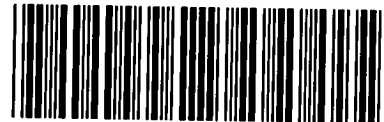


Highway Management (City) Holding Limited
Financial Statements
31 December 2016

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Highway Management (City) Holding Limited

Financial Statements

Year ended 31 December 2016

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Highway Management (City) Holding Limited

Strategic Report

Year ended 31 December 2016

The directors present their Strategic Report on the group for the year ended 31 December 2016.

Principal activities and business review

The principal activity of the company is that of a holding company with two subsidiaries, Highway Management (City) Limited and Highway Management (City) Finance Plc.

The principal activity of the group is the provision of operation and maintenance services on four highway improvement schemes for the M1 (Westlink) motorway in Belfast, Northern Ireland. Construction was completed on 27 November 2009, on which date the project became operational.

On 3 February 2006, Highway Management (City) Limited entered into a Project Agreement with the Northern Ireland Department for Regional Development, together with an associated construction contract, funding agreements and hard facilities management service contracts. The Project Agreement requires the group to provide and maintain four highway improvement schemes for the M1 (Westlink) motorway in Belfast, Northern Ireland over a 30 year concession term (including construction) under the Government's Private Finance Initiative.

On 13 February 2006, Highway Management (City) Finance Plc authorised the creation of £73,700,000 of 1.609% Index-Linked Guaranteed Secured Bonds due 2036 of which £61,700,000 were issued. Highway Management (City) Finance Plc also entered into a loan agreement with the European Investment Bank ("EIB") under which EIB granted it a £61,400,000 loan facility attracting a 1.34% Index-Linked interest rate due 2034. The bonds and EIB loan have the benefit of unconditional and irrevocable payment guarantee of scheduled interest and principal provided by (the monoline insurer) Assured Guaranty (Europe) Limited.

On 15 February 2006, Highway Management (City) Finance Plc entered into a loan agreement with Royal Bank of Canada ("RBC") under which RBC granted it a £8,440,000 mezzanine loan facility due 2036. At the year end the mezzanine loan facility was fully drawn down.

The group operates in a PFI market under strict contractual obligations.

The objective is to upgrade, increase capacity and relieve congestion on this stretch of the motorway network.

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

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks.

The key business risks affecting the group are considered to relate to cash flow management, operation and maintenance compliance and review of the insurance cover and lifecycle profile.

The Board formally reviews risks and appropriate processes are put in place to mitigate them.

Highway Management (City) Holding Limited

Strategic Report *(continued)*

Year ended 31 December 2016

Financial risk management

The group's operations expose it to a variety of financial risks that include liquidity risk, interest rate risk and credit risk. Moody's Investment Service assigned its 'A2' insured and 'Baa1' underlying ratings to the senior secured loan and bond. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs.

The group's financial instruments comprise index-linked bonds, an index-linked loan from EIB, a floating rate mezzanine bank loan and a fixed rate subordinated debt, the main purpose of which is to raise finance for the group's operations.

Bilfinger RE Asset Management Limited, as a provider of financial services to the group under a contractual arrangement, implements the policies set by the Board of directors.

Liquidity risk

The group minimises the risk of uncertain funding in its operations by having committed facilities available. The group is required to maintain levels of net cash flow in each year equal to 1.05 times the actual debt service payment due in the next 12 months.

The most recent underlying rating on the bond and EIB loan, 'Baa1' as at June 2016, takes into account the following risks – long term, major maintenance whilst maintaining traffic operations and high senior debt. These risks are offset by the following strengths - a payment mechanism based on asset availability, an index linked revenue stream which is not exposed to traffic risk and the commitment of the Northern Ireland Department for Regional Development, as the ultimate source of income.

Interest rate cash flow risk

The group is exposed to market related interest rate risk in relation to the index-linked bond and EIB loan, through movements in RPI (this is mitigated as the majority of the cash flows generated from the roadway concession asset increase in line with movements in RPI). The group is exposed to market interest rate risk on its floating rate mezzanine bank loan. This is mitigated by the floating rate interest earned on the treasury deposits.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge its obligation under the contract giving rise to the financial instrument.

The group's credit risk is concentrated as its cash flows are generated from the PFI roadway concession asset. The concentration of risk is mitigated as the cash flows are secured under contract with the Northern Ireland Department for Regional Development, a government body.

Key performance indicators

1. Performance deductions under the service contract

Financial deductions are levied by the Authority in the event of performance and/or availability standards not being achieved according to detailed criteria set out in the Project Agreement. These deductions are passed on to the service provider. In the year ended 31 December 2016, deductions of £172,000 (2015: £248,000) had been levied which represents 2.1% (2015: 4.0%) of revenue. The directors believe the performance for the year to be satisfactory.

2. Financial performance

The directors have modelled the anticipated financial outcome of the project across its full term. The directors monitor actual financial performance against this anticipated performance. The directors believe the performance for the year to be satisfactory.

Highway Management (City) Holding Limited

Strategic Report *(continued)*

Year ended 31 December 2016

Going concern

The directors have reviewed the group's projected cash flows by reference to a financial model covering accounting periods up to 31 December 2036. The directors have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the available information, the directors consider that the group and parent company will be able to meet its financial obligations on the due dates for the foreseeable future. Accordingly, the directors consider that it is appropriate for the financial statements of the group and parent company to be prepared on a going concern basis.

Corporate governance

The Board is ultimately responsible for the group's system of internal control. This responsibility includes clearly determining the control environment and reviewing annually the effectiveness of the internal control system. The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the group. The process has been in place for the year under review and up to the date of approval of these financial statements and is regularly reviewed by the Board.

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. These processes ensure that the project remains robust and viable throughout the life of the contract.

This report was approved by the Board of directors on 27th June 2017 and signed on behalf of the Board by:


A. Naafs
Director

Registered office:
Ground Floor
Quaygate House
15 Scrabo Street
Belfast
BT5 4BD

Highway Management (City) Holding Limited

Directors' Report

Year ended 31 December 2016

The directors present their report and the audited financial statements of the group for the year ended 31 December 2016. Principal activities and business review, financial risk management, going concern and corporate governance are detailed in the Strategic Report.

Directors

The directors who served the company during the year and up to the date of this report are shown below:

A Naafs
F Schramm

Dividends

The directors have not recommended a dividend (2015: £nil).

Future developments

The project continues to perform in line with the modelled expectations and management of the scheme both logistically and financially remains under control. We remain confident that we will maintain our current level of performance and keep penalty payments to a minimum.

Donations

The group and parent company made no political donations during the year (2015: £nil).

Disclosure of information to the auditors

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 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 group's auditors are aware of that information.

Independent auditors

During the year, KPMG LLP resigned and PricewaterhouseCoopers LLP were appointed to fill the casual vacancy arising. Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the Board of directors on 27th June 2017 and signed on behalf of the Board by:


A Naafs
Director

Registered office:
Ground Floor
Quaygate House
15 Scrabo Street
Belfast
BT5 4BD

Highway Management (City) Holding Limited

Statement of Directors' Responsibilities

Year ended 31 December 2016

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 group and parent 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 parent company and of the profit or loss of the group and parent 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 judgments 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 parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Signed on behalf of the Board by:


A Naafs
Director

27th June 2017

Highway Management (City) Holding Limited
Independent Auditors' Report to the Members of Highway Management (City)
Holding Limited
Year ended 31 December 2016

Report on the financial statements

Our opinion

In our opinion, Highway Management (City) Holding Limited's group financial statements and parent company financial statements (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 2016 and of the group's profit and cash flows for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within this report, comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2016;
- the Consolidated Profit and Loss Account for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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.

We have no exceptions to report arising from this responsibility.

Highway Management (City) Holding Limited

Independent Auditors' Report to the Members of Highway Management (City) Holding Limited *(continued)*

Year ended 31 December 2016

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Philip Storer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

27 June 2017

Highway Management (City) Holding Limited

Consolidated Profit and Loss Account

Year ended 31 December 2016

		2016	2015
	Note	£000	restated £000
Turnover	5	8,095	6,189
Cost of sales		(6,671)	(5,048)
Administrative expenses		(224)	(258)
Operating profit		1,200	883
Interest receivable and similar income	8	6,473	6,673
Interest payable and similar expenses	9	(6,951)	(7,197)
Profit before taxation		722	359
Tax on profit	10	(100)	69
Profit for the financial year		622	428

All the activities of the group are from continuing operations.

There is no other comprehensive income or expense other than those included above and therefore no separate statement of other comprehensive income has been presented.

Highway Management (City) Holding Limited

Consolidated Balance Sheet

31 December 2016

	Note	2016 £000	2015 restated £000
Current assets			
Debtors (including £143,178,000 (2015: £141,135,000) due after more than one year)	13	144,726	146,565
Cash at bank and in hand		16,228	16,443
Total current assets		160,954	163,008
Creditors: amounts falling due within one year	14	(15,409)	(15,023)
Net current assets		145,545	147,985
Total assets less current liabilities		145,545	147,985
Creditors: amounts falling due after more than one year	15	(140,366)	(143,428)
Net assets		5,179	4,557
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account		5,129	4,507
Total equity		5,179	4,557

The financial statements on pages 8 to 23 were approved by the Board of directors on 27 June 2017 and signed on behalf of the Board by:


A Naafs
Director

Company registration number: NI056489

Highway Management (City) Holding Limited

Company Balance Sheet

31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Investments	12	50	50
Current assets			
Debtors (including £10,413,000 (2015: £10,413,000) due after more than one year)	13	11,328	10,736
Total current assets		11,328	10,736
Creditors: amounts falling due within one year	14	(915)	(323)
Net current assets		10,413	10,413
Total assets less current liabilities		10,463	10,463
Creditors: amounts falling due after more than one year	15	(10,413)	(10,413)
Net assets		50	50
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account brought forward		-	-
Profit and loss account for the year		-	-
Total equity		50	50

The financial statements on pages 8 to 23 were approved by the Board of directors on 27th June 2017 and signed on behalf of the Board by:


A Naafs
Director

Company registration number: NI056489

Highway Management (City) Holding Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2015 restated	50	4,079	4,129
Profit for the financial year restated	–	428	428
Total comprehensive income for the year restated	–	428	428
At 31 December 2015 restated	50	4,507	4,557
Profit for the financial year	–	622	622
Total comprehensive income for the year	–	622	622
At 31 December 2016	50	5,129	5,179

Highway Management (City) Holding Limited

Company Statement of Changes in Equity

Year ended 31 December 2016

	Called up share capital £000	Total equity £000
At 1 January 2015	50	50
Result for the financial year	–	–
At 31 December 2015	<u>50</u>	<u>50</u>
Result for the financial year	–	–
At 31 December 2016	<u>50</u>	<u>50</u>

Highway Management (City) Holding Limited

Consolidated Cash Flow Statement

Year ended 31 December 2016

	2016 £000	2015 restated £000
Cash flows from operating activities		
Profit for the financial year	622	428
<i>Adjustments for:</i>		
Interest receivable and similar income	(6,473)	(6,673)
Interest payable and similar expenses	6,951	7,197
Tax on profit	100	(69)
<i>Changes in:</i>		
Trade and other debtors	1,839	3,260
Trade and other creditors	(12)	(455)
Cash generated from operations	3,027	3,688
Interest paid	(6,951)	(7,197)
Interest received	6,473	6,673
Net cash generated from operating activities	2,549	3,164
Cash flows from financing activities		
Repayment of bond and bank loans	(2,764)	(2,280)
Net cash used in financing activities	(2,764)	(2,280)
Net (decrease)/increase in cash and cash equivalents	(215)	884
Cash and cash equivalents at beginning of year	16,443	15,559
Cash and cash equivalents at end of year	16,228	16,443

Highway Management (City) Holding Limited

Notes to the Financial Statements

Year ended 31 December 2016

1. General Information

The company is a private company incorporated in the United Kingdom, which is registered and domiciled in the United Kingdom at Ground Floor, Quaygate House, 15 Scrabo Street, Belfast, BT5 4BD. The company's principal activity is that of a holding company with two subsidiaries, Highway Management (City) Limited and Highway Management (City) Finance Plc.

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") as issued in September 2015. The presentation currency of these financial statements is sterling.

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

3. Critical accounting estimates and assumptions

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 judgements in applying the group's accounting policies are described below:

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on 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. These processes ensure that the project remains robust and viable throughout the life of the contract.

4. Summary of significant accounting policies

Measurement convention

The financial statements were prepared in accordance with the Companies Act 2006, on the historical cost basis.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings, Highway Management (City) Limited and Highway Management (City) Finance Plc up to 31 December 2016. The acquisition method of accounting has been adopted. The parent company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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

Going concern

The directors have reviewed the cash flow forecast and taking account of reasonable possible changes in operations, believe that the group and parent company will be able to settle liabilities as they fall due for payment for the foreseeable future and therefore consider that it is appropriate to prepare these financial statements on a going concern basis.

Exemptions for qualifying entities under FRS 102

The parent 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.

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 21 November 2009, revenues in excess of net operating and finance costs were deferred until completion of construction, whereupon they will be 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.

All turnover originates in the United Kingdom.

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.

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.

Investments

Investments in subsidiary undertakings are stated at cost, less an appropriate provision to reflect any impairment in the value of the investments.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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

Financial instruments

Financial instruments are recognised when the group becomes a party to the contractual provisions of the instrument. Financial instruments are generally derecognised when the contract giving rise to the instrument is settled, sold, cancelled or expires.

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, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and treasury deposits.

Restricted cash

The group is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £5,671,000 at the year end (2015: £2,898,000).

Financial assets

The group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. Financial assets are initially measured at fair value, plus, in the case of financial assets not at 'fair value through profit or loss', directly attributable transaction costs. The group has categorised its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either 'fair value through profit or loss' or 'available for sale'. Such assets are carried at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. Gains and losses are recognised in the Profit and Loss Account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Finance charges and directly attributable transaction costs are accounted for in the Profit and Loss Account using the effective interest rate method, and added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest rate is calculated using the RPI in relation to the reporting period for the group's index-linked bond and EIB loan.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

4. 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 a project 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.

Expenses

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated on-going financing fees.

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.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest rate method.

5. Turnover

Turnover arises from:

	2016	2015
	£000	£000
Service income	<u>8,095</u>	<u>6,189</u>

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

6. Operating profit

The audit fee in respect of the group was £15,000 (2015: £21,000) and for the company £1,700 (2015: £2,000). All the group audit fees have been borne by the company's subsidiary undertaking, Highway Management (City) Limited.

7. Staff costs and directors' remuneration

The group and parent company had no employees during the year (2015: nil). No key personnel received any remuneration during the year (2015: nil). The directors have no contract of service with the group and parent company. During the year the group incurred charges of £110,000 (2015: £108,000) from BBGI Management HoldCo S.a.r.l.(an indirect and wholly owned subsidiary of BBGI SICAV S.A., which are both registered and domiciled at 6, Route de Treves, Building E, L-2633 Senningerberg, Luxembourg), for making available the services of the directors.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

8. Interest receivable and similar income

	2016 £000	2015 £000
Bank interest receivable	49	58
Finance debtor interest receivable	6,424	6,615
	<u>6,473</u>	<u>6,673</u>

Interest is imputed on the finance debtor using the property specific rate of 4.93%.

9. Interest payable and similar expenses

	2016 £000	2015 £000
Interest payable on subordinated debt	1,187	1,196
Interest and indexation on bank loans	3,040	3,208
Interest and indexation on bond	2,724	2,793
	<u>6,951</u>	<u>7,197</u>

Interest payable and similar expenses are recognised using the effective interest rate method.

10. Tax on profit

Major components of tax expense/(income)

	2016 £000	2015 restated £000
Deferred tax:		
Origination and reversal of timing differences	100	(69)
Tax on profit	<u>100</u>	<u>(69)</u>

Reconciliation of tax expense/(income)

The tax assessed on the profit on ordinary activities for the year is lower than (2015: the same as) the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

	2016 £000	2015 restated £000
Profit before taxation	722	359
Profit by rate of tax	144	72
Trading adjustment	—	(26)
Impact of changes in tax rates	(44)	(115)
Tax on profit	<u>100</u>	<u>(69)</u>

Factors that may affect future tax expense

The UK corporation tax rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the group's future current tax charge accordingly.

11. Profit for the year of the parent company

The result for the financial year of the parent company was £nil (2015: £nil).

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

12. Investments

Company	Shares in subsidiary undertakings £000
Cost	
At 1 January 2016 and 31 December 2016	<u>50</u>
Impairment	
At 1 January 2016 and 31 December 2016	<u>–</u>
Carrying amount	
At 1 January 2016 and 31 December 2016	<u>50</u>

The company owns 100% of the issued share capital (£100) of Highway Management (City) Limited and 100% of the issued share capital (£50,000) of Highway Management (City) Finance Plc, which are both registered and domiciled in the United Kingdom at Ground Floor, Quaygate House, 15 Scrabo Street, Belfast, BT5 4BD.

13. Debtors

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Trade debtors	17	–	–	–
Amounts owed by group undertaking	–	–	11,328	10,736
Finance debtor	127,817	131,744	–	–
Prepayments and accrued income	16,892	14,821	–	–
	<u>144,726</u>	<u>146,565</u>	<u>11,328</u>	<u>10,736</u>

The debtors above include the following amounts falling due after more than one year:

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Amounts owed by group undertaking	–	–	10,413	10,413
Finance debtor	127,711	127,818	–	–
Prepayments and accrued income	15,467	13,317	–	–
	<u>143,178</u>	<u>141,135</u>	<u>10,413</u>	<u>10,413</u>

Amounts owed by group undertaking are repayable by 2036 and attract interest at 11.4%.

14. Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Trade creditors	240	180	–	–
Taxation and social security	113	566	–	–
Bank loans and overdrafts	6,356	5,959	–	–
Subordinated debt (including accrued interest)	915	323	915	323
Retention	60	–	–	–
Accruals and deferred income	7,725	7,995	–	–
	<u>15,409</u>	<u>15,023</u>	<u>915</u>	<u>323</u>

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

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

	Group		Company	
	2016	2015 restated	2016	2015
	£000	£000	£000	£000
Bank loans and overdrafts	128,859	132,020	–	–
Subordinated debt	10,413	10,413	10,413	10,413
Deferred tax liability	1,094	995	–	–
	<u>140,366</u>	<u>143,428</u>	<u>10,413</u>	<u>10,413</u>

Included within Bank loans and overdrafts is an amount repayable after five years of £100,741,000 (2015: £105,153,000) and included within subordinated debt are amounts repayable after five years of £10,413,000 (2015: £10,413,000) respectively.

Borrowings relate to senior secured funding totalling £123,100,000 and a mezzanine loan of £8,440,000 granted by a consortium of banks led by Royal Bank of Canada Europe Limited. The senior facility is split as follows: Index linked bonds of £61,700,000 with a 1.609% coupon, and an EIB loan of £61,400,000 with a 1.34% index linked coupon. Scheduled payments of interest and principal under the bond and EIB loan are guaranteed by Assured Guaranty (Europe) Limited.

The senior bond facility of £61,700,000 is repayable in fifty three six-monthly instalments up until 27 February 2036. As at 31 December 2016 the total amount outstanding on the bond is £62,774,000 (2015: £64,638,000) and is based on the contractual loan agreement. The senior bond 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.

The EIB loan is repayable in forty nine six-monthly instalments up until 15 February 2034. As at 31 December 2016 the total amount outstanding on the EIB loan is £65,272,000 (2015: £67,154,000) and is based on the contractual loan agreement. The EIB loan 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.

The Mezzanine facility of £8,440,000 is repayable in fifty three six-monthly instalments up until 27 February 2036. As at 31 December 2016 the total amount outstanding on the mezzanine facility is £7,615,000 (2015: £7,764,000) and is based on the contractual loan agreement. Interest is charged on amounts drawn under the facility at LIBOR + 3.75%. The mezzanine 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 represents a £10,413,000 (2015: £10,413,000) unsecured loan facility due to the company's shareholder and is based on the contractual loan agreement. The subordinated loan facility bears interest at a fixed rate of 11.4% and is fully repayable by 2036.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

16. Deferred tax

The deferred tax asset recognised in relation to trading losses carried forward is £156,000 (2015: £477,000). Under FRS 102 29.24A, the group has presented the deferred tax asset and the deferred tax liability on a net basis as the taxes are levied by the same tax authority. A deferred tax adjustment of £106,000 in 2015 has resulted in a restatement of the financial statements due to changes in tax rates and laws.

17. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2016 £000	2015 £000
Financial assets		
Financial assets measured at amortised cost - finance debtor, trade and other debtors	127,834	131,744
Other financial instruments - cash and cash equivalents	16,228	16,443
Financial liabilities		
Financial liabilities measured at amortised cost - trade and other payables, bank loans and overdrafts, and subordinated debt	(146,782)	(148,895)

(b) Capital management

The group's capital and debt structure is set out in the concession term financial model at the commencement of the project. The equity and debt has been subscribed for in accordance with this model to date.

The group's operations expose it to a variety of financial risks that include credit risk, interest rate risk and liquidity risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs.

Bilfinger RE Asset Management Limited, as the provider of management and financial services to the group under a contractual arrangement, implements the policies set by the Board of directors.

The group has raised finance through guaranteed secured bonds and bank borrowings. The group operates a long-term business and its policy is to finance it with long-term borrowings. The most recent underlying rating on the bond and EIB loan, "Baa1" as at June 2016, takes into account the following risks - a challenging programme undertaken whilst maintaining traffic operations; high senior debt; and untested Design, Build, Finance and Operate (DBFO) road concessions in Northern Ireland. These risks are offset by the following strengths - a payment mechanism based on asset availability; index linked revenue stream with no traffic volume exposure; experienced construction joint venture and the commitment of the Northern Ireland Department for Regional Development.

The group's principal financial asset is a loan due from Highway Management (City) Limited, a fellow subsidiary undertaking. Highway Management (City) Limited will service this loan with cash-flows generated from its PFI roadway concession asset. During the year, Highway Management (City) Limited met its debt service obligations to the group. Based upon the projected future cash-flows of the fellow subsidiary undertaking, the directors consider that they will be able to meet their obligations as they fall due for the foreseeable future.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

17. Financial instruments *(continued)*

Interest rate risk profile of financial assets and financial liabilities

The floating rate financial liabilities comprise a 1.609% index-linked guaranteed secured bond, a 1.34% index-linked EIB loan and a LIBOR + 3.75% mezzanine bank loan.

The floating rate financial asset comprises an amount due from the group's subsidiary undertaking. The return on the amount due from the group's subsidiary undertaking exactly matches the financing costs of the group's bond and bank loans. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

The fixed rate financial asset comprises a £50,000 loan due from the group's subsidiary undertaking which bears a fixed rate of interest of 10% per annum.

A sensitivity analysis showing the effects of reasonably possible changes in the RPI and LIBOR on the group results is not disclosed as the financing costs of the bond and bank loans are matched exactly by the return on amounts due from Highway Management (City) Limited, whatever the prevailing rate of the RPI and LIBOR. Therefore, the group's results are unaffected by any changes in RPI and LIBOR.

Credit risk

The group's financial assets comprise loans due from its subsidiary undertaking, creating a concentration of credit risk. The group's subsidiary undertaking will service the loans with cash flows from its PFI roadway concession asset. The PFI roadway concession asset cash flows are secured under contract with the Northern Ireland Department for Regional Development, a government body.

There are no debtors that are past due on the reporting date. The maximum credit risk exposure relating to financial assets is represented by the carrying value at the balance sheet date.

18. Called up share capital

Group and company

Issued, called up and fully paid

	2016		2015	
	No	£000	No	£000
Ordinary shares of £1 each	50,100	50	50,100	50

19. Related parties

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

	Transactions with related parties		Payables to related parties	
	2016	2015	2016	2015
	£000	£000	£000	£000
BBGI (NI) Limited	1,188	1,188	11,329	10,713
BBGI Management HoldCo S.a.r.l.	110	108	27	27

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

20. Ultimate parent company and parent company of larger group

At 31 December 2016, 100% of the company's share capital was held by BBGI (NI) Limited ('the immediate parent undertaking'), and is registered and domiciled in the United Kingdom at 1 Grenfell Road, Maidenhead, Berkshire, SL6 1HN.

BBGI (NI) Limited is an indirect and wholly owned subsidiary of BBGI SICAV S.A., a Luxembourg incorporated investment company listed on the London Stock Exchange.

BBGI Management HoldCo S.a.r.l. is an indirect and wholly owned subsidiary of BBGI SICAV S.A., a Luxembourg incorporated investment company listed on the London Stock Exchange, and is registered and domiciled at 6, Route de Treves, Building E, L-2633 Senningerberg, Luxembourg.

BBGI SICAV S.A. is the ultimate parent undertaking and controlling party during the years ended 31 December 2016 and 31 December 2015, and is registered and domiciled at 6, Route de Treves, Building E, L-2633 Senningerberg, Luxembourg.

No other financial statements include the results of the group.