

COMPANY REGISTRATION NUMBER: NI056489

Highway Management (City) Holding Limited
Financial Statements
31 December 2020

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Highway Management (City) Holding Limited

Financial Statements

Year ended 31 December 2020

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Highway Management (City) Holding Limited

Strategic Report

Year ended 31 December 2020

The directors present their Strategic Report on the group for the year ended 31 December 2020.

Principal activities and business review

Principal activities and business review are detailed in the Directors' Report on page 2.

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 of the insurance cover and lifecycle profile.

Formal Board meetings are held during which quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. Variances in the forecast are investigated and appropriate processes are put in place to mitigate the risk.

Key performance indicators

Financial performance

The group has modelled the anticipated financial performance of its concession across its full term. Quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. The directors believe the performance for the year to be satisfactory.

This report was approved by the Board of directors on 26 April 2021 and signed on behalf of the Board by:



A Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Directors' Report

Year ended 31 December 2020

The directors present their report and the audited financial statements of the group for the year ended 31 December 2020.

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 operational and maintenance services on four highway improvement schemes for the M1 (Westlink) motorway in Belfast, Northern Ireland, over a 30 year concession term, in accordance with a Project Agreement entered into with the Department for Infrastructure. Construction was completed on 27 November 2009, on which date the project became operational.

As part of the Project Agreement, Highway Management (City) Finance Plc, entered into a number of financing arrangements, which were on-loaned to a fellow subsidiary undertaking, Highway Management (City) Limited, with identical terms for the payment of interest and principal. The objective is to upgrade, increase capacity and relieve congestion on this stretch of the motorway network.

On 16 March 2016, the group entered into an operating and maintenance contract with Intertoll Limited to provide maintenance services on the M1 (Westlink) motorway network. As part of the related security package for the contract, the project has the benefit of an on-demand performance bond plus a Parent Company Guarantee. The latter is provided by Group Five Limited, a company based in South Africa, which is the ultimate controlling party of Intertoll Limited. On 11 March 2019, Group Five Limited filed for Business Rescue Protection under South African Company law. Whilst this event does not constitute a default under the project agreement, it does undermine the value of the Parent Company Guarantee. Consequently, the company received a cash deposit as an additional form of security while the issues connected with Group Five Limited were being resolved. The issues in South Africa have had no impact on the day-to-day activities of the service provider. On 3 April 2020, Group Five Limited sold its interest in the Intertoll Europe Group of companies, which includes Intertoll Limited, to Intertoll Investments B.V. and in accordance with the sale and purchase agreement, Group Five Limited was released from its obligations under the Parent Company Guarantee. On 26 June 2020, the new Parent Company Guarantee was novated to Intertoll Infrastructure Developments B.V., the new guarantor.

On 23 March 2020, due to the global pandemic, the United Kingdom Government issued guidance that only essential business activities should continue. The group's Business Continuity Plan was reviewed and updated, and the O&M contractor continues to provide essential services. There has been no financial or operational impact on the group due to Covid-19.

On 31 January 2020, the United Kingdom left the European Union and entered a transition period. The transition period ended on 31 December 2020 and the United Kingdom left the European Union single market and customs union. The group is not affected by the United Kingdom's withdrawal from the European Union, as the cash flows generated from the PFI concession asset are secured under contract with the Department for Infrastructure, a government body.

The result for the group for the year is shown in the Consolidated Profit and Loss Account on page 10.

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

Highway Management (City) Holding Limited

Directors' Report *(continued)*

Year ended 31 December 2020

Dividends

The directors recommended and paid dividends of £140,000 (2019: dividends paid £243,000) during the year. No dividends were declared post year-end.

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. The directors remain confident that the group will maintain the current level of performance and keep meeting the obligations under the contract.

Financial risk management objectives and policies

The group's operations expose it to a variety of financial risks that include liquidity risk, interest rate risk and credit 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.

Avison Young Infrastructure 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.

Liquidity risk

The group minimises the risk of uncertain funding in its operations by having long-term committed facilities available. In addition, the group is required to maintain levels of expected net cash flow equal to 1.05 times the actual debt service payment due in the next 12 months. The debt service payment due in the next 12 months is expected to be £7,816,000.

Interest rate risk

The group is exposed to market related interest rate risk in relation to its index-linked debt through movements in RPI and on its floating rate mezzanine bank loan through movements in LIBOR. This is mitigated as the loans within Highway Management (City) Finance Plc have identical terms for the payment of interest and principal.

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 Department for Infrastructure, a government body.

Donations

The group and company made no political donations during the year (2019: £nil).

Highway Management (City) Holding Limited

Directors' Report *(continued)*

Year ended 31 December 2020

Disclosure of information to the auditor

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

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

Independent auditor

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

Going concern

The directors have reviewed the group's projected cash flows by reference to a financial model covering 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 company will be able to meet its financial obligations on the due dates for the foreseeable future.

This report was approved by the Board of directors on 30 April 2021 and signed on behalf of the Board by:



A. Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Directors' Responsibilities Statement

Year ended 31 December 2020

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 company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

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

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

This report was approved by the Board of directors on 30 April 2021 and signed on behalf of the Board by:



A Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited

Year ended 31 December 2020

Opinion

We have audited the financial statements of Highway Management (City) Holding Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise of the Consolidated Statement Profit & Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Highway Management (City) Holding Limited

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

Year ended 31 December 2020

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the group's or the parent company's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited (continued)

Year ended 31 December 2020

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's or the parent company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (ie. gives a true and fair view).
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Extent to which the audit was considered capable of detecting irregularities and fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below.

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

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

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

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

Highway Management (City) Holding Limited

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

Year ended 31 December 2020

Extent to which the audit was considered capable of detecting irregularities and fraud *(continued)*

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

Our procedures to respond to risks identified included the following:

- reviewing intercompany interest receivable and payable and ensure they reconcile;
- recalculation of unitary charge by applying appropriate benchmark indexation to agreed base cost;
- reviewing the application of calculated service margin to service costs;
- reviewing passthrough costs and related revenue to ensure these match and are legitimate passthrough costs in line with the contract;
- reviewing the financial statement disclosures to assess compliance with the laws and regulation described as having a direct effect on the financial statements;
- enquiring of management and directors regarding the potential existence and extent of any litigation claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviewing board minutes for indicators of any breaches of laws and regulations, litigation or claims;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
- agreeing the lifecycle budget for the year to the June 2020 financial model and tracing a sample of lifecycle costs incurred to invoice and payment through the bank. Ensuring that the year end provision for lifecycle costs relates to costs incurred during the year, as the company holds the major maintenance risk.

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

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

Use of our report

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



Grant Roger (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP
Chartered Accountants and Statutory Auditors
7-11 Melville Street
Edinburgh
EH3 7PE

Date: 30 April 2021

Highway Management (City) Holding Limited

Consolidated Profit and Loss Account

Year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	4	8,607	7,327
Cost of sales		(6,538)	(5,507)
Administrative expenses		(172)	(211)
Operating profit		1,897	1,609
Interest receivable and similar income	7	5,812	5,870
Interest payable and similar expenses	8	(6,673)	(6,910)
Profit before taxation		836	569
Tax on profit	9	(224)	167
Profit for the financial year		612	736

The notes on pages 16 to 25 form part of these financial statements.

All the activities of the group are from continuing operations.

The group has no other comprehensive income and expenses other than the results for the year as set out above, therefore, no separate statement of comprehensive income is presented.

Highway Management (City) Holding Limited

Consolidated Balance Sheet

As at 31 December 2020

	Note	2020 £000	2019 £000
Current assets			
Debtors: amounts falling due within one year	12	6,724	6,374
Debtors: amounts falling due after more than one year	12	121,619	125,869
Cash at bank and in hand		17,051	19,968
Total current assets		145,394	152,211
Creditors: amounts falling due within one year	13	(10,798)	(13,131)
Net current assets		134,596	139,080
Total assets less current liabilities		134,596	139,080
Creditors: amounts falling due after more than one year	14	(129,575)	(134,531)
Net assets		5,021	4,549
Capital and reserves			
Called up share capital	16	50	50
Profit and loss account		4,971	4,499
Total equity		5,021	4,549

The notes on pages 16 to 25 form part of these financial statements.

The financial statements on pages 10 to 25 were approved by the Board of directors on 30 April 2021, and signed on behalf of the Board by:


A Naafs
Director

Company registration number: NI056489

Highway Management (City) Holding Limited

Company Balance Sheet

As at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Investments	11	50	50
Current assets			
Debtors: amounts falling due within one year	12	381	1,509
Debtors: amounts falling due after more than one year	12	10,541	10,476
Cash at bank and in hand		–	1,198
Total current assets		10,922	13,183
Creditors: amounts falling due within one year	13	(381)	(2,707)
Net current assets		10,541	10,476
Total assets less current liabilities		10,591	10,526
Creditors: amounts falling due after more than one year	14	(10,541)	(10,476)
Net assets		50	50
Capital and reserves			
Called up share capital	16	50	50
Total equity		50	50

The notes on pages 16 to 25 form part of these financial statements.

The profit for the financial year of the company was £140,000 (2019: £nil).

The financial statements on pages 10 to 25 were approved by the Board of directors on 30 April 2021 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 2020

	Note	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2019		50	3,763	3,813
Profit for the financial year		–	736	736
Total comprehensive income for the financial year		–	736	736
At 31 December 2019		50	4,499	4,549
Profit for the financial year		–	612	612
Total comprehensive income for the financial year		–	612	612
Dividends paid and payable	10	–	(140)	(140)
Total investments by and distributions to owners		–	(140)	(140)
At 31 December 2020		50	4,971	5,021

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Company Statement of Changes in Equity

Year ended 31 December 2020

	Note	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2019		50	–	50
Profit for the financial year		–	–	–
At 31 December 2019		50	–	50
Profit for the financial year		–	140	140
Total comprehensive income for the financial year		–	140	140
Dividends paid and payable	10	–	(140)	(140)
Total investments by and distributions to owners		–	(140)	(140)
At 31 December 2020		50	–	50

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Consolidated Cash Flow Statement

Year ended 31 December 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Profit for the financial year	612	736
<i>Adjustments for:</i>		
Interest receivable and similar income	(5,612)	(5,870)
Interest payable and similar expenses	6,673	6,910
Tax on profit	224	(167)
<i>Changes in:</i>		
Trade and other debtors	3,900	4,530
Trade and other creditors	(2,382)	1,559
Cash generated from operations	3,415	7,698
Interest paid	(4,402)	(2,156)
Interest received	5,612	5,870
Tax paid	(252)	(25)
Net cash generated from operating activities	4,373	11,387
Cash flows from financing activities		
Repayment of bond and bank loans	(7,150)	(6,952)
Dividends paid	(140)	(243)
Net cash used in financing activities	(7,290)	(7,195)
Net (decrease)/increase in cash and cash equivalents	(2,917)	4,192
Cash and cash equivalents at beginning of year	19,968	15,776
Cash and cash equivalents at end of year	17,051	19,968

Analysis of changes in net debt

	At 1 Jan 2019 £000	Cash flows £000	Other non-cash changes £000	At 31 Dec 2020 £000
Net cash:				
Cash at bank and in hand	19,968	(2,917)	-	17,051
Debt:				
Debt due within 1 year	(7,672)	7,150	(7,788)	(8,310)
Debt due after more than 1 year	(128,026)	-	4,610	(123,416)
	(135,697)	7,150	(3,178)	(131,725)
Net debt	(115,729)	4,233	(3,178)	(114,674)

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Notes to the Financial Statements

Year ended 31 December 2020

1. General information

The company is a private company limited by shares incorporated in the United Kingdom, which is registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD. 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") and the Companies Act 2006. The presentation currency of these financial statements is Pound Sterling and is rounded to the nearest thousand.

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

3. Summary of significant accounting policies

Measurement convention

The financial statements were prepared under the historical cost convention.

Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible changes in operations, believe that the group and company will be able to settle liabilities as they fall due for payment for 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 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 disclosures:

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

Critical accounting estimates and judgements

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

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

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

Critical accounting estimates and judgements *(continued)*

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

Interest payable on the senior secured funding and mezzanine loan are calculated using the effective interest rate method. The effective interest rate calculations are based on index-linked coupon rates and LIBOR, under the terms of the funding agreements.

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 2020. The acquisition method of accounting has been adopted. The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

Turnover

Turnover represents the value of services rendered, excluding sales related taxes, and is recognised to the extent that the group obtains the right to consideration in exchange for its performance. During the construction phase, which completed on 27 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.

Taxation

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

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

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

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

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

Taxation *(continued)*

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

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

Investments

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

Financial instruments

Financial instruments are recognised when the group becomes a party to the contractual provisions of the instrument.

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 balance

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 £4,445,000 at the year-end (2019: £3,689,000).

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

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

Financial instruments *(continued)*

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. Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

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. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. 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 index-linked bank loan.

Finance debtor

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

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

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

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

Interest payable

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

Interest receivable

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

4. Turnover

Turnover arises from:

	2020	2019
	£000	£000
Service income	8,607	7,327

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

5. Auditor's remuneration

	2020	2019
	£000	£000
Audit of these financial statements	24	22

The audit fee in respect of the group was £24,000 (2019: £22,000) and for the company £2,000 (2019: £2,000). All the group audit fees have been borne by the company's subsidiary undertaking, Highway Management (City) Limited.

6. Staff costs and directors' remuneration

The group and company had no employees during the year (2019: nil). No key management personnel received any remuneration during the year (2019: nil). The directors have no contract of service with the group. During the year the group incurred charges of £123,000 (2019: £120,000) from BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A. (formerly BBGI SICAV S.A.), the ultimate parent undertaking and controlling party), for making available the services of the directors.

7. Interest receivable and similar income

	2020	2019
	£000	£000
Bank interest receivable	38	68
Finance debtor interest receivable	5,574	5,802
	5,612	5,870

Interest is imputed on the finance debtor using an asset specific interest rate of 4.93%.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

8. Interest payable and similar expenses

	2020 £000	2019 £000
Interest payable on subordinated debt	1,256	1,251
Interest and indexation on bank loans	2,847	3,015
Interest and indexation on bond	2,570	2,644
	<u>6,673</u>	<u>6,910</u>

9. Tax on profit

Tax expense/(income)

	2020 £000	2019 £000
Current tax:		
UK current tax expense	327	275
Adjustments in respect of prior periods	(24)	(275)
Total current tax	<u>303</u>	<u>-</u>
Deferred tax:		
Origination and reversal of timing differences	(79)	(167)
Tax on profit	<u>224</u>	<u>(167)</u>

Reconciliation of tax expense/(income)

The tax assessed on the profit before taxation for the year is higher than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £000	2019 £000
Profit before taxation	<u>836</u>	<u>569</u>
Profit before taxation by rate of tax	159	108
Adjustments in respect of prior periods	65	(275)
Tax on profit	<u>224</u>	<u>(167)</u>

Factors that may affect future tax expense

In the budget on 3 March 2021, the Chancellor of the Exchequer announced that the UK corporation tax rate will increase to 25% from 1 April 2023. This will increase the group's future current tax charge accordingly. Deferred tax at 31 December 2020 has been calculated based on the rate of 19% substantively enacted at the balance sheet date.

10. Dividends paid and payable

Dividends paid during the year:

	2020 £000	2019 £000
Dividends on ordinary shares	<u>140</u>	<u>243</u>

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

10. Dividends paid and payable *(continued)*

During the year the company made a dividend payment of £140,000 (2019: £243,000) to its shareholder, BBGI (NI) Limited (an indirect and wholly owned subsidiary of BBGI SICAV S.A., the ultimate parent undertaking and controlling party).

11. Investments

Company	Shares in subsidiary undertakings £000
Cost	
At 1 January 2020 and 31 December 2020	50
Accumulated impairment	
At 1 January 2020 and 31 December 2020	-
Carrying amount	
At 31 December 2020	50
At 31 December 2019	50

The company owns 100% of the issued share capital (£100) of Highway Management (City) Limited and 99.998% of the issued share capital (£50,000) of Highway Management (City) Finance Plc, which are both registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD.

12. Debtors

Debtors falling due within one year are as follows:

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade debtors	30	9	-	-
Amounts owed by group undertakings	-	-	381	1,509
Finance debtor	5,017	4,777	-	-
Prepayments and accrued income	1,677	1,588	-	-
	6,724	6,374	381	1,509

Debtors falling due after one year are as follows:

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Amounts owed by group undertakings	-	-	10,541	10,476
Finance debtor	105,019	110,036	-	-
Prepayments and accrued income	16,600	15,833	-	-
	121,619	125,869	10,541	10,476

Highway Management (City) Holding Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2020

12. Debtors (continued)

Amounts owed by group undertakings are unsecured, fully repayable by 2036 and attract interest at 11.4%.

13. Creditors: amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Loans and bonds	8,310	7,672	-	-
Trade creditors	173	167	-	-
Amounts owed to group undertakings	-	-	-	1,198
Corporation tax	327	275	-	-
Taxation and social security	533	443	-	-
Subordinated debt (including accrued interest)	381	1,509	381	1,509
Retention	103	70	-	-
Accruals and deferred income	971	2,995	-	-
	10,798	13,131	381	2,707

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

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Loans and bonds	112,874	117,549	-	-
Subordinated debt	10,541	10,476	10,541	10,476
Deferred tax liability	669	749	-	-
Retention	3	10	-	-
Accruals and deferred income	5,488	5,747	-	-
	129,575	134,531	10,541	10,476

Included within Loans and bonds is an amount repayable after five years of £78,840,000 (2019: £83,944,000) and included within subordinated debt are amounts repayable after five years of £10,413,000 (2019: £10,413,000).

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 ("RBC"). The senior facility is split as follows: index-linked bonds of £61,700,000 with a 1.609% coupon, and a bank loan of £61,400,000 with a 1.34% index-linked coupon with the European Investment Bank ("EIB"). 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 53 six-monthly instalments up until 27 February 2036. As at 31 December 2020, the senior bond includes an outstanding bond facility of £56,601,000 (2019: £58,687,000), and an effective interest rate adjustment of £(755,000) (2019: £(1,051,000)) in relation to the senior bond facility. At the year-end, interest payable on the senior bond facility was £229,000 (2019: £239,000). 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.

Highway Management (City) Holding Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2020

14. Creditors: amounts falling due after more than one year (continued)

The EIB loan is repayable in 49 six-monthly instalments up until 15 February 2034. As at 31 December 2020, the EIB loan includes an outstanding loan facility of £59,018,000 (2019: £61,351,000), and an effective interest rate adjustment of £(722,000) (2019: £(1,035,000)) in relation to the EIB loan facility. At the year-end, interest payable on the EIB loan facility was £198,000 (2019: £208,000). 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 53 six-monthly instalments up until 27 February 2036. As at 31 December 2020, the mezzanine loan includes an outstanding loan facility of £6,874,000 (2019: £7,083,000), and an effective interest rate adjustment of £(325,000) (2019: £(343,000)) in relation to the mezzanine loan facility. Interest is charged on amounts drawn under the facility at LIBOR + 3.75%. At the year-end, interest payable on the mezzanine facility was £66,000 (2019: £82,000). 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 of £10,922,000 (2019: £11,985,000) includes an unsecured loan facility of £10,413,000 (2019: £10,413,000) due to the immediate parent undertaking, Highway Management (City) Holding Limited, and an effective interest rate adjustment of £128,000 (2019: £63,000) in relation to the subordinated loan facility and is fully repayable by 2036. The subordinated loan facility bears interest at a fixed rate of 11.4%. At the year-end, interest payable on the subordinated loan facility was £381,000 (2019: £1,509,000).

15. Deferred tax

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

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Deferred tax in relation to the effective interest rate adjustment (note 14)	669	749	-	-

The net deferred tax liability expected to reverse in 2021 is £167,000. This primarily relates to the reversal of timing differences on the effective interest rate adjustment. There is no unrecognised deferred tax asset or liability for the group (2019: £nil).

16. Called up share capital

Group and company

Issued, called up and fully paid

	2020		2019	
	No.	£000	No.	£000
Ordinary shares of £1 each	50,100	50	50,100	50

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

17. Related parties

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

	Transactions with related parties		Payables to related parties	
	2020	2019	2020	2019
	£000	£000	£000	£000
BBGI Management HoldCo S.à r.l.	123	120	31	149
BBGI (NI) Limited	1,256	1,251	10,922	11,985

The group incurred directors' fees of £123,000 (2019: £120,000) from BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A. (formerly BBGI SICAV S.A.), the ultimate parent undertaking and controlling party). At the year-end there was £31,000 (2019: £149,000) payable to BBGI Management HoldCo S.à r.l. in respect of directors' fees.

The group incurred interest of £1,256,000 (2019: £1,251,000) on the subordinated loan facility payable to BBGI (NI) Limited (an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A. (formerly BBGI SICAV S.A.), the ultimate parent undertaking and controlling party). At the year-end there was £10,922,000 (2019: £11,985,000) payable to BBGI (NI) Limited in respect of the subordinated loan facility.

18. Parent undertaking

At 31 December 2020 and 31 December 2019, 100% of the company's share capital was held by BBGI (NI) Limited.

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

BBGI Global Infrastructure S.A. (formerly BBGI SICAV S.A.) is the ultimate parent undertaking and controlling party during the years ended 31 December 2020 and 31 December 2019.

The largest and smallest group in which the results of the company are consolidated is that headed by Highway Management (City) Holding Limited, registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD. Copies of the Highway Management (City) Holding Limited financial statements can be obtained from Companies House, 2nd Floor, The Linenhall, 32-38 Linenhall Street, Belfast, BT2 8BG.