

# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

## **REPORT AND ACCOUNTS**

### **FOR THE YEAR ENDED**

**31 DECEMBER 2002**



Company Registration No: 2939644

## **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

### **Directors**

A C Roper (alternate to D Potts)  
P G Shell  
M J Mercer-Deadman  
E G Barron  
D Potts  
H Gilbey

### **Company Secretary**

A A Swift

### **Auditors**

KPMG LLP  
8 Salisbury Square  
London  
EC4Y 8BB

### **Principal Bankers**

HSBC

### **Lawyers**

CMS Cameron McKenna  
Mitre House  
160, Aldersgate Street  
London  
EC1A 4DD

### **Registered office**

24 Birch Street  
Wolverhampton  
WV1 4HY

## **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

### **REPORT OF THE DIRECTORS**

The Directors submit their report together with financial statements for the year ended 31 December 2002.

### **PRINCIPAL TRADING ACTIVITIES**

The principal activity of the Group is to carry on the business of the design, financing, construction and operation of the property and undertaking known as the M40 motorway, junctions 1 to 15, pursuant to and in accordance with the terms of an agreement with Her Majesty's Secretary of State for Transport which was signed by UK Highways M40 Limited, a wholly owned subsidiary, on 8 October 1996.

The consolidated profit on ordinary activities after taxation for the year was £888,000 (2001: £530,000)

The directors recommend the payment of a dividend of £500,000 (2001: £Nil)

### **SHARE CAPITAL**

Details of the authorised and issued share capital are shown in note 17.

### **CHARITABLE AND POLITICAL CONTRIBUTIONS**

The group made no charitable or political contributions during the year.

### **DIRECTORS**

The following directors held office during the year:

|                    |   |
|--------------------|---|
| AC Roper           | (resigned 22 <sup>nd</sup> May 2002)                                      |
| J S Rushton        | (appointed 22 <sup>nd</sup> May 2002, resigned 8 <sup>th</sup> July 2002) |
| R W Robinson       | (resigned 26 <sup>th</sup> March 2003)                                    |
| P G Shell          |   |
| M J Mercer-Deadman |   |
| E G Barron         |   |
| D Potts            | (appointed 22 <sup>nd</sup> May 2002)                                     |

### **Alternate Directors**

|           |                        |                                       |
|-----------|------------------------|---------------------------------------|
| D Potts   | Alternate to A C Roper | (resigned 22 <sup>nd</sup> May 2002)  |
| A C Roper | Alternate to D Potts   | (appointed 22 <sup>nd</sup> May 2002) |

### **DIRECTORS' INTERESTS**

No director has, or has held at any time during the year, any interest in the share capital of the Company.

No director has a service contract with or receives any remuneration from the Company. No director has, or had during the year, any personal interest in any significant or material contract with the Company.

## **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

### **REPORT OF THE DIRECTORS (continued)**

#### **POLICY ON PAYMENT OF CREDITORS**

It is the Group's policy to comply with the terms of supply agreed with suppliers. Where payment terms are not negotiated the Group endeavours to adhere with the suppliers' standard terms. The average creditors days outstanding for the Group at the year end was 26 (2001: 38). The Company is an investment holding company and so an equivalent number for the Company would not be meaningful.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Board is responsible to the Shareholders for all aspects of the Group's performance and meets on a regular basis to review the strategic direction of the Group and to monitor performance against an approved business plan and budget.

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

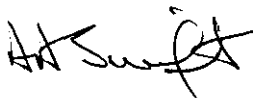
The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and all applicable rules and regulations are observed, and, where appropriate, to external advisors.

#### **AUDITORS**

Pursuant to a shareholders resolution the Company is not obliged to reappoint auditors annually and KPMG LLP, having so agreed, will therefore continue in office.

**By Order of the Board**



**For and on behalf of UK Highways M40 Holdings Ltd  
Company Secretary**

15<sup>th</sup> April 2003

**Registered Office: 24 Birch Street, Wolverhampton, WV1 4HY**

## **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

### **Independent auditors' report to the members of UK Highways M40 Limited**

We have audited the financial statements on pages 6 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

London

22 April 2003

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

|   | Note | 2002<br>£'000 | 2001<br>£'000 |
|---|------|---------------|---------------|
| Turnover                                      | 3    | 22,239        | 21,616        |
| Net operating costs                           | 4    | (14,711)      | (14,030)      |
| Operating profit                              |      | 7,528         | 7,586         |
| Interest receivable and similar income        | 6    | 2,919         | 1,032         |
| Interest payable and similar charges          | 7    | (9,180)       | (7,844)       |
| Profit on ordinary activities before taxation |      | 1,267         | 774           |
| Taxation                                      | 8    | (379)         | (244)         |
| Profit after taxation                         |      | 888           | 530           |
| Dividend proposed                             |      | (500)         | -             |
| Profit for the financial year                 | 18   | 388           | 530           |

All gains and losses are recognised in the profit and loss account.

There is no difference between the results as stated and the results on a historical cost basis.

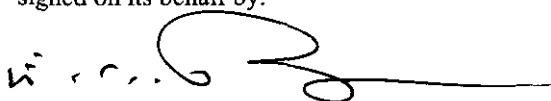
All items in the profit and loss account relate to continuing operations.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2002

|  |      | Group          |                | Company       |               |
|--|------|----------------|----------------|---------------|---------------|
|  | Note | 2002<br>£'000  | 2001<br>£'000  | 2002<br>£'000 | 2001<br>£'000 |
| <b>FIXED ASSETS</b>  |      |                |                |               |               |
| Tangible assets  | 9    | 77,233         | 79,661         | -             | -             |
| Investments  | 10   | 46,074         | 43,912         | 3,500         | 3,550         |
|  |      | <u>123,307</u> | <u>123,573</u> | <u>3,500</u>  | <u>3,550</u>  |
| <b>CURRENT ASSETS</b>  |      |                |                |               |               |
| Debtors - due within one year                                  | 11   | 2,679          | 2,439          | 1,116         | 663           |
| Debtors - due after more than one year                         | 11   | 11,656         | 7,936          | 11,608        | 12,000        |
|  |      | <u>14,335</u>  | <u>10,375</u>  | <u>12,724</u> | <u>12,663</u> |
| Cash at bank and in hand                                       |      | 15,112         | 21,738         | -             | -             |
|  |      | <u>29,447</u>  | <u>32,113</u>  | <u>12,724</u> | <u>12,663</u> |
| <b>CREDITORS: amounts falling due within one year</b>          | 12   | <u>(6,154)</u> | <u>(8,226)</u> | <u>(941)</u>  | <u>(536)</u>  |
| <b>NET CURRENT ASSETS</b>                                      |      | <u>23,293</u>  | <u>23,887</u>  | <u>11,783</u> | <u>12,127</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <u>146,600</u> | <u>147,460</u> | <u>15,283</u> | <u>15,677</u> |
| <b>CREDITORS: amounts falling due after more than one year</b> | 13   | (134,694)      | (136,095)      | (11,608)      | (12,000)      |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>                  | 15   | (5,260)        | (5,107)        | -             | -             |
| <b>NET ASSETS</b>  |      | <u>6,646</u>   | <u>6,258</u>   | <u>3,675</u>  | <u>3,677</u>  |
| <b>CAPITAL AND RESERVES</b>                                    |      |                |                |               |               |
| Called up share capital  |      |                |                |               |               |
| Allotted, called up and fully paid                             | 17   | 3,550          | 3,550          | 3,550         | 3,550         |
| Profit and loss account  |      | 3,096          | 2,708          | 125           | 127           |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>                              | 18   | <u>6,646</u>   | <u>6,258</u>   | <u>3,675</u>  | <u>3,677</u>  |

The financial statements on pages 6 to 18 were approved by the Board of Directors on 15 April 2003 and were signed on its behalf by:

  
Director

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

|   | Note | 2002<br>£'000  | 2001<br>£'000  |
|---|------|----------------|----------------|
| <b>Net cash inflow from operating activities</b>            | 19   | <b>4,366</b>   | <b>12,688</b>  |
| <b>Returns on investments and servicing of finance</b>      |      |                |                |
| Interest received   |      | 774            | 532            |
| Interest paid   |      | (10,357)       | (8,440)        |
|   |      | <b>(9,583)</b> | <b>(7,908)</b> |
| <b>Net cash (outflow)/inflow before capital expenditure</b> |      | <b>(5,217)</b> | <b>4,780</b>   |
| <b>Capital expenditure and financial investment</b>         |      |                |                |
| Payments to acquire fixed assets                            |      | -              | (8)            |
| <b>Net cash (outflow)/inflow before financing</b>           |      | <b>(5,217)</b> | <b>4,772</b>   |
| <b>Financing</b>  |      |                |                |
| Repayment of main loan                                      |      | (2,647)        | (70,645)       |
| Repayment of loan notes                                     |      | (392)          | (4,500)        |
| New loan facility   |      | 1,630          | 131,370        |
| Issue costs   |      | -              | (3,792)        |
| Purchase of EIB Zero Coupon Bond                            |      | -              | (43,451)       |
| <b>(Decrease)/Increase in cash</b>                          | 20   | <b>(6,626)</b> | <b>13,754</b>  |

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Accounting Standards in the United Kingdom and comply with the Companies Act 1985. A summary of the principal accounting policies, which have been consistently applied, is shown below.

#### Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of UK Highways M40 (Holdings) Limited and its subsidiary undertaking. The financial statements of each company in the Group are prepared to 31 December.

#### Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

- (i) leasehold properties and improvements, being the depots covered by the Concession Agreement.
- (ii) infrastructure assets, being that section of the M40 road covered by the Concession Agreement (the "Project Road") together with its associated landscaping and over/under bridges.
- (iii) other assets, including fixed electrical and mechanical equipment, plant and machinery and fixtures and fittings.

#### Leasehold properties

These were handed over to the Group at nil value. Improvements to the leasehold properties are depreciated upon commissioning, over the remaining life of the leasehold or concession, whichever is the shorter.

#### Infrastructure assets

The Project Road was handed over to the Group at nil value. All expenditure on the Project Road specified in the Concession Agreement as related to increased capacity is treated as additions, which are included at cost less depreciation.

Depreciation is charged on additions over the life of the concession pro rata to usage. Annual depreciation is a function of the proportion of traffic for the year over the total estimated traffic for the period of the concession.

#### Other assets

Depreciation is calculated on a straight line basis in order to write down the costs of assets to their estimated residual value over their expected useful lives as follows:

|                                      |            |
|--------------------------------------|------------|
| Mechanical and electrical equipment  | 10 years   |
| Plant, machinery and other equipment | 3-10 years |
| Fixtures and fittings                | 3-5 years  |

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Fixed Asset Investments

Fixed asset investments are held at cost (including accrual interest income on zero coupon bonds) less provision for any impairment. Cost includes rolled up notional interest which is calculated on a sum of the digits method reflecting the economic benefits received by the Company.

### Major Maintenance

Provision for major maintenance of the Project Road is based on the expenditure required to maintain the Project Road in the condition laid down in the Concession Agreement. The provision made in the year reflects the costs to be borne by the Company in making good the damage sustained by the road in the year. The annual cost of repair is calculated with reference to the expenditure required over the life of the Concession to maintain the Project Road to the specified standard and the annual traffic movements which give rise to the damage. Expenditure is charged against the balance sheet provision as and when incurred, and to the extent that expenditure exceeds the amount provided to date, the balance is disclosed as a prepayment.

### Deferred Taxation

The calculation of the charge for taxation takes into account taxation deferred because of timing differences in the treatment of certain items for taxation and accounting purposes. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet.

### Capitalised Interest

Interest costs incurred on borrowings to fund construction of additions to the Project Road were capitalised during the construction period. Capitalisation ceased once the additions were commissioned.

## 2. COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in the financial statements. The loss after taxation dealt with in the financial statements of the Company was £2,000 (2001 : £7,000 loss)

## 3. TURNOVER

|                       | 2002<br>£'000 | 2001<br>£'000 |
|-----------------------|---------------|---------------|
| Shadow tolls          | 21,959        | 21,616        |
| Other revenue         | 280           | -             |
| Turnover for the year | <u>22,239</u> | <u>21,616</u> |

Turnover relates wholly to amounts paid under the Concession Agreement and is considered to be one class of business.

## UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

### 4. NET OPERATING COSTS

|   | 2002<br>£'000 | 2001<br>£'000 |
|---|---------------|---------------|
| Fees paid to auditors:                    |               |               |
| Audit services                            | 14            | 13            |
| Other services                            | 6             | 20            |
| Major maintenance provision (see note 11) | 4,581         | 4,038         |
| UK Highways Services Ltd (see note 21)    | 6,831         | 6,462         |
| Depreciation                              | 2,428         | 2,373         |
| Other operating charges – others          | 851           | 1,124         |
|   | <u>14,711</u> | <u>14,030</u> |

Fees paid to the auditors for audit services on behalf of the Company amounted to £2,000 (2001: £2,000)

### 5. STAFF NUMBERS AND COSTS AND EMOLUMENTS OF DIRECTORS

The directors did not receive any remuneration during the year or the previous year. Fees are due to the shareholding companies for the services of the directors. The amounts were £15,000 (2001: £15,000) per shareholding, a total of £30,000 (2001: £30,000).

The group had no employees during either period.

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

|                                   | 2002<br>£'000 | 2001<br>£'000 |
|-----------------------------------|---------------|---------------|
| Amounts receivable:               |               |               |
| Bank accounts and deposits        | 757           | 571           |
| Interest on EIB zero coupon bonds | 2,162         | 461           |
|                                   | <u>2,919</u>  | <u>1,032</u>  |

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

|                                     | 2002<br>£'000 | 2001<br>£'000 |
|-------------------------------------|---------------|---------------|
| Amounts payable:                    |               |               |
| On bank loans and overdrafts        | 7,204         | 5,293         |
| Interest on shareholder loan notes  | 1,776         | 2,449         |
| Amortisation of finance issue costs | 200           | 102           |
|                                     | <u>9,180</u>  | <u>7,844</u>  |

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 8. TAXATION

|  | 2002<br>£'000 | 2001<br>£'000 |
|--|---------------|---------------|
| Current year taxation  |               |               |
| UK Corporation Tax payable at 30%  | 226           | -             |
| Deferred Tax (see note 15)   | 167           | 252           |
| Prior year   |               |               |
| Deferred Tax (see note 15)   | (14)          | (8)           |
|  | <u>379</u>    | <u>244</u>    |
|  |               |               |
|  | 2002<br>£000  | 2001<br>£000  |
| <b>Current tax reconciliation</b>  |               |               |
| Profit on ordinary activities before tax   | 1,267         | 781           |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 : 30%) | 381           | 234           |
| <i>Effects of:-</i>  |               |               |
| Expenses not deductible for tax purposes   | 8             | -             |
| Capital allowances for the period in excess of depreciation  | (146)         | (168)         |
| Provisions not allowed until paid  | (9)           | 9             |
| Movement in provisions not allowed for tax purposes  | (8)           | (8)           |
| Increase in trade losses carried forward   | -             | 50            |
| Utilisation of non-trade debits  | -             | (117)         |
| Current tax charge for the year  | <u>226</u>    | <u>-</u>      |

### Factors that may affect future tax charges

The company expects to be in a position to claim capital allowances in excess of depreciation in future periods.

The company has trade losses available to carry forward of around £2m, which will be available to set against trading profits arising in future periods (see note 15).

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 9. TANGIBLE FIXED ASSETS

|                                 | Short<br>Leasehold<br>Properties and<br>Improvements<br>£'000 | Infrastructure<br>Asset<br>£'000 | Vehicles, Plant<br>and Equipment<br>£'000 | Total<br>£'000 |
|---------------------------------|---|----------------------------------|---|----------------|
| <u>Cost or valuation</u>        |   |                                  |   |                |
| At 1 January 2002               | 828   | 85,011                           | 754                                       | 86,593         |
| <b>At 31 December 2002</b>      | <b>828</b>  | <b>85,011</b>                    | <b>754</b>                                | <b>86,593</b>  |
| <u>Accumulated depreciation</u> |   |                                  |   |                |
| At 1 January 2002               | 54  | 6,630                            | 248                                       | 6,932          |
| Charge for the year             | 31  | 2,325                            | 72  | 2,428          |
| <b>At 31 December 2002</b>      | <b>85</b>   | <b>8,955</b>                     | <b>320</b>                                | <b>9,360</b>   |
| <u>Net book value</u>           |   |                                  |   |                |
| <b>At 31 December 2002</b>      | <b>743</b>  | <b>76,056</b>                    | <b>434</b>                                | <b>77,233</b>  |
| At 31 December 2001             | 774   | 78,381                           | 506                                       | 79,661         |

The Group has the right to the benefits derived from the operation of the Concession fixed assets throughout the term of the Concession, but in certain instances has no legal title to those assets. The Group's subsidiary has an obligation to maintain the Concession fixed assets throughout the Concession period and to hand them back to the Secretary of State at the end of the Concession in an agreed condition.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 10. FIXED ASSET INVESTMENTS

|  | Group<br>EIB bond | Company<br>Interest in Group<br>Undertakings |
|--|-------------------|--|
| Cost   | £'000             | £'000  |
| At 1 January 2002                                      | 43,912            | 3,550  |
| Interest   | 2,162             | -  |
| Write-off of interest in group undertaking (see below) | -                 | (50)   |
| At 31 December 2002                                    | 46,074            | 3,500  |

The Company's subsidiary undertaking, UK Highways M40 Limited, holds seven zero coupon bonds which mature between 2010 and 2021. The average yield on these bonds is 5%. These bonds will be used to fund major maintenance works on the motorway as and when they fall due.

The interest is being recognised in the profit and loss account, even though no interest is received in cash, to spread the receipt of interest over the life of the bonds. The interest is being rolled up into the fixed asset investment and will be realised in cash when the bonds mature.

The only subsidiary undertaking is UK Highways M40 Limited, which is wholly owned and whose only activity is the design, building, finance and operation of the M40 motorway.

The company also had a second wholly owned subsidiary, UK Highways M40 Finance plc, which was wound up during the course of the year. The investment in the shares of the company (£50,000) has been written-off.

HSBC, acting as Security Trustee, has a registered mortgage over the whole of the share capital of UK Highways M40 Limited.

## 11. DEBTORS

|   | Group         |               | Company       |               |
|---|---------------|---------------|---------------|---------------|
|   | 2002<br>£'000 | 2001<br>£'000 | 2002<br>£'000 | 2001<br>£'000 |
| Due within one year:                              |               |               |               |               |
| Amounts owed by subsidiary undertaking            | -             | -             | 616           | 663           |
| Dividends receivable from subsidiary undertakings | -             | -             | 500           | -             |
| Prepayments and accrued income                    | 2,325         | 2,303         | -             | -             |
| Other debtors                                     | 354           | 136           | -             | -             |
|   | 2,679         | 2,439         | 1,116         | 663           |
| Due after more than one year                      |               |               |               |               |
| Major maintenance prepayment                      | 11,656        | 7,936         | -             | -             |
| Loan notes  | -             | -             | 11,608        | 12,000        |
|   | 11,656        | 7,936         | 11,608        | 12,000        |

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 11. DEBTORS (continued)

The major maintenance prepayment is comprised of the following elements:

|  | £'000   |
|--|---------|
| Balance at 1 January 2002                  | 7,936   |
| Charge for the year                        | (4,581) |
| Spend in year – Carillion Construction Ltd | 7,668   |
| Spend in year – Hyder Consulting Ltd       | 607     |
| Other                                      | 26      |
|  | <hr/>   |
| Balance at 31 December 2002                | 11,656  |
|  | <hr/>   |

During the year the Company was repaid £392,000 on its loan notes to its subsidiary, UK Highways M40 Limited. Interest on the remaining loan notes is charged at 15% per annum and they are repayable by 1 May 2026, or before if funds allow.

## 12. CREDITORS – amounts falling due within one year

|   | Group |       | Company |       |
|---|-------|-------|---------|-------|
|   | 2002  | 2001  | 2002    | 2001  |
|   | £'000 | £'000 | £'000   | £'000 |
| Bank loans (see note 14)                          | 2,806 | 2,614 | -       | -     |
| Trade creditors:                                  |       |       |         |       |
| - Related Parties (see note 21)                   | 802   | 482   | 439     | 531   |
| - Others  | 395   | 3,364 | -       | -     |
| Other creditors including tax and social security | -     | 90    | -       | -     |
| Corporation tax                                   | 224   | -     | -       | -     |
| Accruals and deferred income                      | 1,427 | 1,676 | 2       | 5     |
| Dividend proposed                                 | 500   | -     | 500     | -     |
|   | <hr/> | <hr/> | <hr/>   | <hr/> |
|   | 6,154 | 8,226 | 941     | 536   |
|   | <hr/> | <hr/> | <hr/>   | <hr/> |

## 13. CREDITORS – amounts falling due after more than one year

|                                      | Group   |         | Company |        |
|--------------------------------------|---------|---------|---------|--------|
|                                      | 2002    | 2001    | 2002    | 2001   |
|                                      | £'000   | £'000   | £'000   | £'000  |
| Bank loans (see note 14)             | 123,086 | 124,095 | -       | -      |
| Unsecured loan notes to shareholders | 11,608  | 12,000  | 11,608  | 12,000 |
|                                      | <hr/>   | <hr/>   | <hr/>   | <hr/>  |
|                                      | 134,694 | 136,095 | 11,608  | 12,000 |
|                                      | <hr/>   | <hr/>   | <hr/>   | <hr/>  |

## UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

### 13. CREDITORS – amounts falling due after more than one year (continued)

The borrowings are repayable as follows:

|                            | 2002<br>£'000 | 2001<br>£'000 |
|----------------------------|---------------|---------------|
| Within one year            | 2,806         | 2,614         |
| Between one and two years  | 2,993         | 2,772         |
| Between two and five years | 10,148        | 9,432         |
| Greater than five years    | 114,406       | 116,552       |
|                            | <hr/> 130,353 | <hr/> 131,370 |
| Less issue costs           | (4,461)       | (4,661)       |
|                            | <hr/> 125,892 | <hr/> 126,709 |

During the year £392,000 of unsecured loan notes were repurchased from the shareholders. Interest on the outstanding loan notes is charged at 15% per annum and they are repayable by 1 May 2026, or before if funds available.

Issue costs are amortised over the length of the loan in accordance with FRS 4.

### 14. BANK LOANS

The Group has a £133 million facility provided by a syndicate of banks with HSBC Bank plc acting as agent in order to finance the Project Road as contracted in the Concession Agreement. Interest on the facility is charged at a fixed rate above LIBOR. The loan is repayable in instalments over the next 23 years. The banks have step-in rights to replace the Group as the Concession Group in certain circumstances.

The Group has interest rate swaps with a total notional principal of £90 million at fixed rates payable at 5.155%. All the swaps expire in September 2008.

### 15. PROVISION FOR LIABILITIES AND CHARGES

Financial Reporting Standard 19 has been adopted in the current year and full provision has been made for deferred taxation as follows:-

|   | 2002<br>£'000 | 2001<br>£'000 |
|---|---------------|---------------|
| Differences between accumulated depreciation and capital allowances | 3,544         | 3,319         |
| Other timing differences  | 2,324         | 2,384         |
| Tax losses  | (608)         | (596)         |
|   | <hr/> 5,260   | <hr/> 5,107   |

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

## 16. CAPITAL COMMITMENTS

There was no capital expenditure contracted but not provided at 31 December 2002 (2001: £nil)

## 17. CALLED UP SHARE CAPITAL

|                     | Authorised |            | Allotted, Issued & Fully Paid |           |
|---------------------|------------|------------|-------------------------------|-----------|
|                     | No         | £          | No                            | £         |
| At 31 December 2001 | 40,000,000 | 40,000,000 | 3,550,000                     | 3,550,000 |
| At 31 December 2002 | 40,000,000 | 40,000,000 | 3,550,000                     | 3,550,000 |

## 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|                                     | 2002<br>£'000 | 2001<br>£'000 |
|-------------------------------------|---------------|---------------|
| Profit for the financial year       | 388           | 530           |
| Net movement in shareholders' funds | 388           | 530           |
| Opening shareholders' funds         | 6,258         | 5,728         |
| Closing shareholders' funds         | 6,646         | 6,258         |

## 19. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|   | 2002<br>£'000 | 2001<br>£'000 |
|---|---------------|---------------|
| Operating profit                                    | 7,528         | 7,586         |
| (Increase)/decrease in debtors                      | (257)         | 854           |
| (Decrease)/increase in creditors                    | (1,613)       | 1,746         |
| (Increase)/decrease in major maintenance prepayment | (3,720)       | 129           |
| Non-cash expense (depreciation)                     | 2,428         | 2,373         |
| Net cash inflow from operating activities           | 4,366         | 12,688        |

## UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

### 20. ANALYSIS OF CHANGES IN NET DEBT

|                            | 2002             | Cash Flow      | Other<br>non-cash<br>Movement | 2001             |
|----------------------------|------------------|----------------|-------------------------------|------------------|
|                            | £'000            | £'000          | £'000                         | £'000            |
| Cash at bank               | 15,112           | (6,626)        | -                             | 21,738           |
| Bank debt                  | (125,892)        | 1,017          | (200)                         | (126,709)        |
| Loan notes to shareholders | (11,608)         | 392            | -                             | (12,000)         |
|                            | <u>(122,388)</u> | <u>(5,217)</u> | <u>(200)</u>                  | <u>(116,971)</u> |

### 21. RELATED PARTY TRANSACTIONS

The shareholders of UK Highways M40 (Holdings) Ltd are Carillion Private Finance Ltd, which owns 50%, Laing Infrastructure Holdings Ltd, which owns 5% and Hyder Investments Ltd, which owns 45%. Laing Infrastructure Holdings Ltd and Hyder Investments Ltd are both wholly owned subsidiaries of Laing Investments Ltd.

UK Highways Services Limited, which is a company jointly owned by Laing Investments Limited, Carillion Construction Limited, CDC Projets S.A. and Transroute International S.A., is contracted to carry out the routine operations and maintenance required on the motorway. The value of work done is disclosed in note 4.

Carillion Construction Limited has been appointed as major maintenance contractor. The value of work done by Carillion Construction Ltd is disclosed in note 11.

The shareholders and UK Highways Management Services Limited, a company controlled jointly by Carillion Private Finance Limited and Laing Investments Limited provide seconded staff and other support services to the Group to allow the Group to perform its functions. These costs are included within other operating costs in note 4.

The amounts outstanding from and to related parties at the year end are disclosed in notes 11 and 12 respectively.