

UK HIGHWAYS plc

REPORT AND ACCOUNTS

FOR THE SIX MONTHS ENDED

31 DECEMBER 1996

Company Registration No: 02939644



UK HIGHWAYS plc

REPORT OF THE DIRECTORS

The Directors submit their report together with financial statements for the six months ended 31 December 1996.

PRINCIPAL TRADING ACTIVITIES

The principal activity of the group is to undertake under contract with Her Majesty's Government the design, build, finance and operation of roads infrastructure. These contracts are known as DBFO contracts.

On 8 October 1996 a wholly owned subsidiary of the Company, UK Highways M40 Limited, was awarded a DBFO contract by Her Majesty's Secretary of State for Transport in respect of junctions 1 to 15 of the M40 motorway.

There was no profit or loss for the period.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the authorised and issued share capital are shown on page 13.

DIRECTORS

The following directors held office during the period:

J Armstrong	
A Y Evans	
J M James	
S N Jones	appointed 1 July 1996
P M Cremieux	
H L Gilliet	
M J Lavers	
B Pellard	appointed 2 December 1996
G A Hawker	resigned 1 July 1996
T H Mason	resigned 2 December 1996

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 has had during the period, any personal interest in any significant or material contract with the Company.

POLICY ON PAYMENT OF CREDITORS

It is policy to comply with terms of payment agreed with suppliers. Where payment terms are not negotiated the Company endeavours to adhere with the suppliers' standard terms.

UK HIGHWAYS plc

REPORT OF THE DIRECTORS (continued)

CORPORATE GOVERNANCE AND DIRECTORS' RESPONSIBILITIES

The Board is responsible to the shareholders for all aspects of the Company's performance and meets on a regular basis to review the strategic direction of the Company and 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 Company as at the end of the financial period and of the profit or loss of the Company and 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 period ended 31 December 1996. 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 and for safeguarding the assets of the Company and Group to enable them to ensure that the financial statements of the Company and Group comply with the Companies Act 1985 and hence for taking reasonable steps for the prevention and detection of 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 advisers.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

The Group made no political or charitable donations during the period.

AUDITORS

Pursuant to a 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**

Date: 7 May 1997

UK HIGHWAYS plc

DIRECTORS AND ADVISERS

Directors

The directors of the Company are shown in the Directors' Report on page 1.

Company Secretary and Registered Offices:

RG Curtis) Joint Secretaries
S A Brooks)

P O Box 295
Alexandra Gate
Rover Way
Cardiff
CF2 2UE

Auditors

KPMG

Solicitors

McKenna & Co.

Principal Bankers

Clydesdale Bank plc

Financial Advisers

BZW

UK HIGHWAYS plc

AUDITORS' REPORT

To the members of UK Highways plc

We have audited the financial statements on pages 5 to 15.

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 have conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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 the Company's and Group's affairs as at 31 December 1996 and of the Group's result for the 6 months then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
London

9/5/97

UK HIGHWAYS plc

Principal Accounting Policies

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

Basis of Accounting

These financial statements have been prepared in accordance with the historical cost convention.

Basis of Consolidation

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

Other Income

Other income comprises fees charged to shareholders to cover ongoing tender costs.

Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

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

Infrastructure Assets

Depreciation is charged on additions over the life of the concession pro rata to usage.

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

Other Assets

Depreciation is calculated on a straight line basis in order to write down the costs of assets to their estimated residual values 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

Principal Accounting Policies (continued)

Major Maintenance

Provision for major maintenance on project roads is based on an evaluation of expenditure required over the whole life of the concession in order to maintain the project roads in the condition laid down by the Concession Agreement. Assessments are carried out of the maintenance provisions made to date and the provision required for the future based on traffic volumes and movements in the Retail Price Index, and the annual charge to the profit and loss account is adjusted to take account of the conclusions of such assessments, including adjustment for any shortfall in prior years' provisions. Expenditure is charged against the balance sheet provision as and when incurred.

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.

UK HIGHWAYS plc

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 31 DECEMBER 1996**

	Note	31 December 1996 £'000	Year ended 30 June 1996 £'000
Net operating costs	2	(2,839)	400
Own costs capitalised		2,837	-
Operating (loss)/profit		<u>(2)</u>	<u>400</u>
Interest receivable		2	-
Interest payable		(72)	-
Interest costs capitalised		72	-
Profit on ordinary activities before taxation		<u>-</u>	<u>400</u>
Taxation		-	-
Retained profit for the period		<u>-</u>	<u>400</u>

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 plc

BALANCE SHEET AT 31 DECEMBER 1996

	Note	Group 31 December 1996 £'000	30 June 1996 £'000	Company 31 December 1996 £'000	30 June 1996 £'000
FIXED ASSETS					
Tangible fixed assets	6	11,126	-	-	-
Investments	7	-	-	11,000	-
CURRENT ASSETS					
Debtors	8	469	362	905	362
Cash at bank and in hand		281	122	211	122
		<u>750</u>	<u>484</u>	<u>1,116</u>	<u>484</u>
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	9(a)	(8,089)	(434)	(1,066)	(434)
NET CURRENT (LIABILITIES) / ASSETS					
		<u>(7,339)</u>	<u>50</u>	<u>50</u>	<u>50</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>3,787</u>	<u>50</u>	<u>11,050</u>	<u>50</u>
Creditors: amounts falling due after more than one year	9(b)	(3,737)	-	(11,000)	-
NET ASSETS					
		<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
CAPITAL AND RESERVES					
Called up Share Capital	12	50	50	50	50
Reserves		-	-	-	-
SHAREHOLDERS' FUNDS					
	13	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors
on 7 May 1997 and were signed on its behalf by:



J M James

UK HIGHWAYS plc

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 1996**

	Note	1996 £'000	Year ended 30 June 1996 £'000
Net cash (outflow)/inflow from operating activities	14	(590)	84
Returns on investments and servicing of finance:			
Interest received		2	-
Investing activities :			-
Payments to acquire fixed assets		(2,990)	
		<hr/>	<hr/>
Net cash (outflow)/ inflow before financing		(3,578)	84
Financing:			
Bank facility drawdown		3,737	-
Issue of ordinary share capital		-	38
		<hr/>	<hr/>
Increase in cash and cash equivalents	15	159	122
		<hr/>	<hr/>

NOTES TO THE ACCOUNTS

1. 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 (June 1996 - nil).

2. NET OPERATING COSTS

	31 December 1996 £'000	Year ended 30 June 1996 £'000
Fees paid to auditors:		
Audit services	(9)	(3)
Other services	(207)	(22)
Other operating charges:		
- Related parties	(103)	-
- Others	(2,976)	(961)
Sundry income:		
- Related parties	330	1,386
- Others	126	-
	<u>(2,839)</u>	<u>400</u>

3. EMOLUMENTS OF DIRECTORS

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

4. STAFF NUMBERS AND COSTS

The company had no employees during either period.

5. TAXATION

The group incurred a corporation tax charge for the period of £146 (year ended 30 June 1996: £nil.)

NOTES TO THE ACCOUNTS

6. 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 July 1996	-	-	-	-
Additions				
- Related parties	-	7,588	-	7,588
- Others	-	171	458	629
Own costs capitalised	8	2,829	-	2,837
Interest cost capitalised	-	72	-	72
	<u>8</u>	<u>10,660</u>	<u>458</u>	<u>11,126</u>
<u>Accumulated Depreciation</u>				
At 1 July 1996	-	-	-	-
Charge for the period	-	-	-	-
At 31 December 1996	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Book Value</u>				
At 31 December 1996	<u>8</u>	<u>10,660</u>	<u>458</u>	<u>11,126</u>
At 30 June 1996	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The company had no fixed assets in either period.

7. FIXED ASSET INVESTMENTS

Company

Interests in Group Undertakings:	31 December 1996 £'000
<u>Cost</u>	
At 1 July 1996	nil
Additions	11,000
At 31 December 1996	<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.

NOTES TO THE ACCOUNTS

8. DEBTORS

	Group 31 December 1996 £'000	30 June 1996 £'000	Company 31 December 1996 £'000	30 June 1996 £'000
Due within one year:				
VAT	263	44	-	44
Other debtors	-	318	-	318
Amounts owed by subsidiary undertakings	-	-	905	-
Prepayments and accrued income	206	-	-	-
	<u>469</u>	<u>362</u>	<u>905</u>	<u>362</u>

9. CREDITORS

	Group 31 December 1996 £'000	30 June 1996 £'000	Company 31 December 1996 £'000	30 June 1996 £'000
(a) Amounts falling due within one year				
Trade creditors				
- Related Parties	7,588	-	-	-
- Others	229	173	657	173
Amounts owed to shareholders				
John Laing Construction Ltd	18	-	18	-
Hyder Investments Limited	73	-	73	-
Tarmac plc	37	-	37	-
CDC/ Transroute SA	72	-	72	-
Other creditors	72	-	209	-
Accruals and deferred income	-	261	-	261
	<u>8,089</u>	<u>434</u>	<u>1,066</u>	<u>434</u>
(b) Amounts falling due after more than 1 year				
Bank loans (see note 10)	3,737	-	-	-
Amounts owed to subsidiary undertakings	-	-	11,000	-
	<u>3,737</u>	<u>-</u>	<u>11,000</u>	<u>-</u>

NOTES TO THE ACCOUNTS

10. BANK LOANS

On 8 October 1996, UK Highways M40 Ltd signed a facility with Midland Bank plc for £90 million in order to finance the construction work on the Project Road as contracted in the DBFO Contract. Interest rates on this facility are variable, although outstanding loans will be at least 50% hedged during the construction period. The loan is repayable in instalments over the next 20 years.

11. CAPITAL COMMITMENTS

	31 December 1996 £'000	30 June 1996 £'000
Capital expenditure contracted but not provided in the financial statements	77,000	-

12. SHARE CAPITAL

	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
	40,000,000	40,000,000	50,000	50,000

On 3 October 1996, shares previously known as "Tr" shares were reclassified as "CDC/Tr" shares. On the same day, shares previously known as "W" shares were reclassified as "H" shares.

Also 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
	11,000,000

NOTES TO THE ACCOUNTS

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Period ended 31 December 1996 £'000	Year ended 30 June 1996 £'000
Profit for the period	-	400
Net movement in shareholders' funds	-	400
Opening shareholders' funds	50	(350)
Closing shareholders' funds	50	50

14. RECONCILIATION OF OPERATING (LOSS)/ PROFIT TO NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES

	31 December 1996 £'000	Year ended 30 June 1996 £'000
Operating (loss)/ profit	(2)	400
(Increase) in debtors	(107)	(336)
(Decrease)/ Increase in creditors	(481)	20
	(590)	84

15. ANALYSIS OF CASH AND CASH EQUIVALENTS DURING THE PERIOD

	31 December 1996 £'000	Year ended 30 June 1996 £'000
Increase in cash and cash equivalents during the period	159	122
Cash and cash equivalents at start of period	122	-
Cash and cash equivalents at end of period	281	122

NOTES TO THE ACCOUNTS

16. RELATED PARTY TRANSACTIONS

The construction contract for the widening works between Junctions 1a and 3 of the Project Road has been placed with the Tarmac-Laing Joint Venture. Additions to fixed assets for the period, being amounts invoiced by the Tarmac-Laing Joint Venture in respect of the construction contract, are shown in note 6.

The contract for the Initial Maintenance Works between junctions 6 and 7 of the Project Road has also been placed with the Tarmac-Laing Joint Venture, and these works commenced in April 1997

The contract for the operation and maintenance of the Project Road has been placed with UK Highways Services Ltd, which is a company jointly owned by John Laing Investments Ltd, Tarmac Construction Ltd, CDC and Transroute International SA. Services under this contract commenced on 6 January 1997.

Sundry income and operating costs are analysed between related parties and others in note 2. Sundry income is contributed by shareholders in equal proportions.

Trade creditors are analysed in note 9. Related party trade creditors are wholly in respect of the Tarmac-Laing Joint Venture.

17. COMPANY STATUS

The Company is owned by Hyder Investments Ltd (40%), Tarmac (PFI) Ltd (20%), John Laing Investments Ltd (20%) Caisse des Depots et Consignations (16%) and Transroute International SA (4%).