Grant Thornton

Financial Statements Road Management Services (Darrington) Limited

For the year ended 31 December 2011

Registered number: 4612119

Company Information

Directors	N Rae D W Bowler L J Henry A Matthews P McCulloch C A Snart S J Usher
Company secretary	Semperian Secretariat Services Limited
Company number	4612119
Registered office	St Martin's House No 1 Gresham Street London EC2V 7BX
Auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Grant Thornton House Melton Street Euston Square London NW1 2EP
Bankers	Citibank NA 5 Carmelite Street London EC4Y 0PA
Solicitors	CMS Cameron McKenna LLP Mitre House 160 Aldersgate Street London EC1A 4DD

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Directors' report

For the year ended 31 December 2011

The directors present their report and the financial statements for the year ended 31 December 2011

Principal activities and business review

On 13 February 2003, the company, entered into a design, build, finance and operate (DBFO) contract with the Secretary of State for the Environment, Transport and the Regions to upgrade the 53km section of the A1(M) in Yorkshire from Darrington to Dishforth

The new construction works comprised two major schemes to upgrade the road to motorway standard

The first scheme was the improvement of the A1 between Darrington and Hook Moor, the junction with the M1 and is referred to as the A1(M) Ferrybridge to Hook Moor Scheme The existing dual two lane all-purpose trunk road has been upgraded to a dual three lane motorway constructed to a new alignment, amounting to 16 5km, bypassing the communities of Knottingley, Ferrybridge, Brotherton and Fairburn

A new junction, Holmfield Interchange, has been built between the A1(M) and the M62, located to the north-west of Wentcliff Hill and to the north of Pontefract, close to Ferrybridge Power Station The interchange caters for six of the possible eight movements between the proposed motorway and the M62 The two movements not accommodated are the M62 westbound to A1 southbound and A1 northbound to M62 eastbound Both of these movements continue to utilise the existing M62/A1 Junction 33 at Ferrybridge Due to free-flow design many of the link roads pass over or under link roads as well as the two motorways, resulting in the need for seven bridges with an additional two to allow the motorway to cross adjacent side roads

The scheme also includes works to de-trunk parts of the existing A1 trunk road, some of which have become two-lane single carriageway roads, handed back to the local highways authority

The second scheme was to upgrade the existing A1 motorway standard between Wetherby and Walshford on a new alignment, amounting to 5 3km of new road to the east of the existing road The motorway is typically dual three lane standard except for a short length of two lane standard at the southbound tie-in with the Wetherby Bypass The existing A1 will be retained for local access purposes and will be de-trunked and handed back to the local highways authority

The company continues to maintain the whole works and will continue to do so in accordance with the requirements of the DBFO contract for the remaining term of the concession

Commencing on 7 May 2003 and for a period of 33 years, the company is receiving annual Congestion Management Payments for carrying out the operation and maintenance of the roads to the satisfaction of the Highways Agency

Directors' report
For the year ended 31 December 2011

Three key performance indicators are used to measure the performance of the company

1 The maximisation of the revenue from the Congestion Management Payments, which require the traffic to be moving at a minimum of 90 kilometres per hour

2 The achievement of cash flow targets as set out in the annual budgets At the year end the actual cash balance exceeded its target

3 The maintenance of the shareholders' internal rate of return as projected in the financial models which are produced on a regular basis A recently updated financial model shows sufficient levels of cash flow for the company to meet its financial obligations to its creditors and to maintain returns to shareholders

Eleven other performance indicators are measured on a monthly basis while a further seventeen are measured either quarterly or annually Each performance target has minimum performance levels and all of these were either matched or improved in the year They cover a broad range of subjects including response times, health and safety, network availability and traffic monitoring

Results and dividends

The profit for the year, after taxation, amounted to £3,756,000 (2010 - £2,699,000)

The directors have paid a dividend of £1,018,000 in the year (2010 £nil)

Directors

The directors who served during the year were

N Rae
D W Bowler
L J Henry
A Matthews
P McCulloch
C A Snart
S J Usher

Principal risks and uncertainties

Risk management policy

The risk management policy of the company is designed to identify and manage risk at the earliest possible point The company keeps a detailed risk register which is formally reviewed by the board on a quarterly basis The principal risks and uncertainties facing the company are broadly grouped as financial instrument and legislative risk

Directors' report
For the year ended 31 December 2011

Financial instrument risks
A subsidiary of the company, Road Management Services (Finance) PLC has raised finance through guaranteed secured bonds and bank borrowings and has on-lent these to Road Management Services (Darrington) Limited, which has placed surplus cash in short term investments

The guaranteed secured bonds have a coupon of 2 8332% index linked and the bank borrowings have a coupon of 2 3774% index linked A proportion of the company's investments are held in an index linked deposit fund to hedge the bond loans The company operates a long-term business and its policy is to finance it with long-term borrowings

The company's exposure to price risk, credit risk, cash flow risk and liquidity risk is detailed below

Price risk
A proportion of the cash flows generated from the roadway concession increase in line with RPI inflaters and this covers all expenditure which is affected by inflation

Credit risk
The roadway concession cash flows are secured under contract from the Highways Agency, a government body

Liquidity risk
The company is required to hold at all times funds in a special reserve account equal to the sum required for the next debt service payment Under the financing armaments the company can elect to make a loan to the shareholders, via its immediate parent undertaking, from this reserve account in return for letters of credit amounting to the same value During 2008 such a loan was made amounting to £9,000,000 In addition the company is required to maintain levels of net cash flow in each year equal to 1 125 times the annual debt service payments

Legislative risk
The company faces legislative risks such as any matters which would materially increase the flow of traffic on the roadway through restrictions placed on traffic movements on any alternative routes, a policy which forces traffic onto this roadway or by major developments in the locality which increases traffic volumes, which could adversely impact the company

Injurious affection (third party) claims

The company has received claims from third parties in respect of noise and nuisance caused by the new road, operated as part of the DBFO contract, for which it has made a provision, representing the directors' current assessment of the likely amount to settle these claims and associated costs, fees and interest, as described in note 16 Should claims eventually exceed the amount provided, this would adversely impact the future profits of the company

Road Management Services (Darrington) Limited

Directors' report

For the year ended 31 December 2011

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information

Auditor

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

This report was approved by the board and signed on its behalf

N Rae
Director

Date 2 April 2012

GrantThornton

Independent auditor's report to the members of Road Management Services (Darrington) Limited

We have audited the financial statements of Road Management Services (Darrington) Limited for the year ended 31 December 2011, which comprise the Profit and loss account, the Balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

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 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) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Auditing Practices Board's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

GrantThornton

Independent auditor's report to the members of Road Management Services (Darrington) Limited

Matters on which we are required to report by exception

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

Mark Cardiff (Senior statutory auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

London (Euston)
Date 3 April 2012

Profit and loss account

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Turnover	1,2	**33,627**	32,588
Other operating charges		**(7,513)**	(6,729)
Operating profit	3	**26,114**	25,859
Interest receivable and similar income	6	**428**	272
Interest payable and similar charges	7	**(22,156)**	(22,383)
Profit on ordinary activities before taxation		**4,386**	3,748
Tax on profit on ordinary activities	8	**(630)**	(1,049)
Profit for the financial year	18	**3,756**	2,699

All amounts relate to continuing operations

There were no recognised gains and losses for 2011 or 2010 other than those included in the Profit and loss account

The notes on pages 9 to 17 form part of these financial statements

Road Management Services (Darrington) Limited
Registered number 4612119

Balance sheet

As at 31 December 2011

	Note	£000	2011 £000	£000	2010 £000
Fixed assets					
Tangible assets	9		**222,320**		224,945
Investments	10		**50**		50
			222,370		224,995
Current assets					
Debtors	11	**38,570**		32,591	
Investments	12	**1,719**		1,698	
Cash at bank		**18,153**		16,923	
		58,442		51,212	
Creditors: amounts falling due within one year	13	**(11,605)**		(12,134)	
Net current assets			**46,837**		39,078
Total assets less current liabilities			**269,207**		264,073
Creditors: amounts falling due after more than one year	14		**(251,429)**		(249,458)
Provisions for liabilities					
Deferred tax	15	**(5,254)**		(4,655)	
Other provisions	16	**(633)**		(807)	
			(5,887)		(5,462)
Net assets			**11,891**		9,153
Capital and reserves					
Called up share capital	17		**525**		525
Profit and loss account	18		**11,366**		8,628
Shareholders' funds	19		**11,891**		9,153

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

Neil Rae

N Rae
Director

Date

The notes on pages 9 to 17 form part of these financial statements

Notes to the financial statements

For the year ended 31 December 2011

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006 These financial statements therefore present information about the company as an individual undertaking and not about its group

1.2 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts

Turnover is recognised to reflect the value of services provided through applying a margin on the expenditure incurred over the life of the contract (including operating costs, depreciation and net finance costs), this margin being reviewed annually by reference to the risk related to the contracts stage of completion and an assessment of overall contract margin anticipated over its 33 year life No margin has been recognised during the construction phase of the concession contract

1.4 FRS 5 Application Note F 'Private finance initiative and similar contracts'

In accordance with the requirements of FRS 5 Application Note F 'Private Finance Initiative and similar Contracts', it has been determined that the balance of risks and rewards derived from the underlying asset is borne by the company and, accordingly, the asset created under the contract has been accounted for as a fixed asset

1 5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Leasehold Property	-	over 30 years
Plant & machinery	-	over 5 to 15 years
Roadway	-	on annuity basis over remaining period of the concessions contract

The annuity basis is deemed to be the most appropriate systematic basis of depreciation, reflecting the consumption of the roadways economic benefit by the company, over its economic life

1.6 Investments

Investments held as fixed assets are shown at cost less provision for impairment

Notes to the financial statements
For the year ended 31 December 2011

1. Accounting policies (continued)

1.7 Deferred taxation

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

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

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are discounted

1.8 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited directly to equity

2. Turnover

The whole of the turnover is attributable to the one principal activity of the company

All turnover arose within the United Kingdom

3. Operating profit

The operating profit is stated after charging

	2011	2010
	£000	£000
Depreciation of tangible fixed assets		
- owned by the company	2,625	2,417

Notes to the financial statements
For the year ended 31 December 2011

4. Auditors' remuneration

	2011 £000	2010 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**16**	16
Fees payable to the company's auditor and its associates in respect of		
Taxation services	**3**	3

5. Staff costs

The company has no employees other than the directors, who did not receive any remuneration (2010 - £NIL)

6. Interest receivable

	2011 £000	2010 £000
Interest receivable on loan to parent undertaking	**141**	55
Other interest receivable	**287**	217
	428	272

7. Interest payable

	2011 £000	2010 £000
Other similar charges payable	**22,156**	22,383

The European Investment Bank (EIB) loan instrument incorporates an embedded derivative in the form of step up interest payable if the credit rating of the guarantor falls below a certain grading For the EIB loan, the AMBAC rating downgrade in November 2008 and April 2009 (to below BBB), has led to additional interest charges of 0 45% and 0 85% respectively Management consider the embedded derivative in this case is likely to be closely related to the host loan payable and so would not be separated

Notes to the financial statements

For the year ended 31 December 2011

8. Taxation

	2011 £000	2010 £000
Analysis of tax charge in the year		
Deferred tax		
Origination and reversal of timing differences on losses	**1,279**	1,140
Effect of decreased tax rate on opening liability	**(585)**	-
Timing difference	**(95)**	(91)
Prior year deferred tax charge on consortium relief	**31**	-
Total deferred tax (see note 15)	**630**	1,049
Tax on profit on ordinary activities	**630**	1,049

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2010 - lower than) the standard rate of corporation tax in the UK of 26 5% (2010 - 28%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	**4,386**	3,748
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 - 28%)	**1,162**	1,049
Effects of:		
Capital allowances for year in excess of depreciation	**93**	91
Utilisation of tax losses	**(1,255)**	(1,140)
Current tax charge for the year (see note above)	**-**	-

Factors that may affect future tax charges

There were no factors that may affect future tax charges

Notes to the financial statements

For the year ended 31 December 2011

9. Tangible fixed assets

	L/Term Leasehold Property £000	Plant & machinery £000	Other fixed assets £000	Total £000
Cost				
At 1 January 2011 and 31 December 2011	**201**	**269**	**235,003**	**235,473**
Depreciation				
At 1 January 2011	**28**	**266**	**10,234**	**10,528**
Charge for the year	**6**	**3**	**2,616**	**2,625**
At 31 December 2011	**34**	**269**	**12,850**	**13,153**
Net book value				
At 31 December 2011	**167**	**-**	**222,153**	**222,320**
At 31 December 2010	173	3	224,769	224,945

The concession to operate the roadway has been acquired from the Highways Agency for a period of thirty three years Expenditure on improvements to the roadway is reflected in the roadway concession asset and includes net capitalised finance costs up to the date of completion of £31,524,000 (2010 - £31,524,000)

10. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2011 and 31 December 2011	**50**
Net book value	
At 31 December 2011	**50**
At 31 December 2010	50

Subsidiary undertakings

The following were subsidiary undertakings of the company

Name	Class of shares	Holding
Road Management Services (Finance) PLC	Ordinary	100%

Notes to the financial statements

For the year ended 31 December 2011

11. Debtors

	2011 £000	2010 £000
Trade debtors	**21**	2,444
Amounts owed by group undertakings	**9,078**	9,043
Amounts owed on loans to shareholders	**408**	439
Other debtors	**5**	5
Prepayments and accrued income	**29,058**	20,660
	38,570	32,591

12. Current asset investments

	2011 £000	2010 £000
Listed investments	**1,719**	1,698

Listed investments

The market value of the listed investments at 31 December 2011 was £1,719k (2010 - £1,698k)

13. Creditors: Amounts falling due within one year

	2011 £000	2010 £000
Loan from parent company	**1,043**	1,116
Loan from subsidiary undertaking	**8,831**	9,191
Trade creditors	**50**	50
Other taxation	**558**	464
Other creditors	**-**	50
Accruals and deferred income	**1,123**	1,263
	11,605	12,134

Notes to the financial statements

For the year ended 31 December 2011

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

	2011 £000	2010 £000
Bank loans	**251,429**	249,458

Included within the above are amounts falling due as follows

	2011 £000	2010 £000
Between one and two years		
Bank loans	**7,120**	7,663
Between two and five years		
Bank loans	**21,331**	21,339
Over five years		
Bank loans	**222,978**	220,456

Creditors include amounts not wholly repayable within 5 years as follows

	2011 £000	2010 £000
Repayable by instalments	**222,978**	220,456

Loans falling due after more than one year include

£113,240,000 Secured Guaranteed Sterling Index Linked Bond due 2035, listed on the London Stock Exchange, with a coupon rate of 2 8332% per annum index linked, repayable in six monthly instalments commencing 31 March 2007

£105,000,000 European Investment Bank at an interest rate of 2 3774% per annum index linked, repayable in six monthly instalments commencing 31 March 2007

The Bond and EIB loan are secured by charges and assignments in favour of Road Management Services (Finance) PLC and over all the assets of Road Management Services (Darrington) Limited

The Bond and bank loan have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued, by the monoline insurer AMBAC

Subordinated debt facility of £18,339,950 provided by the shareholders in equal amounts Repayable in six monthly instalments commencing on 31 March 2008 over the period to the end of the concession agreement Interest is charged at 10%

Notes to the financial statements
For the year ended 31 December 2011

15. Deferred taxation

	2011 £000	2010 £000
At beginning of year	**4,655**	3,607
Charge for year	**599**	1,048
At end of year	**5,254**	4,655

The provision for deferred taxation is made up as follows

	2011 £000	2010 £000
Accelerated capital allowances	**7,449**	8,441
Tax losses carried forward	**(2,195)**	(3,786)
	5,254	4,655

16. Provisions

	Injurious affection provision £000
At 1 January 2011	**807**
Additions	**(174)**
At 31 December 2011	**633**

Injurious affection provision

The company has received claims in respect of noise and nuisance caused by the new road, operated as part of the DBFO contract The company is currently in the process of assessing and agreeing these claims At 31 December 2011, £632,916 is held as a provision, representing the directors' current assessment of the likely amount to settle all legitimate claims and associated costs, fees and interest These sums are expected to be paid during 2012 and thereafter

17. Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid		
525,248 Ordinary shares of £1 each	**525**	525

Notes to the financial statements

For the year ended 31 December 2011

18. Reserves

	Profit and loss account £000
At 1 January 2011	**8,628**
Profit for the year	**3,756**
Dividends Equity capital	**(1,018)**
At 31 December 2011	**11,366**

19. Reconciliation of movement in shareholders' funds

	2011 £000	2010 £000
Opening shareholders' funds	**9,153**	5,929
Profit for the year	**3,756**	2,699
Dividends (Note 20)	**(1,018)**	-
Shares issued during the year	-	525
Closing shareholders' funds	**11,891**	9,153

20. Dividends

	2011 £000	2010 £000
Dividends paid on equity capital (£1 94 per ordinary share)	**1,018**	-

21. Related party transactions

The company has taken advantage of the exemption in paragraph 3c of FRS 8 from disclosing transactions with related parties that are part of the Road Management Services (Darrington) Holdings Limited group

22. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Road Management Services (Darrington) Holdings Limited, a company registered in England and Wales It has included the company in its group financial statements, copies of which are available from its registered office St Martin's House, No 1 Gresham Street, London EC2V 7BX Road Management Services (Darrington) Holdings Limited is jointly owned and controlled by Semperian PPP Holdings Limited, AM Holdco Limited, Kellogg Brown & Root Limited and A1 PPP Infrastructure Holdings Limited