UK HIGHWAYS M40 (HOLDINGS) LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2012

Registered Number 2939644

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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DIRECTORS AND ADVISORS

Directors

M J Mercer-Deadman	(resigned 24 January 2012)
N Smith	(resigned 29 January 2013)
I R Gethin	
N Rae	
D Bradbury	(appointed 24 January 2012)
D Palmer	(appointed 29 January 2013)

Company secretary and registered office
M Lewis
1 Kingsway
London
WC2B 6AN

Auditor
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Principal bankers
HSBC
8 Canada Square
London
E14 5HQ
United Kingdom

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

DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 31 December 2012

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 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 Group 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 Group 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 Group as the contract allows these deductions to be passed down to sub-contractors

Going Concern

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate More information is provided in note 1 to the financial statements

KEY PEFORMANCE INDICATORS

The Group'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 0 6% for cars and 0 1% for HGVs over the same period last year In the prior year, traffic volumes increased by 3 1% and 3 6% respectively The decrease is attributed to the depressed economic environment during 2012

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

Major maintenance work undertaken in the year on the M40 consisted primarily of repairs to structures and refurbishment of age related assets

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

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 Group 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

DIRECTORS' REPORT (continued)

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation for the year was £2,486,000 (2011 profit of £4,057,000)

During the year the Company paid a dividend of £4,270,000 (2011 £3,398,000)

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

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 25 (2011 34)

DIRECTORS

The Directors who served throughout the year are shown on page 1

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

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- As far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and

- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006

Pursuant to sections 485-488 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will continue in office

On behalf of the Board

N Rae
Director
23 April 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether 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 Company will continue in business

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

We have audited the group and parent company financial statements of UK Highways M40 (Holdings) Limited for the year ended 31 December 2012 which comprise the Consolidated Profit and Loss account, the Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jacqueline Holden

Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 April 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
Turnover	3	**28,671**	28,699
Net operating costs		**(21,885)**	(19,240)
Operating profit	4	**6,786**	9,459
Net interest payable	7	**(3,679)**	(4,142)
Profit on ordinary activities before taxation		**3,107**	5,317
Tax on profit on ordinary activities	8	**(621)**	(1,260)
Profit for the financial year	18	**2,486**	4,057

A reconciliation of movements in shareholders' funds is given in note 19

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

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents

All gains and losses are recognised in the profit and loss account in both the current and preceding year, and therefore no separate statement of total recognised gains and losses has been presented

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	10	**49,772**	52,781
Investments	11	**66,598**	63,442
		116,370	116,223
Current assets			
Debtors- due within one year	12	**6,929**	6,882
Cash at bank and in hand		**13,116**	12,863
		20,045	19,745
Current liabilities			
Creditors amounts falling due within one year	13	**(26,684)**	(20,262)
Net current liabilities		**(6,639)**	(517)
Total assets less current liabilities		**109,731**	115,706
Creditors amounts falling due after more than one year	13	**(96,035)**	(100,000)
Provision for liabilities	15	**(1,491)**	(1,717)
Net assets		**12,205**	13,989
Capital and reserves			
Called up share capital	17	**3,550**	3,550
Profit and loss account	18	**8,655**	10,439
Shareholders' funds	19	**12,205**	13,989

The consolidated financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 23 April 2013 They were signed on its behalf by

Neil Rae

N Rae
Director
23 April 2013

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments	11	**3,500**	3,500
Current assets			
Debtors		**10,210**	10,423
- due within one year	12	**404**	410
- due after more than one year	12	**9,806**	10,013
Cash at bank and in hand		**6**	6
		10,216	10,429
Current liabilities			
Creditors amounts falling due within one year	13	**(498)**	(470)
Net current assets		**9,718**	9,959
Total assets less current liabilities		**13,218**	13,459
Creditors amounts falling due after more than one year	13	**(9,554)**	(9,795)
Net assets		**3,664**	3,664
Capital and reserves			
Called up share capital	17	**3,550**	3,550
Profit and loss account	18	**114**	114
Shareholders' funds	19	**3,664**	3,664

The financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 23 April 2013 They were signed on its behalf by

Neil Rae

N Rae
Director
23 April 2013

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	21	**16,478**	10,776
Returns on investments and servicing of finance			
Interest received		**105**	90
Interest and other financing costs paid		**(5,513)**	(6,660)
Net cash outflow from returns on investments and servicing of finance		**(5,408)**	(6,570)
Taxation		**(1,499)**	(1,504)
Equity dividends paid		**(4,270)**	(3,398)
Net cash inflow/(outflow) before use of liquid resources and financing		**5,301**	(696)
Financing			
Repayment of secured loan		**(4,841)**	(4,562)
Repayment of loan notes		**(207)**	(121)
Net cash outflow from financing		**(5,048)**	(4,683)
Increase/(decrease) in cash in the year	22	**253**	(5,379)

Notes to the financial statements for the year ended 31 December 2012

1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Accounting Standards in the United Kingdom and comply with the Companies Act 2006 A summary of the principal accounting policies adopted by the Directors, which have been applied consistently throughout the current and preceding year, is shown below

Company
The Company exists to hold investments in its subsidiary that provides services under a private finance agreement The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Group
The Directors have considered the ability of key sub-contractors to continue to meet contractual commitments and do not consider there to be a material risk

The Group's forecasts and projections show that the Company expects to be able to continue to operate

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

a) 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 A reconciliation of movements in shareholder's funds is given in Note 19

b) 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

c) Leasehold properties
These were handed over to the Group at nil value Improvements to the leasehold properties are recorded at cost and are depreciated upon commissioning, over the remaining life of the leasehold or concession, whichever is the shorter

d) 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

e) 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

f) 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 Income from investments is included in the profit and loss account as declared

Notes to the financial statements for the year ended 31 December 2012 (continued)

ACCOUNTING POLICIES (continued)

g) 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 charge 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 Cash expenditure is charged against the balance sheet accrual as and when incurred, and to the extent that cash expenditure exceeds the amount provided to date, the balance is disclosed as a prepayment or accrual

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 The annual cost of repair to structural and other assets is calculated with respect to the duration of the concession The future cost has been discounted at a rate of 8 5% The unwinding of the discount is recognised in the income statement with other finance costs

h) Deferred Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

In accordance with FRS19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax assets are not discounted

i) 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

j) 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

k) 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 to the group 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

l) Turnover
Turnover is derived entirely in the United Kingdom and is recognised net of VAT, to the extent that the Company obtains the right to consideration in exchange for its performance Revenue is earned based on the number of vehicles using the road during the year on the contractually agreed rates, and is recognised as earned

m) Cash
Cash comprises cash at bank and in hand and short term deposits with original maturity of less than three months

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in the financial statements The profit after taxation incurred in the financial statements of the Company was £4,270,000 (2011 profit £3,398,000)

3 TURNOVER

	Group 2012 £'000	Group 2011 £'000
Turnover in the year is analysed as follows		
Shadow tolls	**26,038**	25,463
Additional works revenue	**2,633**	3,236
	28,671	28,699

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

4 OPERATING PROFIT

	Group 2012 £'000	Group 2011 £'000
Operating profit is stated after charging		
Fees payable to the Group's auditor for the audit of the annual accounts	**13**	13
Fees payable to the Group's auditor and its associates for other services – Taxation services	**5**	5
Major maintenance (see note 13)	**8,497**	6,305
Operational costs	**9,562**	9,223
Other operating charges	**799**	749
Depreciation and amortisation	**3,009**	2,944

5 DIRECTORS' REMUNERATION

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 £50,000 (2011 £50,000) per shareholding, a total of £100,000 (2011 £100,000)

6 STAFF NUMBERS AND COSTS

The Group had no employees during the year (2011 - nil)

7 NET INTEREST PAYABLE

	Group 2012 £'000	Group 2011 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	**114**	88
Interest on EIB zero coupon bonds	**3,156**	3,006
	3,270	3,094
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	**(4,322)**	(4,557)
Interest payable to shareholder loan notes	**(1,506)**	(1,526)
Amortised of finance issue costs	**(201)**	(200)
Other finance costs - unwinding of discount on major maintenance accrual	**(920)**	(953)
	(6,949)	(7,236)
Net interest payable	**(3,679)**	(4,142)

Notes to the financial statements for the year ended 31 December 2012 (continued)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group 2012 £'000	Group 2011 £'000
Analysis of tax charge for the year		
Current tax		
UK corporation tax	**(856)**	(1,510)
Adjustments in respect of prior year	**9**	10
Total current tax	**(847)**	(1,500)
Deferred tax		
Deferred tax - Current year	**226**	240
Total deferred tax	**226**	240
Total tax charge on profit on ordinary activities	**(621)**	(1,260)

Factors affecting tax charge for the current year

For the year ended 31 December 2012, the blended UK rate of 24 5% is applied due to the change in the UK corporation tax rate from 26% to 24% with effect from 1 April 2012

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows

	Group 2012 £'000	Group 2011 £'000
Profit on ordinary activities before taxation	**3,107**	5,317
Profit on ordinary activities multiplied by the blended rate of corporation tax in the UK of 24 5% (2011 - 26 5%)	**(761)**	(1,408)
Effects of		
Origination and reversal of timing differences	**(95)**	(102)
Adjustments in respect of previous years	**9**	10
Total current tax charge for the year	**(847)**	(1,500)

Factors affecting future tax charges

The Group has trade losses available to carry forward of £nil (2011 £nil) available to set against trading profits arising in future periods

9 DIVIDENDS

	Group 2012 £'000	Group 2011 £'000
Equity shares		
Interim and final dividend paid of £1 20 (2011 £0 97) per £1 share	**(4,270)**	(3,398)

Notes to the financial statements for the year ended 31 December 2012 (continued)

10 TANGIBLE FIXED ASSETS

	Short Leasehold Properties and Improvements £'000	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Cost				
At 1 January 2012	828	85,011	765	86,604
At 31 December 2012	828	85,011	765	86,604
Depreciation				
At 1 January 2012	(364)	(32,698)	(761)	(33,823)
Charge for the year	(31)	(2,977)	(1)	(3,009)
At 31 December 2012	(395)	(35,675)	(762)	(36,832)
Net book value				
At 31 December 2012	433	49,336	3	49,772
At 31 December 2011	464	52,313	4	52,781

Included within infrastructure asset costs is £9,332,000 (2011 £9,332,000) of interest capitalised during the construction phase The net book value of interest capitalised is £5,416,000 (2011 £5,742,000)

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

11 FIXED ASSET INVESTMENTS

	Group	Company
	EIB bond £'000	Interest in Group Undertakings £'000
Cost		
At 1 January 2012	63,442	3,500
Interest	3,156	-
At 31 December 2012	66,598	3,500
Net book value		
At 31 December 2012	66,598	3,500
At 31 December 2011	63,442	3,500

	Group EIB bond	
	2012 £'000	2011 £'000
Fixed asset investments	66,598	63,442
	66,598	63,442

The Company's subsidiary undertaking, UK Highways M40 Limited, holds EIB zero coupon bonds which are used to fund major maintenance works on the motorway as and when they fall due The first of the bonds matured in 2010 with the remaining six maturing at specified intervals through to 2021

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

12 DEBTORS

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Due within one year				
Amounts owed from group undertakings	-	-	**403**	409
Deferred tax asset	-	-	**1**	1
Prepayments and accrued income	**6,929**	6,882	**-**	-
	6,929	6,882	**404**	410
Due after more than one year				
Loan notes	**-**	-	**9,806**	10,013
	-	-	**9,806**	10,013

During the year the Company was repaid £207,000 (2011 £121,000) 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 re-payable by 1 May 2026, or before if funds allow

13 CREDITORS

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Bank loans (note 14)	**3,924**	4,841	**-**	-
Trade creditors	**324**	277	**246**	252
Unsecured loan notes	**252**	218	**252**	218
Corporation tax	**494**	1,063	**-**	-
Other taxation and social security	**941**	236	**-**	-
Major maintenance accrual	**18,179**	10,827	**-**	-
Accruals and deferred income	**2,570**	2,800	**-**	-
	26,684	20,262	**498**	470
Amounts falling due after more than one year				
Bank loans (note 14)	**86,481**	90,205	**-**	-
Unsecured loan notes to shareholders	**9,554**	9,795	**9,554**	9,795
	96,035	100,000	**9,554**	9,795

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

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Analysis of debt				
Debt can be analysed as falling due				
In one year or less	**4,176**	5,059	**252**	218
Between one and two years	**4,343**	4,175	**153**	252
Between two and five years	**18,191**	15,538	**1,047**	218
In five years or more	**75,957**	82,942	**8,354**	9,325
	102,667	107,714	**9,806**	10,013
Less issue costs	**(2,456)**	(2,656)	**-**	-
	100,211	105,058	**9,806**	10,013

Notes to the financial statements for the year ended 31 December 2012 (continued)

13 CREDITORS (continued)

The major maintenance accrual comprises the following elements

	2012	2011
	£'000	£'000
Balance as at 1 January	(10,826)	(11,217)
Unwinding of discount	(920)	(953)
Expensed in the year	2,064	7,649
Charge for the year	(8,497)	(6,305)
Balance as at 31 December	(18,179)	(10,826)

The major maintenance provision is based on projected future cash flows and has been discounted at a rate of 8 5%, which is considered to be an appropriate rate of discount Applying a discount rate of 7 5% gives rise to a provision of £20,836,000, and applying a discount rate of 9 5% gives rise to a provision of £15,740,000

14 BANK LOANS

Bank borrowings relate to term loan facilities granted on 8 October 1996 by a banking syndicate with HSBC PLC acting as agent As at 31 December 2012 a total of £92,861,000 (2011 £97,702,000) was drawn on this facility

Loan issue costs in respect of these facilities have been deducted from 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 March 2025

Interest is charged on the facility based on floating LIBOR There is an interest rate swap in place with a notional principal of £110,603,000 at a fixed rate payable at 3 98% to 31 March 2025 The fair value of this instrument at 31 December 2012 was a liability of £15,864,000 (2011 liability of £13,628,000)

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

15 PROVISIONS FOR LIABILITIES

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Deferred Taxation				
At 1 January	1,717	1,957	(1)	-
Charged/(credited) to profit and loss account during the year	(226)	(240)	-	(1)
At 31 December	1,491	1,717	(1)	(1)

The balance provided at 23% (2011 25%) comprises	2012	2011
	£'000	£'000
Other timing differences	1,491	1,717
At 31 December	1,491	1,717

On 21 March 2012 , the UK Government announced a reduction in the main rate of corporation tax from 26% to 24% effective from 1 April 2012 The government has also indicated that it intends to enact future reductions in the main tax rate of 1% and 2% down to 23% from 1 April 2013 and 21% from 1 April 2014 respectively, and then to 20% from 1 April 2015 Only the first 1% reduction to 23% has been substantively enacted as at the balance sheet date and therefore the further rate reductions have not yet been reflected in these financial statements in accordance with FRS 21, as it is a non-adjusting event occuring after balance date

16 CAPITAL COMMITMENTS

There was no capital expenditure contracted but not provided at 31 December 2012 (2011 £nil)

Notes to the financial statements for the year ended 31 December 2012 (continued)

17 CALLED UP SHARE CAPITAL

	Group / Company 2012	2011
	£'000	£'000
Allotted, issued and fully paid		
3,550,000 ordinary shares of £1 each	3,550	3,550
	No	No
Authorised		
40,000,000 ordinary shares of £1 each	40,000,000	40,000,000

18 MOVEMENT IN RESERVES

	Group Profit and loss account	Company Profit and loss account
	£'000	£'000
At 1 January 2012	10,439	114
Profit for the financial year	2,486	4,270
Dividends paid on equity shares (note 9)	(4,270)	(4,270)
At 31 December 2012	8,655	114

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2012	Group 2011	Company 2012	Company 2011
	£'000	£'000	£'000	£'000
Profit for the financial year	2,486	4,057	4,270	3,398
Dividends paid on equity shares (note 9)	(4,270)	(3,398)	(4,270)	(3,398)
Net addition in shareholders' funds	(1,784)	659	-	-
Opening shareholders' funds	13,989	13,330	3,664	3,664
Closing shareholder's funds	12,205	13,989	3,664	3,664

20 TRANSACTIONS WITH RELATED PARTIES

The Company had the following related party transactions during the year

	2012	2011
	£'000	£'000
Semperian PPP Investment Partners No 2 Limited and subsidiaries		
Directors' fees	50	50
Balance payable at 31 December	-	-
Loan note interest charged	753	763
Loan notes owed at 31 December	4,903	5,007
John Laing Infrastructure Fund Limited and subsidiaries		
Directors' fees	50	50
Balance payable at 31 December	-	50
Loan note interest charged	753	763
Loan notes owed at 31 December	4,903	5,007

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012	2011
	£'000	£'000
Operating profit	6,786	9,459
Increase in debtors	(35)	(815)
Increase/(decrease) in creditors	6,737	(794)
Movements in deferred income	(19)	(18)
Non-cash expense (depreciation)	3,009	2,944
Net cash inflow from operating activities	16,478	10,776

Notes to the financial statements for the year ended 31 December 2012 (continued)

22 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2012 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 2012 £'000
Cash in hand and at bank	12,863	253	-	13,116
Bank debt	(95,045)	4,841	(201)	(90,405)
Loan notes to shareholders	(10,014)	208	-	(9,806)
Net debt	(92,196)	5,302	(201)	(87,095)

23 ULTIMATE PARENT UNDERTAKING

The Company is a joint venture between Palio (No 7) Limited (50%) an English Limited Partnership registered in England and Wales, and Semperian Subholdings M40 Limited (50%), a company registered in England and Wales The Directors consider there to be no ultimate controlling entity