

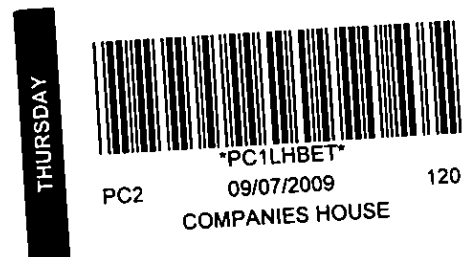
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# **UK HIGHWAYS M40 (HOLDINGS) LIMITED**

## **REPORT AND ACCOUNTS**

### **FOR THE YEAR ENDED**

**31 DECEMBER 2008**



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

### **Directors**

M J Mercer-Deadman

N Smith

I R Gethin

A C M Rhodes

### **Company Secretary**

R K Miller

### **Auditors**

KPMG LLP

2 Cornwall Street

Birmingham

B3 2DL

### **Principal Bankers**

HSBC

8 Canada Square,

London

E14 5HQ,

United Kingdom

### **Lawyers**

CMS Cameron McKenna

Mitre House

160, Aldersgate Street

London

EC1A 4DD

### **Registered office**

Allington House

150 Victoria Street

London

SW1E 5LB

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

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with financial statements for the year ended 31 December 2008.

## **PRINCIPAL TRADING ACTIVITIES**

The principal activity of the Company is to act as a holding company, with a single subsidiary UK Highways M40 Limited.

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.

## **BUSINESS REVIEW**

### **Business and Financial Performance**

Income and expenditure have been broadly in line with budgeted expectations. Turnover is linked to traffic volumes in a non-linear way; the charging mechanism is such that volume changes have to be very significant to impact materially on reported turnover. Risks to turnover from normal traffic fluctuations are therefore seen to be relatively small. All operational costs are on fixed long-term contracts and again risks to these costs are perceived as being small.

### **Liquidity Risk**

The company is highly geared and therefore has financial instruments swap agreements in place which match the senior loan amounts outstanding at any one time, thereby mitigating any risk to interest rate fluctuations. The company has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

### **Solvency & Performance of Sub-contractors**

The directors manage this risk through close involvement in the operations of the project and regular monitoring of performance. The client has the ability to levy financial penalties in the event that performance standards are not met or the road is not fully available at busy times of traffic usage. These risks are mitigated by the company as the contract allows these deductions to be passed down to sub-contractors.

### **Key Performance Indicators**

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following sections.

This year's traffic volumes on the M40 have decreased by 1% for cars and 4.5% for HGVs over the same period last year. In the previous year, traffic volumes increased by 1 % and 4 % respectively. The two factors which impacted on the traffic flows were increased fuel prices and a general downturn in the economy. Despite the decrease in traffic volumes, revenue in the period has risen as a result of retail price index increases which drive revenue received per kilometre.

Penalty points are awarded by the client for poor or substandard performance, as stipulated in the contract, and these are monitored regularly by the Board. The project consistently produces acceptable results and few penalty points are accumulated at any one time.

Principal major maintenance work undertaken in the year on the M40 included resurfacing major sections between J1a to 12.

### **Health & Safety Performance**

Health and safety reports are provided at every board meeting and are reviewed regularly by directors. The Board considers any events which would indicate a pattern for further review and action if required. The health and safety of the project is considered to be satisfactory.

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

### **Forecasts**

The Board regularly reviews costs and traffic levels against forecasts and accident statistics are compared against benchmarks. Traffic is monitored against independent forecasts provided by our advisors and costs are measured against both our own budgets and benchmarked against similar sub-contracts on other projects.

### **Lifecycle**

The company is responsible for all lifecycle costs on the project. The directors manage this through close involvement in the project and regular monitoring of its performance. Regular surveys are done on the condition of the road and a full review of lifecycle forecasts is done every three years.

The profit on ordinary activities after taxation for the year was £4,522,000 (2007: profit of £3,500,000)

The directors do not recommend the payment of a dividend.

## **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:

M J Mercer-Deadman	
D Potts	(resigned 22 <sup>nd</sup> October 2008)
I R Gethin	
A C M Rhodes	
W R Doughty	(resigned 3 <sup>rd</sup> March 2008)
P A J Couldery	(resigned 22 <sup>nd</sup> October 2008)
A Parzych	(resigned 22 <sup>nd</sup> October 2008)
D Rushton	(resigned 22 <sup>nd</sup> October 2008)
N Smith	(appointed 22 <sup>nd</sup> October 2008)

## **COMPANY SECRETARY**

R K Miller

## **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 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 39 (2007: 27).

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

### **DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are aware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **AUDITORS**

Pursuant to Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

**By Order of the Board**

**For and on behalf of UK Highways M40 (Holdings) Limited**

**Director**

A handwritten signature in black ink, consisting of a stylized 'D' followed by a long horizontal stroke.

**29 June 2009**

**Registered Office: Allington House, 150 Victoria Street, London. SW1E 5LB**

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

### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards, and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the 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; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

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

We have audited the group and parent company financial statements (the "financial statements") of UK Highways M40 (Holdings) Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*  
2 Cornwall Street  
Birmingham B3 2DL

29 June 2009

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
Turnover	3	27,996	24,933
Net operating costs	4	(15,588)	(21,067)
<b>Operating profit</b>		<b>12,408</b>	<b>3,866</b>
Interest receivable and similar income	6	2,436	5,340
Interest payable and similar charges	7	(8,734)	(9,663)
<b>Profit/(Loss) on ordinary activities before taxation</b>		<b>6,110</b>	<b>(457)</b>
Tax on (profit)/loss on ordinary activities	8	(1,588)	3,957
<b>Retained Profit/Loss for the financial year</b>	18	<b>4,522</b>	<b>3,500</b>

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.

The results reported above derive from continuing operations in a single class of business within the United Kingdom.

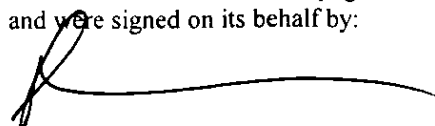


# UK HIGHWAYS M40 (HOLDINGS) LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2008

		Group		Company	
	Note	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>FIXED ASSETS</b>					
Tangible assets	9	61,384	64,188	-	-
Investments	10	61,728	60,022	3,500	3,500
		<u>123,112</u>	<u>124,210</u>	<u>3,500</u>	<u>3,500</u>
<b>CURRENT ASSETS</b>					
Debtors - due within one year	11	7,076	3,258	2,702	2,962
Debtors - due after more than one year	11	-	-	10,301	10,301
		<u>7,076</u>	<u>3,258</u>	<u>13,003</u>	<u>13,263</u>
Cash at bank and in hand		14,158	13,865	7	7
		<u>21,234</u>	<u>17,123</u>	<u>13,010</u>	<u>13,270</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(9,887)</u>	<u>(9,777)</u>	<u>(2,542)</u>	<u>(2,801)</u>
<b>Net Current Assets</b>					
Due within one year		<u>11,347</u>	<u>7,346</u>	<u>167</u>	<u>168</u>
Due after more than one year		<u>-</u>	<u>-</u>	<u>10,301</u>	<u>10,301</u>
		<u>11,347</u>	<u>7,346</u>	<u>10,468</u>	<u>10,469</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>134,459</u>	<u>131,556</u>	<u>13,968</u>	<u>13,969</u>
<b>CREDITORS: amounts falling due after more than one year</b>	13	<u>(121,411)</u>	<u>(123,924)</u>	<u>(10,301)</u>	<u>(10,301)</u>
<b>PROVISIONS FOR LIABILITIES</b>	15	<u>(1,864)</u>	<u>(970)</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		<u>11,184</u>	<u>6,662</u>	<u>3,667</u>	<u>3,668</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	18	7,634	3,112	117	118
		<u>11,184</u>	<u>6,662</u>	<u>3,667</u>	<u>3,668</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>11,184</u>	<u>6,662</u>	<u>3,667</u>	<u>3,668</u>

The financial statements on pages 8 to 20 were approved by the Board of Directors on 29 June 2009 and were signed on its behalf by:

  
A C M Rhodes  
Director

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

## **CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £'000	2007 £'000
<b>Net cash inflow from operating activities</b>	19	12,657	10,660
<b>Returns on investments and servicing of finance</b>			
Interest received		731	1,042
Interest paid		(9,290)	(8,784)
<b>Net cash outflow from returns on investment and servicing of finance</b>		(8,559)	(7,742)
<b>Net cash inflow before financing</b>		4,098	2,918
<b>Financing</b>			
Repayment of main loan		(3,805)	(3,591)
Repayment of loan notes		-	-
<b>Net cash outflow from financing</b>		(3,805)	(3,591)
<b>Increase/(Decrease) in cash</b>	20	293	(673)

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

## 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 UK Highways M40 Limited. 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 2008**

**NOTES TO THE ACCOUNTS (Continued)**

## **1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **Fixed Asset Investments**

Fixed asset investments are held at cost (including accrued 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 wear and tear 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 wear and tear. 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 or accrual.

### **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.

### **Interest Rate Fluctuations**

Interest rate swaps are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match net income or cost with the related finance expense. These amounts are accounted for on a cost basis.

### **PFI Accounting**

The construction and operation of the road is a PFI project. Applying the guidance within Financial Reporting Standard (FRS) 5 application note F indicates that the project's principal agreements do not substantially transfer all the risks and rewards of ownership. As such the costs incurred by the Company on the design and construction of the road have been treated as a fixed asset in these accounts.

## **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 £1,000 (2007: £1,000).

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## 3. TURNOVER

	2008 £'000	2007 £'000
Shadow tolls	27,604	23,921
Other revenue	392	1,012
Turnover for the year	<u>27,996</u>	<u>24,933</u>

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

## 4. NET OPERATING COSTS

	2008 £'000	2007 £'000
Auditor's Remuneration		
Fees payable to the company's auditor for the audit of the annual accounts	15	14
Fees payable to the company's auditor and its associates for other services – Taxation services	6	6
Major maintenance provision (see note 13)	5,521	7,008
Carillion Highways Maintenance Ltd	5,884	3,345
UK Highways Services Ltd	-	7,092
Other operating charges – others (see note 21)	1,358	864
Operating charges	<u>12,784</u>	<u>18,329</u>
Depreciation	<u>2,804</u>	<u>2,738</u>
Net operating costs	<u>15,588</u>	<u>21,067</u>

Fees paid to the auditors for audit services on behalf of the Company amounted to £nil (2007: £ nil)

## 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 (2007: £15,000) per shareholding, a total of £30,000 (2007: £30,000). The group had no employees during either period.

## 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £'000	2007 £'000
Amounts receivable:		
Bank accounts and deposits	730	1,311
Interest on EIB zero coupon bonds	1,706	4,029
	<u>2,436</u>	<u>5,340</u>

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'000	2007 £'000
Amounts payable:		
On bank loans and overdrafts	6,568	7,718
Interest on shareholder loan notes	1,965	1,745
Amortisation of finance issue costs	201	200
	<hr/>	<hr/>
	8,734	9,663
	<hr/>	<hr/>

## 8. TAXATION

### a. Analysis of tax charge for the year

	2008 £'000	2007 £'000
UK Corporation tax payable at 28.5% (2007: 30%)	694	
Total current tax	<hr/> 694	<hr/> -
Deferred tax (see note 15)		
Origination and reversal of timing differences	1,033	(138)
Impact of change in rate to 28%	-	(69)
Adjustment in respect of previous periods		(3)
	(139)	
Impact of change in legislation	<hr/> -	<hr/> (3,747)
Total deferred tax	894	(3,957)
	<hr/>	<hr/>
Total tax on loss on ordinary activities	1,588	(3,957)
	<hr/>	<hr/>

### b. Factors affecting the tax charge for the year

The tax charge assessed on the profit/(loss) on ordinary activities is lower than (2007: lower than) the standard rate of the corporation tax in the UK as explained below.

	2008 £000	2007 £000
Profit/(Loss) on ordinary activities before tax	6,110	(456)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	1,742	(137)
Effects of:-		
Expenses not deductible for tax purposes	3	3
Depreciation in excess of/(less than) capital allowances	109	(55)
Movement in provisions not allowed for tax purposes	(8)	(8)
(Decrease)/increase in trade losses carried forward	(1,155)	197
Change in corporation tax rate	4	-
	<hr/>	<hr/>
Current tax charge for the year	694	-
	<hr/>	<hr/>

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## 8. TAXATION (Continued)

### c. Factors affecting future tax charges

The group has trade losses available to carry forward of around £1,325,000 (2007: £5,379,000) which will be available to set against trading profits arising in future periods.

## 9. TANGIBLE FIXED ASSETS

	Short Leasehold Properties and Improvements £'000	Infrastructure Asset £'000	Vehicles, Plant and Equipment £'000	Total £'000
<u>Cost or valuation</u>				
At 1 January 2008 and 31 December 2008	828	85,011	758	86,597
<u>Accumulated depreciation</u>				
At 1 January 2008	240	21,484	685	22,409
Charge for the year	31	2,700	73	2,804
At 31 December 2008	271	24,184	758	25,213
<u>Net book value</u>				
At 31 December 2008	557	60,827	-	61,384
At 31 December 2007	588	63,527	73	64,188

Included within infrastructure assets is £9,332,216 (2007: £9,332,216) of interest capitalised during the construction phase. The NBV of interest capitalised is £6,676,327 (2007 : £6,971,586)

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.

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## UK HIGHWAYS M40 (HOLDINGS) LIMITED

### 10. FIXED ASSET INVESTMENTS

	Group EIB bond	Company Interest in Group Undertakings
Cost	£'000	£'000
At 1 January 2008	60,022	3,500
Interest	1,706	-
At 31 December 2008	61,728	3,500

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

The interest in respect of these bonds 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 company's 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.

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	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Due within one year:				
Amounts owed by subsidiary undertaking	-	-	2,702	2,962
Accrued income	7,050	3,234	-	-
Prepayments	26	24	-	-
	7,076	3,258	2,702	2,962
Due after more than one year				
Loan notes	-	-	10,301	10,301
	-	-	10,301	10,301



# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## 11. DEBTORS (continued)

During the year the Company was repaid £Nil 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 re-payable by 1 May 2026, or before if funds allow.

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

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank loans (see note 14)	4,043	3,804	-	-
Trade creditors:				
- Related Parties (see note 21)	2,573	2,832	2,542	2,801
- Others	55	789	-	-
Other creditors including tax and social security	501	395	-	-
Corporation Tax	694	-	-	-
Accruals and deferred income	2,021	1,957	-	-
	<u>9,887</u>	<u>9,777</u>	<u>2,542</u>	<u>2,801</u>

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

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank loans (see note 14)	103,302	107,145	-	-
Unsecured loan notes to shareholders	10,301	10,301	10,301	10,301
Major maintenance accrual	7,808	6,478	-	-
	<u>121,411</u>	<u>123,924</u>	<u>10,301</u>	<u>10,301</u>

The major maintenance accrual is comprised of the following elements:

	£'000
Balance at 1 January 2008	(6,478)
Charge for the year	(5,521)
Spend in year:	
Carillion Highways Maintenance Ltd	2,460
Enterprise (AOL) Ltd	1,492
Others	239
Balance as at 31 December 2008	<u>(7,808)</u>

## UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

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

The borrowings are repayable as follows:

	2008 £'000	2007 £'000
Within one year	4,043	3,804
Between one and two years	4,296	4,043
Between two and five years	13,327	13,699
Greater than five years	88,936	92,861
	<u>110,602</u>	<u>114,407</u>
Less issue costs	(3,257)	(3,458)
	<u>107,345</u>	<u>110,949</u>

Interest on the outstanding loan notes is charged at 15% per annum and they are repayable by 1 May 2026, or before if funds are available.

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

### 14. BANK LOANS

Bank borrowings relate to term loan facilities granted on 8<sup>th</sup> October 1996 by a banking syndicate with HSBC PLC acting as agent. The loan facility is for a total value of £133m. As at 31<sup>st</sup> December 2008 a total of £110,602,000 was drawn on this facility.

Loan issue costs in respect of these facilities have been deducted for the gross proceeds of the bank borrowings and are being amortised over the period of the facility as part of the finance costs in accordance with the provisions of FRS4.

The loan is repayable in six monthly instalments. Repayments commenced on 31 March 2002 and they are due to end on 31<sup>st</sup> March 2025.

Interest is charged on the facility based on floating libor. In the current year a swap agreement was entered in respect of the facility which fixes the interest rate at 3.84% to 31<sup>st</sup> March 2025. The fair value of this instrument at 31<sup>st</sup> December 2008 was a liability of £3,016,888.

The facility is secured by way of a first legal mortgage over the leasehold property.

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

## 15. PROVISION FOR LIABILITIES

	Group Deferred Tax £'000	
At beginning of period	970	
Profit and loss account credit	894	
<b>At end of period</b>	<b>1,864</b>	
<b>The balance provided at 28% (2007: 28%) comprises:</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Other timing differences	2,235	2,474
Tax Losses	(371)	(1,504)
	<b>1,864</b>	<b>970</b>

## 16. CAPITAL COMMITMENTS

There was no capital expenditure contracted but not provided at 31 December 2008 (2007: £nil )

## 17. CALLED UP SHARE CAPITAL

Ordinary Share Capital	Authorised		Allotted, Issued & Fully Paid	
	No	£	No	£
At 31 December 2007	40,000,000	40,000,000	3,550,000	3,550,000
At 31 December 2008	40,000,000	40,000,000	3,550,000	3,550,000

## 18. RESERVES

	Group 2008 £'000	Company 2008 £'000
<b>Opening Reserves</b>	<b>3,112</b>	<b>118</b>
 Profit/(Loss) for the Financial Year	 4,522	 (1)
<b>At 31<sup>st</sup> December 2008</b>	<b>7,634</b>	<b>117</b>

# UK HIGHWAYS M40 (HOLDINGS) LIMITED

YEAR ENDED 31 DECEMBER 2008

NOTES TO THE ACCOUNTS (Continued)

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

	2008 £'000	2007 £'000
Operating profit	12,408	3,866
(Increase) in debtors	(4,081)	(162)
(Decrease) in creditors	1,544	4,218
Non-cash expense (depreciation)	2,804	2,738
Movements in deferred income	(18)	-
<b>Net cash inflow from operating activities</b>	<b>12,657</b>	<b>10,660</b>

## 20. ANALYSIS OF CHANGES IN NET DEBT

	2008 £'000	Cash Flow £'000	Other non-cash Movement £'000	2007 £'000
Cash at bank	14,158	293	-	13,865
Bank debt	(107,345)	3,805	(201)	(110,949)
Loan notes to shareholders	(10,301)	0	-	(10,301)
	<b>(103,488)</b>	<b>4,098</b>	<b>(201)</b>	<b>(107,385)</b>

Non cash movements comprise amortisation of debt issue costs.

## 21. RELATED PARTY TRANSACTIONS

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.

## 22. ULTIMATE PARENT COMPANY

As at 31<sup>st</sup> December 2008, 50% of the share capital of the company was held by John Laing Investments Limited whose ultimate parent and controlling entity is Henderson Infrastructure Holdco (Jersey) Limited, a company incorporated in Jersey, Channel Islands. The remaining 50% of share capital was held by Trillium Subholdings M40 Limited (formerly M40 GP Limited), a subsidiary of Trillium PPP Investment Partners No. 2 Limited, a company registered in England and Wales.

Subsequent to the balance sheet date Trillium Subholdings M40 Limited changed its name to Semperian Subholdings M40 Limited, a subsidiary of Semperian PPP Investment Partners No. 2 Limited, a company registered in England and Wales.