this to crystallise as a liability in the foreseeable future and there are no plans to terminate any derivatives; and

ISLAND ROADS INVESTMENT LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

GOING CONCERN (CONTINUED)

- The Directors have considered the Group's compliance with financial covenant tests and non-financial project milestones. Following the agreement reached with the Isle of Wight Council to extend Milestone 14, the Directors are now satisfied that the Group will be able to comply with the revised milestones and that the loan covenants are forecast to continue to be met.

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

The financial statements on pages 11 to 37 were approved by the Board of Directors on 19 May 2022 and signed on its behalf by:



C de Carpiay
Director



A Judet
Director

ISLAND ROADS INVESTMENT LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2021.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual 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 financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards 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 company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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

Capital structure

Details of the authorised and issued capital, together with details of the movements in the Company's issued share capital during the year are shown in note 14. The Company has one class of ordinary shares which carry no right to fixed income. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

WH Snow	(resigned 30 June 2021)
C Braunwald	(appointed 1 July 2021)
A F E Judet	
S I Benmussa	
C Stanbury	
C de Carmoy	

ISLAND ROADS INVESTMENT LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were in force during the financial year and also at the date of approval of the financial statements.

Directors' confirmations

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 Company's auditors are 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 Company's auditors are aware of that information.

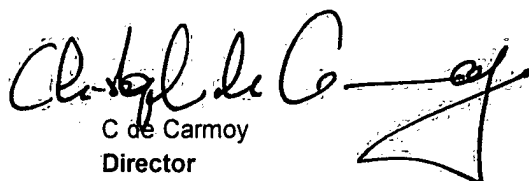
Financial risk management

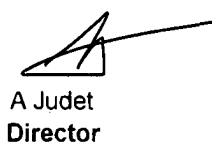
Financial risk management is covered under Financial Risk Management on page 3 of the Strategic Report. Notes 1.7 to 1.9, and note 8 provide further detail on how the Group manages its exposure to financial risks.

Independent auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board of Directors on 19 May 2022 and signed on its behalf.


C de Carmoy
Director


A Judet
Director

ISLAND ROADS INVESTMENT LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ISLAND ROADS SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Island Roads Investment Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity and the Consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

ISLAND ROADS INVESTMENT LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF ISLAND ROADS SERVICES LIMITED

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to those with a direct impact on the financial statements, for example UK taxation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the recognition of revenue and profit over the term of PFI contract by manipulating the allocation of cash receipts between the contract asset, interest income and revenue in the financial model. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance of any known or suspected instances of fraud or breaches or non-compliance with laws and regulations, together with a review of board meeting minutes;
- reviewing the project model, ensuring that the calculations of revenue are mathematically accurate, that the assumptions of future costs and revenues are reasonable and incorporate contractual amendments per the deed of variations, and that the allocation of cash receipts between different components of the contract is appropriate;
- identifying and testing journal entries, in particular those having unusual account combinations;

ISLAND ROADS INVESTMENT LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF ISLAND ROADS SERVICES LIMITED

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Paul Nott (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

19 May 2022

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £	2020 £
Revenue	2	20,855,020	42,239,134
Cost of sales		(19,538,980)	(40,864,097)
Gross profit		1,316,040	1,375,037
Administrative expenses		(261,189)	(281,402)
Operating profit	3	1,054,851	1,093,635
Finance income	5	7,276,391	7,526,886
Finance costs	6	(8,070,620)	(8,115,325)
Profit before taxation		260,622	505,196
Income tax expense	7	(87,420)	(87,640)
Profit for the year		173,202	417,556

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

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 £	2020 £
Profit for the year	<u>173,202</u>	<u>417,556</u>
Other comprehensive gain / (loss):		
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Hedging gain/(loss) arising in the year	8,000,508	(3,220,032)
- Tax relating to cash flow hedges	(554,481)	1,029,287
Total items that may be reclassified to profit or loss	<u>7,446,027</u>	<u>(2,190,745)</u>
Total comprehensive gain / (loss) for the year	<u>7,619,229</u>	<u>(1,773,189)</u>
Total comprehensive profit / (loss) attributable to owners of the Group	7,619,229	(1,773,189)

The notes on pages 17 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	2021 £	2020 £
Non-current assets			
Contract assets	9	99,822,047	102,259,104
Deferred tax asset	13	4,109,480	4,649,132
		<u>103,931,527</u>	<u>106,908,236</u>
Current assets			
Trade and other receivables	10	615,783	1,670,382
Cash and cash equivalents		37,156,284	38,713,279
		<u>37,772,067</u>	<u>40,383,661</u>
Current liabilities			
Trade and other payables	11	19,111,649	21,734,263
Current tax liabilities		41,848	26,632
Borrowings	12	5,765,848	5,092,106
		<u>24,919,345</u>	<u>26,853,001</u>
Net current assets		<u>12,852,722</u>	<u>13,530,660</u>
Non-current liabilities			
Borrowings	12	107,901,403	111,174,771
Derivative financial instruments	8	16,093,585	24,094,093
		<u>123,994,988</u>	<u>135,268,864</u>
Net liabilities		<u>(7,210,739)</u>	<u>(14,829,968)</u>
Equity			
Called up share capital	14	50,000	50,000
Hedging reserve		(12,070,189)	(19,516,216)
Retained earnings		4,809,450	4,636,248
Total equity		<u>(7,210,739)</u>	<u>(14,829,968)</u>

The financial statements on pages 11 to 37 were approved by the Board of Directors and authorised for issue on 19 May 2022 and are signed on its behalf by:



A F E Judet
Director



C de Carmoy
Director

Company Registration No. 08168976

ISLAND ROADS INVESTMENT LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

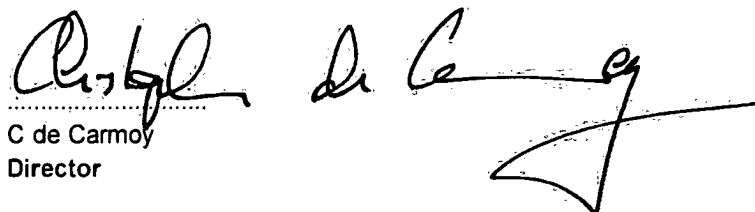
	Note	2021 £	2020 £
Non-current assets			
Investment in subsidiaries	21	50,000	50,000
Total assets		<u>50,000</u>	<u>50,000</u>
Net assets		<u>50,000</u>	<u>50,000</u>
Equity			
Called up share capital	14	50,000	50,000
Total equity		<u>50,000</u>	<u>50,000</u>

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own income statement.

The financial statements on pages 11 to 37 were approved by the Board of Directors and authorised for issue on 19 May 2022 and are signed on its behalf by:



A F E Judet
Director



C de Carmoy
Director

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £	Hedging reserve £	Retained earnings £	Total £
Balance at 1 January 2020	50,000	(17,325,471)	4,218,692	(13,056,779)
Year ended 31 December 2020:				
Profit for the year	-	-	417,556	417,556
Other comprehensive expense:				
Cash flow hedges losses	-	(3,220,032)	-	(3,220,032)
Tax relating to other comprehensive expense	-	1,029,287	-	1,029,287
Total comprehensive expense for the year	-	(2,190,745)	417,556	(1,773,189)
Balance at 31 December 2020	50,000	(19,516,216)	4,636,248	(14,829,968)
Year ended 31 December 2021:				
Profit for the year	-	-	173,202	173,202
Other comprehensive income:				
Cash flow hedges gains	-	8,000,508	-	8,000,508
Tax relating to other comprehensive income	-	(554,481)	-	(554,481)
Total comprehensive income for the year	-	7,446,027	173,202	7,619,229
Balance at 31 December 2021	50,000	(12,070,189)	4,809,450	(7,210,739)

A statement of changes in equity for the Company is not presented as there are no movements during the year. Share capital remains at £50,000.

ISLAND ROADS INVESTMENT LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £	2020 £
Net cash inflow from operating activities	16	9,119,722	26,621,006
Investing activities			
Bank and other interest received		11,482	78,293
Net cash generated from investing activities		<u>11,482</u>	<u>78,293</u>
Financing activities			
Loans repaid		(5,092,106)	(2,010,536)
Finance costs		(5,596,093)	(3,439,308)
Net cash used in financing activities		<u>(10,688,199)</u>	<u>(5,449,844)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(1,556,995)</u>	<u>21,249,455</u>
Cash and cash equivalents at beginning of year		38,713,279	17,463,824
Cash and cash equivalents at end of year		<u><u>37,156,284</u></u>	<u><u>38,713,279</u></u>

The Company has no cash flows and no non-cash movements and therefore a separate company statement of cash flows has not been presented.

The notes on pages 17 to 37 form part of these financial statements.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

Island Roads Investment Limited is a special purpose company formed to manage a Highway Maintenance PFI contract with the Isle of Wight Council. It is a limited company incorporated in the United Kingdom and registered in England and Wales.

1.1 Accounting convention

The financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own income statement. The result for the period dealt with in the accounts of the Company was £nil (2020: nil). The Directors do not recommend the payment of a dividend.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

1.2 Basis of consolidation

The financial statements consolidate the accounts of Island Roads Investment Limited and all of its subsidiary undertakings ('subsidiaries').

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cashflows relating to transitions between the members of the Group are eliminated on consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (continued)

1.2 Basis of consolidation (continued)

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable UK-adopted international accounting standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

1.3 Going concern

Although the Group's balance sheet reflects a net liabilities position, this is primarily caused by the recognition of derivative financial instruments at their fair value. The Directors do not expect this to crystallise as a liability in the foreseeable future and there are no plans to terminate any derivatives.

The Directors have at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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. Further detail is contained in the Strategic Report.

1.4 Accounting for service concession arrangements

The Group is a special purpose vehicle that has been established to undertake the operation and maintenance of the Isle of Wight's highway network and associated highway assets. The Group has subsequently entered into agreements with finance providers and sub-contractors. Based on the contractual arrangements, the Group has classified the project as a service concession arrangement, and has accounted for the principal assets, and income streams from the project in accordance with IFRIC 12 Service Concession Arrangements.

Under the terms of the arrangement, where the Group has the right to receive unitary payments from the Isle of Wight Council, the asset created and/or provided is accounted for as a contract asset. Revenue will be recognised by allocating a proportion of the unitary payments to investment, operational and maintenance income. The consideration received is allocated by reference to the relative fair value of the services delivered, where the amounts are separately identifiable.

The service concession contract asset is categorised as being held at amortised cost. During the construction phase, the Directors estimate the costs incurred and any interest thereon less any monies from the Isle of Wight Council to equal the fair value of the contract asset.

1.5 Revenue

Revenue is recognised based on the fair value of construction and operating services provided, measured at cost plus attributable profit to the extent that this is reasonably certain, in accordance with IFRS 15 Revenue from Contracts with Customers. Costs for this purpose include all works carried out and certified by subcontractors, and include all overheads other than those relating to general administration of the special purpose company.

Cash received in respect of the service concession is allocated to operational income based on its fair value, with the remainder being allocated between the capital repayment and interest income, applying the effective interest method.

1.6 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank, deposits held at call with banks and other short-term liquid investments with original maturities of six months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash and short term deposits as defined above, net of bank overdrafts.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (continued)

1.7 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss 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. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1.8 Hedge accounting

The Group designates certain hedging instruments, which includes derivatives, as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instruments and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

1.9 Cash flow hedge

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 profit or loss, and is included in the 'other gains and losses' line item.

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

1.10 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 income statement because it excludes items of income or expense that are not taxable or deductible in other years and it further excludes items of income or expense that are taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies (continued)

1.11 Bank borrowing

Project specific interest costs incurred in the performance of the service concession contract, including net amounts payable on interest rate swaps, are expensed using the effective interest rate method.

The effective interest method is a method of calculating the amortised costs of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Arrangement fees are netted off against the carrying value of the loan facility and charged to the income statement over the term of the debt.

1.12 Share capital

Ordinary shares are classified as equity instruments on the basis that they evidence a residual interest in the assets of the Group after deducting all of its liabilities.

1.13 Investments

The Company's investments in subsidiaries are valued at cost less provision for impairment.

1.14 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under UK-adopted international accounting standards requires the Company's management to make judgments, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The directors do not consider there to be any critical accounting judgments that have been taken in preparing the financial statements.

Key sources of estimation uncertainty

Derivative valuation

The key source of estimation uncertainty relates to the valuation of derivative financial liabilities at fair value. The measurement of fair value requires an estimate of a number of market variables, including the Group's own credit risk, that could be subject to change within the next financial year, which could cause a material adjustment to the carrying value of the derivative.

There are no other key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notwithstanding this, as a significant portion of the Group's activities are undertaken through service concession arrangements, the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2 Revenue

An analysis of the Group's revenue is as follows:

	2021 £	2020 £
Revenue analysed by class of business		
Construction income	2,623,146	21,514,165
Service income	13,786,005	15,454,189
Pass through income	4,445,869	5,270,780
	<u>20,855,020</u>	<u>42,239,134</u>

All turnover arose within the United Kingdom.

3 Operating profit

	2021 £	2020 £
Operating profit for the year is stated after charging:		
Fees payable to the company's auditors for the audit of the company's financial statements	<u>32,000</u>	<u>28,000</u>
Island Roads Services Limited	27,000	23,630
Island Roads Investment Limited	2,540	2,220
Island Roads Investment 2 Limited	2,460	2,150
	<u>32,000</u>	<u>28,000</u>

During the year, fees of £99,334 (2020: £97,369) were paid to Fulcrum Infrastructure Management Limited and Vinci Concessions S.A.S. in respect of Directors' services to the Company.

The Group is managed through management services contracts.

The Group had no employees during the current or previous year.

4 Profit attributable to the parent company

The result for the financial year dealt with in the financial statements of the parent company was £nil (2020: £nil). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

5 Finance income

	2021 £	2020 £
Interest income		
Interest on corporation tax	-	2,500
Bank deposits	11,482	75,793
Financial asset interest	7,264,909	7,448,593
	<u>7,276,391</u>	<u>7,526,886</u>

6 Finance costs

	2021 £	2020 £
On bank loans and overdrafts	2,364,623	2,856,517
Amortisation of Arrangement and commitment fees	139,249	528,874
Interest rate swaps	3,154,202	2,536,114
Shareholder loan interest	2,412,546	2,193,820
	<u>8,070,620</u>	<u>8,115,325</u>

7 Income tax expense

	2021 £	2020 £
Current tax		
UK corporation tax on profits for the current period	41,848	87,034
Adjustments in respect of prior periods	60,403	752
Total UK current tax	<u>102,251</u>	<u>87,786</u>
Deferred tax		
Origination and reversal of temporary differences	7,670	8,953
Effects of changes in tax rates	(22,501)	(8,443)
Adjustment in respect of prior periods	-	(656)
	<u>(14,831)</u>	<u>(146)</u>
Total tax charge	<u>87,420</u>	<u>87,640</u>

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

7 Income tax expense (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2021 £	2020 £
Profit before taxation	260,622	505,196
Expected tax charge based on a corporation tax rate of 19.00% (2020: 19.00%)	49,518	95,987
Adjustment in respect of prior years (deferred tax)	-	(656)
Effects of change in tax rate	(22,501)	(8,443)
Adjustment in respect of prior years (current tax)	60,403	752
Taxation charge for the year	87,420	87,640

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

	2021 £	2020 £
Reclassifications from equity to profit or loss:		
Relating to cash flow hedges	554,481	(1,029,287)

Factors impacting future tax charge

A change to the main UK corporation tax rate announced in the Budget on 3 March 2021 is now considered to be substantively enacted following a third reading of the Finance Bill 2021 on 24 May 2021. The rate effective from 1 April 2023 will increase from 19% to 25%. Deferred tax balances are now remeasured to 25% from the previous rate of 19%.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, and equity of the Group (comprising issued capital, reserves, and retained earnings). The Group has a funding strategy to ensure that there is an appropriate debt to equity ratio as well as an appropriate debt maturity profile.

The Group has to comply with a number of banking covenants which are set out in the agreements for bank loans. There are financial covenants which are measured using the performance of the Group. There are other restrictions in the loan documentation concerning acquisitions, disposals, security, and other issues. The Group has complied with its banking covenants during the period.

Financial risk management objectives

The Group seeks to minimise the effects of cash flow interest rate risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. In the year under review a £8,000,508 gain was recognised in other comprehensive gain on cash flow hedges (2020 - £3,220,032 loss).

a) Financial instruments by category

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The Group considers that the fair value of cash and cash equivalents, loans, trade and other receivables, deferred taxation, and trade and other payables are not materially different to their carrying value;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial instruments (continued)

a) Financial instruments by category (continued)

	2021			
	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets held at Fair Value through Profit & Loss	-	-	-	-
Derivative financial instruments	-	(16,093,585)	-	(16,093,585)

	2020			
	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets held at Fair Value through Profit & Loss	-	-	-	-
Derivative financial instruments	-	(24,094,093)	-	(24,094,093)

The derivative financial instruments qualify as cash flow hedges.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial Instruments (continued)

a) Financial instruments by category (continued)

As detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying Value At 31 December 2021 £	Fair Value At 31 December 2021 £
Financial assets		
Trade and other receivables	556,422	556,422
Financial liabilities		
Trade and other payables	18,921,062	18,921,062
Borrowings	113,667,251	113,667,251

	Carrying Value At 31 December 2020 £	Fair Value At 31 December 2020 £
Financial assets		
Trade and other receivables	1,670,382	1,670,382
Financial liabilities		
Trade and other payables	21,734,263	21,734,263
Borrowings	116,266,877	116,266,877

In addition to the above financial instruments, the inputs within the service concession asset balance have been reviewed and it has been deemed that there is no material change to the original forecast. As such, it has been concluded that the fair value is not materially different to the carrying value.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial Instruments (continued)

b) Liquidity and Interest risk tables

The following table details the Group's expected maturity for its non-derivative financial assets plus the contract asset. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

31 December 2021	Weighted average effective interest rate %	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
		£	£	£	£	£	£
Variable interest rate assets	N/A	615,783	-	-	-	-	615,783
Fixed interest rate assets	7.42	1,047,461	2,094,923	10,290,368	48,544,972	88,902,717	150,880,441
Total		1,663,244	2,094,923	10,290,368	48,544,972	88,902,717	151,496,224

31 December 2020	Weighted average effective interest rate %	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
		£	£	£	£	£	£
Variable interest rate assets	N/A	1,670,382	-	-	-	-	1,670,382
Fixed interest rate assets	7.42	674,443	1,348,886	8,226,172	47,974,290	97,331,915	155,555,706
Total		2,344,825	1,348,886	8,226,172	47,974,290	97,331,915	157,226,088

The variable interest rate assets above consist of trade receivables: £319,611 (2020: £1,595,380), prepayments: £59,361 (2020: £53,421) and accrued income: £236,811 (2020: £21,581).

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial instruments (continued)

b) Liquidity and interest risk tables (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as well as interest rate swap payments. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

31 December 2021	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
Variable interest rate liabilities	N/A	1,211,411	3,891,216	4,435,000	9,381,935	-	18,919,562
Fixed interest rate liabilities	6.38	934,055	1,868,110	8,297,119	41,465,420	76,237,887	128,802,591
Total		2,145,466	5,759,326	12,732,119	50,847,355	76,237,887	147,722,153

31 December 2020	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	£	£	£	£	£	£
Variable interest rate liabilities	N/A	1,852,056	17,931,000	1,783,911	-	-	21,566,967
Fixed interest rate liabilities	6.38	879,702	1,759,405	8,168,726	42,687,429	86,196,330	139,691,592
Total		2,731,758	19,690,405	9,952,637	42,687,429	86,196,330	161,258,559

The variable interest rate liabilities above consist of trade payables (less than 1 month): £218,576 (2020: £1,552,056) and accruals £18,700,986 (2020: £20,014,911) (less than 1 month £992,835 (2020: 300,000), 1-3 months £3,891,216 (2020: £17,931,000), 3 months to 1 year £4,435,000 (2020: £1,783,911), 1-5 years £9,381,935 (2020: nil)).

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Financial Instruments (continued)

c) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties.

Surplus cash is placed on deposit with banks in accordance with a policy that specifies the minimum acceptable credit rating of the counterparty.

Trade debtors mainly comprise amounts due from Isle of Wight Council. Management consider that as the counterparty is a UK council there is minimal credit risk.

d) Fair value of derivatives

The Group is exposed to interest rate risk because it has borrowed funds at floating interest rates. The risk is managed by the use of interest rate swap contracts. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract. The interest rate swaps settle on a six-monthly basis. No ineffectiveness has been recognised in profit and loss for the period. Interest rate swap contracts exchanging fixed interest for floating rate interest are designated and effective as cash value hedges in respect of interest rates. During the period the hedge was 95% effective in hedging the cash value exposure to interest rate movements.

Cost or valuation	2021 £	2020 £
Opening balance	(24,094,093)	(20,874,061)
Fair value movement	<u>8,000,508</u>	<u>(3,220,032)</u>
Closing balance	<u>(16,093,585)</u>	<u>(24,094,093)</u>

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

9 Contract assets

Service concession contract asset	2021	2020
	£	£
Opening balance	102,259,104	97,463,256
Additions	16,409,151	23,221,657
Unitary charge	(26,111,116)	(25,874,402)
Financial asset interest	7,264,908	7,448,593
Closing balance	99,822,047	102,259,104

	2021	2020
	£	£
Analysed as		
Less than one year	-	-
Greater than one year	99,822,047	102,259,104
	99,822,047	102,259,104

The service concession contract asset represents the amounts receivable from the Authority for construction and other services provided. This will be receivable in the form of a Unitary Payment due throughout the Service Concession period of 25 years. At 31 December 2021, the Group has recognised cumulatively 47% (2020: 42%) of the estimated revenue due under the contract, reflecting the fact that the initial core investment period is largely complete. The remaining revenue will be recognised over the life of the contract asset as ongoing maintenance services are provided.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

10 Trade and other receivables

	2021 £	2020 £
Trade receivables	319,611	1,595,380
Prepayments and accrued income	296,172	75,002
	<u>615,783</u>	<u>1,670,382</u>

Trade receivables disclosed above are measured at amortised cost.

11 Trade and other payables

	2021 £	2020 £
Trade payables	218,576	1,552,056
Accruals	18,700,986	20,014,911
Social security and other taxation	190,587	165,796
Other payables	1,500	1,500
	<u>19,111,649</u>	<u>21,734,263</u>

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12 Borrowings

	2021 £	2020 £
Bank loans	86,847,653	91,939,760
Effective interest rate adjustment	1,508,009	1,368,760
Shareholder loans	25,311,589	22,958,357
Total	113,667,251	116,266,877

	2021 £	2020 £
Current	5,765,848	5,092,106
Non-current	107,901,403	111,174,771
	113,667,251	116,266,877

The table below details the maturity profile of loans repayable by instalments:

	2021 £	2020 £
Less than one year	5,765,848	5,092,106
Between one and two years	15,109,316	5,768,548
Between two and five years	20,353,943	21,452,593
Over five years	70,930,135	82,584,870
Effective interest rate adjustment	1,508,009	1,368,760
	113,667,251	116,266,877

The Group has facilities provided by four major banks in order to finance the construction of the project. The loans are repayable in instalments based on an agreed percentage amount of the total facilities per annum over a certain number of years.

Interest on the facility is charged at rates linked to LIBOR (to be replaced by SONIA from 31 March 2022). The Group has entered into fixed interest rate swaps to mitigate its interest rate exposure which have a negative fair value at 31 December 2021 £16,093,585 (2020 - £24,094,093). The swaps will also become linked to SONIA at the same time as the underlying loan and hence the company is not exposed to this change in index. The group does not hold or issue derivative financial instruments for speculative purposes. The undrawn facility on bank loans available as at 31 December 2021 is £nil (2020 - £nil).

The Shareholder loan is issued as 10% Unsecured Subordinated Loan Notes maturing in 2038.

An adjustment of £1,508,009 (2020: £1,368,760) has been made to the carrying value of the bank loan to ensure that interest is recognised at a constant effective interest rate over the life of the loan.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

13 Deferred tax asset

	2021 £	2020 £
Opening Balance	4,649,132	3,619,698
Unwinding of deferred tax asset due to capital allowances	14,829	(509)
Adjustment in respect of prior years	-	656
(Charge)/credit to other comprehensive gain/(loss)	(554,481)	1,029,287
	<u>4,109,480</u>	<u>4,649,132</u>

The net deferred tax expected to reverse in the next 12 months is £6,599 (2020: £7,670). This relates to capital allowances to be claimed.

Deferred tax has been measured at 25% (2020: 19%) being the enacted tax rate expected to be in effect when the timing difference reverses.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021 £	2020 £
Accelerated capital allowances	86,084	71,254
Movement in Fair Value of derivatives	4,023,396	4,577,878
	<u>4,109,480</u>	<u>4,649,132</u>

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

14 Called up share capital

	Group 2021 £	Company 2021 £	Group 2020 £	Company 2020 £
Ordinary share capital				
Authorised				
Ordinary Shares of £1 each	50,000	50,000	50,000	50,000
Issued and fully paid				
Ordinary Shares of £1 each	50,000	50,000	50,000	50,000

15 Reconciliation of movement in total equity

Group	2021 £	2020 £
Opening total equity	(14,829,968)	(13,056,779)
Profit for the period	173,202	417,556
Other comprehensive income / (expense)	7,446,027	(2,190,745)
Closing total equity	(7,210,739)	(14,829,968)

Company	2021 £	2020 £
Opening total equity	50,000	50,000
Shares issued during the period	-	-
Result for the period	-	-
Closing total equity	50,000	50,000

16 Net cash inflow from operating activities

	2021 £	2020 £
Operating profit for the year	1,054,851	1,093,635
Operating cash flows before movements in working capital	1,054,851	1,093,635
Decrease in trade and other receivables	1,054,599	5,474,124
(Decrease)/increase in trade and other payables	(2,604,660)	17,144,142
Net receipt relating to contract asset	9,701,965	2,652,745
	8,151,904	25,271,011
Income taxes (paid) / recovered	(87,033)	256,360
Net cash inflow from operating activities	9,119,722	26,621,006

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

17 Reconciliation of net cash flow to movement in net debt

	Group	Group
	2021	2020
	£	£
(Decrease)/increase in cash in the year	(1,556,995)	21,249,455
Cash outflow from decrease in debt	5,092,106	2,010,536
Change in net debt resulting from cash flows	3,535,111	23,259,991
Other non-cash changes	(2,492,480)	(2,668,756)
Movement in net debt in the year	1,042,631	20,591,235
Net debt at beginning of year	(77,553,598)	(98,144,833)
Closing net debt	(76,510,967)	(77,553,598)

18 Analysis of changes in net debt

	1 January 2021	Cash flow	Other non- 31 December	
	£	£	cash changes	2021
			£	£
Net cash:				
Cash at bank and in hand	38,713,279	(1,556,995)	-	37,156,284
Debt:				
Debts falling due within one year	(5,092,106)	-	(673,742)	(5,765,848)
Debts falling due after one year	(111,174,771)	5,092,106	(1,818,738)	(107,901,403)
Net debt	(77,553,598)	3,535,111	(2,492,480)	(76,510,967)

	1 January 2020	Cash flow	Other non- 31 December	
	£	£	cash changes	2020
			£	£
Net cash:				
Cash at bank and in hand	17,463,824	21,249,455	-	38,713,279
Debt:				
Debts falling due within one year	(2,014,388)	-	(3,077,718)	(5,092,106)
Debts falling due after one year	(113,594,269)	2,010,536	408,962	(111,174,771)
Net debt	(98,144,833)	23,259,991	(2,668,756)	(77,553,598)

Other non-cash changes represent capitalised interest and movements caused by the effective interest rate adjustment.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

19 Related party transactions

During the period, the Group carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The Group did not transact in its own right with related parties. The names of the Group's related parties and the total value of transactions are shown below:

	2021 Receipt of services	2020 Receipt of services	2021 Payable at year end	2020 Payable at year end	2021 Receivable at year end	2020 Receivable at year end
	£'000	£'000	£'000	£'000	£'000	£'000
Fulcrum Infrastructure Management Limited	402	270	-	-	-	-
Ringway Island Roads Limited	18,808	22,399	207	1,541	6	73
Vinci Concessions S.A.S	282	325	-	-	-	-
Vinci Concessions UK Limited	51	50	-	-	-	-

Vinci Highways S.A.S and Meridiam Infrastructure Finance II S.a.r.l (each 50%) have provided loan financing to the Group of £17,898,286 (2020: £17,898,286) and the Group has incurred £8,051,293 (2020: £5,638,747) of interest and fees associated with these loans. At year end the Group had an outstanding loan balance of £25,311,589 (2020: £22,958,357) included within borrowings and outstanding interest of £637,991 (2020: £578,676) included within accruals.

Vinci Concessions S.A.S is a member of the Vinci Group and has provided development services to the Company.

Vinci Concessions UK Limited is a member of the Vinci Group and has provided development services to the Company.

Ringway Island Roads Limited is a member of the Vinci Group, and is the operating subcontractor.

Meridiam Infrastructure Finance II S.a.r.l. is a 50% shareholder.

Vinci Highways S.A.S, a member of the Vinci Group, is a 50% shareholder.

Fulcrum Infrastructure Management Limited is a related party of Meridiam Infrastructure Finance II S.a.r.l. and provides management services to the Company through a Management Services Agreement.

20 Controlling party

The Group is a joint venture between Meridiam Infrastructure Finance II S.a.r.l. incorporated in Luxembourg (50%), and Vinci Highways S.A.S incorporated in France (50%). The Directors consider there to be no ultimate controlling entity.

ISLAND ROADS INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

21 Principal subsidiaries

Details of the Group's subsidiaries at 31 December 2021 are as follows:

Company Name	Principal activities	Place of Incorporation	Proportion of ownership interest	Proportion of Voting Power held
Island Roads Services Limited	Service Provider	United Kingdom	100%	100%
Island Roads Investment 2 Limited	Investment Company	United Kingdom	100%	100%

The investments in the subsidiaries are all stated at cost.

The registered address of the above companies is 4th Floor, 105 Piccadilly, London W1J 7NJ.

22 Capital commitments

At 31 December 2021 the Group had capital commitments as follows:

The future capital expenditure on the service concession financial asset which is contracted but not provided for in these financial statements amounts to £1,501,530 (2020 - £2,608,222). The total contracted value of the works to be undertaken is £145,371,678 (2020 - £145,371,678).

23 Subsequent events

There have been no subsequent events or transactions since 31 December 2021 that require recognition or disclosure in the Group's financial statements.