

UK HIGHWAYS M40 (HOLDINGS) PLC
(Formerly UK Highways plc)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1997

Company Registration No: 02939644



UK HIGHWAYS M40 (HOLDINGS) PLC

Directors

J Armstrong
S N Jones
P M Cremieux
H L Gilliet
M J Lavers
B Pellard
K Cottrell
R Weston

Company Secretaries

R G Curtis LLB ACIS
Mrs S A Brooks

Auditors

KPMG

Registered office

PO Box 295,
Alexandra Gate,
Rover Way,
Cardiff, CF2 2UE

UK HIGHWAYS M40 (HOLDINGS) PLC

REPORT OF THE DIRECTORS

The Directors submit their report together with financial statements for the year ended 31 December 1997.

CHANGE OF NAME

The Company name was changed from UK Highways plc to UK Highways M40 (Holdings) plc on 9 May 1997.

PRINCIPAL TRADING ACTIVITIES

The principal activity of the Group is to carry on the business of the design, financing, construction and operation, or procuring the design, construction, financing 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 Initial Maintenance Works between junctions 6 and 8 were successfully completed ahead of schedule during the year and progress on the widening at junctions 1A to 3 has been satisfactory to date.

The consolidated profit on ordinary activities after taxation for the year was £3,677,000 (1996; nil).

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the authorised and issued share capital are shown in note 14.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The group made no charitable or political contributions during the year

DIRECTORS

The following directors held office during the year:

J Armstrong	
A Y Evans	(Resigned 19 January 1998)
J M James	(Resigned 23 January 1998)
S N Jones	
P M Cremieux	
H L Gilliet	
M J Lavers	
B Pellard	
K Cottrell	(Appointed 23 January 1998)
R Weston	(Appointed 19 January 1998)

UK HIGHWAYS M40 (HOLDINGS) PLC

REPORT OF THE DIRECTORS (continued)

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.

POLICY ON PAYMENT OF CREDITORS

It is policy to comply with the terms of supply agreed with suppliers. Where payment terms are not negotiated the Company endeavours to adhere with the suppliers' standard terms. The average creditors days outstanding for the Group was 18, the Company is an investment holding company and so an equivalent number for the Company would not be meaningful.

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 1997. 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 Joint Company Secretaries, who are responsible for ensuring that Board procedures and all applicable rules and regulations are observed, and, where appropriate, to external advisors.

AUDITORS

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

By Order of the Board


R G Curtis LLB ACIS and Mrs S A Brooks
Joint Company Secretaries

5 May 1998

Registered Office: PO Box 295, Alexandra Gate, Rover Way, Cardiff, CF2 2UE

AUDITORS' REPORT

To the members of UK HIGHWAYS M40 (HOLDINGS) PLC

We have audited the financial statements on pages 4 to 14.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 Group'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 1997 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
Chartered Accountants
Registered Auditors
London

6 May 1998

UK HIGHWAYS M40 (HOLDINGS) PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	6 months to 31 December 1996 £'000
Turnover	3	15,863	-
Net operating costs	4	(10,845)	(2,839)
Own costs capitalised		240	2,837
Operating profit/(loss)		5,258	(2)
Interest receivable		72	2
Interest payable and similar charges		(3,251)	(72)
Interest costs capitalised		3,251	72
Profit on ordinary activities before taxation		5,330	-
Taxation	6	(1,653)	-
Profit for the year		3,677	-

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

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

UK HIGHWAYS M40 (HOLDINGS) PLC

BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	Group 1997 £'000	1996 £'000	Company 1997 £'000	1996 £'000
FIXED ASSETS					
Tangible assets	7	52,675	11,126	-	-
Investments	8	-	-	11,000	11,000
		<u>52,675</u>	<u>11,126</u>	<u>11,000</u>	<u>11,000</u>
CURRENT ASSETS					
Debtors - due within one year	9	7,710	469	123	905
Debtors - due after more than one year	9	8,786	-	-	-
Cash at bank and in hand		566	281	59	211
		<u>17,062</u>	<u>750</u>	<u>182</u>	<u>1,116</u>
CREDITORS: amounts falling due within one year	10a	<u>(4,132)</u>	<u>(8,089)</u>	<u>(11,132)</u>	<u>(1,066)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>12,930</u>	<u>(7,339)</u>	<u>(10,950)</u>	<u>50</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		65,605	3,787	50	11,050
CREDITORS: amounts falling due after more than one year	10b	(60,225)	(3,737)	-	(11,000)
Provisions for liabilities and charges	12	(1,653)	-	-	-
NET ASSETS		<u>3,727</u>	<u>50</u>	<u>50</u>	<u>50</u>
CAPITAL AND RESERVES					
Called up share capital					
Allotted, called up and fully paid	14	50	50	50	50
Profit and loss account		3,677	-	-	-
		<u>3,727</u>	<u>50</u>	<u>50</u>	<u>50</u>
SHAREHOLDERS' FUNDS	15	3,727	50	50	50

The financial statements on pages 4 to 14 were approved by the Board of Directors on 5 May 1998 and were signed on its behalf by:



Director

UK HIGHWAYS M40 (HOLDINGS) PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	6 months to 31 December 1996 £'000
Net cash outflow from operating activities	16	<u>(9,692)</u>	<u>(590)</u>
Returns on investments and servicing of finance			
Interest received		72	2
Interest paid		<u>(2,477)</u>	<u>-</u>
		(2,405)	2
Capital expenditure and financial investment			
Payments to acquire fixed assets		(44,106)	(2,990)
Net cash outflow before financing		<u>(56,203)</u>	<u>(3,578)</u>
Financing			
Bank facility drawdown		56,488	3,737
Increase in cash	17	<u>285</u>	<u>159</u>

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

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.

The company has taken advantage of the exemption under FRS8 not to disclose transactions with other group undertakings.

Basis of consolidation

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

Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

- (i) 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, and
- (ii) other assets, including fixed electrical and mechanical equipment, plant and machinery and fixtures and fittings.

(i) 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 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.

Additions in the course of construction are not depreciated until commissioned.

(ii) 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

Major Maintenance

Provision for major maintenance of the Project Road is based on an evaluation of expenditure required over the whole of the concession in order to maintain the Project Road in the condition laid down by the Concession Agreement. An annual assessment is carried out of the maintenance

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

provision made to date and the provision required for the future on traffic volumes and movements in the Retail Price Index, and the annual charge to the profit and loss account is able to take account of the conclusions of such assessments, including adjustment for any shortfall in prior years' provision. 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

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Capitalised Interest

Interest costs incurred on borrowings to fund construction of additions to the Project Road are capitalised during the construction period. Capitalisation ceases once the additions have been 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 profit after taxation dealt with in the financial statements of the Company was nil (1996 - nil).

3. TURNOVER

	1997 £'000	6 months to 31 December 1996 £'000
Turnover for the year	15,863	-

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

4. NET OPERATING COSTS

	1997 £'000	6 months to 31 December 1996 £'000
Fees paid to auditors:		
Audit services	13	9
Other services	18	207
Major maintenance provision	3,833	-
UK Highways Services Ltd	5,768	-
Sponsor support	301	103
Other operating charges - others	1,292	2,976
Other income - related parties	(380)	(330)
Other income - others	-	(126)
	10,845	2,839

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

5. STAFF NUMBERS AND COSTS AND EMOLUMENTS OF DIRECTORS

The directors did not receive any remuneration during the year or the previous period.

The company had no employees during either period. Costs relating to staff seconded from sponsor companies are included in sponsor support costs disclosed in note 4.

6. TAXATION

	1997 £'000	1996 £'000
Current Year taxation		
Corporation Tax at 31.5%	-	-
Deferred Tax at 31%	1,653	-
	<u>1,653</u>	<u>-</u>

7. TANGIBLE FIXED ASSETS

<u>Group</u>	Leasehold Properties and Improvements £'000	Assets in the course of construction £'000	Vehicles, plant and equipment £'000	Total £'000
<u>Cost or valuation</u>				
At 1 January 1997	8	10,660	458	11,126
Adjustments	(8)	-	-	(8)
Additions - TLJV *	-	37,343	-	37,343
Additions - Transroute SA	-	-	180	180
Additions - other	-	543	-	543
Own costs capitalised	-	238	2	240
Interest costs capitalised	-	3,251	-	3,251
	<u>-</u>	<u>52,035</u>	<u>640</u>	<u>52,675</u>
<u>At 31 December 1997</u>	<u>-</u>	<u>52,035</u>	<u>640</u>	<u>52,675</u>
<u>Accumulated depreciation</u>				
At 1 January 1997	-	-	-	-
Charge for the year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>At 31 December 1997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net book value</u>				
<u>At 31 December 1997</u>	<u>-</u>	<u>52,035</u>	<u>640</u>	<u>52,675</u>
<u>At 31 December 1996</u>	<u>8</u>	<u>10,660</u>	<u>458</u>	<u>11,126</u>

* Tarmac Laing Joint Venture

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

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 Company 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.

The Company had no tangible fixed assets during the year.

8. FIXED ASSET INVESTMENTS

Company

Interests in Group Undertakings:	1997 £'000	1996 £'000
Cost at 31 December	<u>11,000</u>	<u>11,000</u>

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

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

9. DEBTORS

	Group 1997 £'000	1996 £'000	Company 1997 £'000	1996 £'000
Due within one year:				
VAT	1,734	263	-	-
Other debtors	10	-	-	-
Amounts owed by subsidiary undertakings	-	-	-	905
Amounts owed by related parties	123	-	123	-
Prepayments and accrued income	5,843	206	-	-
	<u>7,710</u>	<u>469</u>	<u>123</u>	<u>905</u>
Due after more than one year:				
Major maintenance prepayment	<u>8,786</u>	-	-	-

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

The major maintenance prepayment is comprised of the following elements:

	£'000
Balance at 1 January 1997	-
Charge for the year	(3,833)
Spend in year - Tarmac Laing Joint Venture	12,433
Spend in year - UK Highways Services Ltd	58
Spend in year - Hyder Consulting Ltd	21
Spend in year - other	107
Balance at 31 December 1997	<u>8,786</u>

10. CREDITORS

	Group 1997 £'000	1996 £'000	Company 1997 £'000	1996 £'000
(a) Amounts falling due within one year				
Trade creditors				
- Related Parties	2,747	7,788	10	-
- Others	60	229	8	857
Amounts owed to subsidiary undertakings	-	-	11,114	-
Other creditors	847	72	-	209
Accruals and deferred income	478	-	-	-
	<u>4,132</u>	<u>8,089</u>	<u>11,132</u>	<u>1,066</u>
(b) Amounts falling due after more than one year				
Bank loans (see note 11)	60,225	3,737	-	-
Amounts owed to subsidiary undertakings	-	-	-	11,000
	<u>60,225</u>	<u>3,737</u>	<u>-</u>	<u>11,000</u>

11. BANK LOANS

The Group has an £85 million facility provided by a syndicate of banks, with Midland Bank PLC acting as agent, in order to finance the construction work on the Project Road as contracted in the Concession Agreement. Interest on this facility is charged at 1.3% over LIBOR. The loan is repayable in instalments over the next 20 years. The banks have step-in rights to replace UK Highways M40 Limited as the Concession Company in certain circumstances.

The Group has interest rate swaps with a total notional principal of £ 38 million and fixed rates payable of between 7.115% and 7.45%. All the swaps expire in July 1999.

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

12. PROVISION FOR LIABILITIES AND CHARGES

Group	1997 £'000	1996 £'000
Deferred tax	<u>1,653</u>	<u>—</u>

Deferred tax is provided in full for timing differences which are expected to reverse. All timing differences related to Other Timing Differences.

13. CAPITAL COMMITMENTS

	1997 £'000	1996 £'000
Capital expenditure contracted but not provided in the financial statements	<u>25,000</u>	<u>77,000</u>

14. CALLED UP SHARE CAPITAL

At 31 December 1996 and 1997	Authorised		Allotted, Issued & Fully Paid	
	No.	£	No.	£
"L" Ordinary shares of £1	8,000,000	8,000,000	10,000	10,000
"T" Ordinary shares of £1	8,000,000	8,000,000	10,000	10,000
"CDC/Tr" Ordinary shares of £1	8,000,000	8,000,000	10,000	10,000
"H" Ordinary shares of £1	16,000,000	16,000,000	20,000	20,000
	<u>40,000,000</u>	<u>40,000,000</u>	<u>50,000</u>	<u>50,000</u>

On 3 October 1996, a further 11,000,000 Ordinary shares of £1 each were allotted as unpaid shares. These shares are subject to a Deed of Charge over Uncalled Capital in favour of UK Highways M40 Limited in respect of share capital issued in that company:

	No.
"L" Ordinary shares of £1	2,200,000
"T" Ordinary shares of £1	2,200,000
"CDC/Tr" Ordinary shares of £1	2,200,000
"H" Ordinary shares of £1	4,400,000
	<u>11,000,000</u>

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the financial year	3,677	-
Net movement in shareholders' funds	3,677	-
Opening shareholders' funds	50	-
Shares to be issued	-	50
Closing shareholders' funds	3,727	50

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1997 £'000	1996 £'000
Operating profit	5,258	(2)
Increase in debtors	(7,241)	(107)
Increase/(decrease) in creditors	1,077	(481)
Increase in major maintenance prepayment	(8,786)	-
	(9,692)	(590)

17. ANALYSIS OF CHANGES IN NET DEBT

	1997 £'000	1996 £'000	Movement £'000
Cash at bank	566	281	285
Bank debt	(60,225)	(3,737)	(56,488)
	(59,659)	(3,456)	(56,203)

UK HIGHWAYS M40 (HOLDINGS) PLC

YEAR ENDED 31 DECEMBER 1997

NOTES TO THE ACCOUNTS (Continued)

18. RELATED PARTY TRANSACTIONS

The shareholders of UK Highways M40 (Holdings) plc are Tarmac (PFI) Limited, JL Infrastructure Holdings Limited, Hyder Investments Limited, Caisse de Depots et Consignations (CDC) and Transroute International S.A. (a subsidiary of CDC).

The Tarmac Laing Joint Venture (TLJV), an unincorporated joint venture between Tarmac and Laing, is contracted to carry out the widening works between junctions 1A to 3. Transroute S.A. was contracted to provide traffic measuring equipment for the Company. The value of the work done by these parties is disclosed in note 7.

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

The TLJV was also contracted to carry out the Initial Maintenance Works between junctions 6 and 8. UK Highways Services Limited carried out some major maintenance work in addition to its routine contracted work. Hyder Consulting Limited has been appointed as major maintenance consultant. The value of work done by these parties is disclosed in note 9.

The shareholders and UK Highways Management Services Limited, a company controlled jointly by Hyder Investments Limited, Tarmac (PFI) Limited and John 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 as sponsor support costs in note 4. The shareholders are also charged for certain operating costs of the Company. This income is disclosed under note 4 as other income - related parties.

The amounts outstanding to related parties at the year end are disclosed in note 9.