

Company Registration No. 02939644 (England and Wales)

UK HIGHWAYS M40 (HOLDINGS) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



UK HIGHWAYS M40 (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	N Rae	
	J Pritchard	(Appointed 30 April 2019)
	M Lopez-Simon	(Appointed 30 April 2019)
	I R Gethin	
Secretary	HCP Management Services Limited	
Company number	02939644	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditor	Deloitte LLP Statutory Auditor London United Kingdom	
Bankers	HSBC Bank PLC 8 Canada Square London E14 5HQ	

UK HIGHWAYS M40 (HOLDINGS) LIMITED

CONTENTS

	Page
Strategic report	1 - 4
Directors' report	5 - 7
Directors' responsibilities statement	8
Independent auditor's report	9 - 11
Group statement of comprehensive income	12
Group balance sheet	13
Company balance sheet	14
Group statement of changes in equity	15
Company statement of changes in equity	16
Group statement of cash flows	17
Notes to the financial statements	18 - 37

UK HIGHWAYS M40 (HOLDINGS) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present the strategic report for the year ended 31 December 2019.

Business Review and Principal 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 (the "contract") which was signed on 8 October 1996. The Group commenced trading on 6 January 1997. The concession period is 30 years. Construction completed on 9 March 1999 when the operational phase of the contract commenced.

Business and Financial Performance

Income and expenditure have been broadly in line with the Board's 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 risks to these costs are perceived as being small.

The Group profit after taxation for the year is £16,722,000 (2018: £9,662,000) and the net assets of the Group are £7,860,000 (2018: £4,512,000).

As detailed further in note 24, Covid-19 has impacted on traffic levels post the balance sheet date. The Directors continue to monitor traffic volumes on a weekly basis in light of going concern assumptions (as further explained in the Director's report and note 1).

Principal Risks and Uncertainties

The Group's activities expose it to a number of financial risks including liquidity risk, interest rate risk, credit risk and lifecycle risk. These risks are further explained in the Directors' Report.

Development and Performance

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

Key Performance 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 Design, Build, Finance, Operate 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 increased by 1.1% for cars and 3.0% for HGVs over the same period last year. In the prior year, traffic volumes decreased by 1.2% for cars and increased 1.3% for HGVs.

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.

Health & Safety Performance

Health and safety reports are provided at every board meeting and are reviewed regularly by the 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

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Key Performance Indicators (continued)

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. An independent traffic reforecast was commissioned in 2019, the results of which have been incorporated into the traffic projections going forward.

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.

The required major maintenance accrual at the year end has reduced to £9.5m (2018: £15.5m) for the following reasons. Firstly higher major maintenance costs were incurred during the year, £6.4m (2018: £4.6m), and secondly the quantum and timing of the remaining major maintenance to the end of the concession was revised during the year. The revised projections were reviewed by an independent third party.

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the group for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies act 2006 ("section 172").

The directors have identified the group's main stakeholders as the following:

i. The group's shareholders and credit provider

Principal considerations of the board are whether the investment in the group is meeting shareholder expectations and the how the manager implements the objectives. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder briefing meetings to ensure that shareholder engagement is optimized.

The credit provider, HSBC Bank Plc, holds a security interest over the assets of the group against the loan facility. The board regularly discusses the obligations under this facility and how the manager is fulfilling these at board meetings. The board frequently engages with the credit provider and keeps them updated on matters as required.

ii. The client

The board recognises the importance of working in partnership with its public sector client to successfully deliver a key public infrastructure asset. On behalf of the group, the manager fosters this partnership through regular meetings with the client representative and other key managers. The manager provides regular monthly reporting to the public sector client on the performance of its obligations under the PFI arrangement. Periodically the directors will also meet with the public sector client to discuss key service delivery matters.

iii. The service providers

On behalf of the group, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the group contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. Periodically the directors will also meet with the service provider to discuss key service delivery matters.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Section 172 Companies Act 2006 Statement (continued)

iv. The manager

The delivery by the manager of its services is fundamental to the long-term success of the group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

a. The likely consequences of any decision in the long term

The group has outsourced the management of the group to HCP Management Services Limited ("HCP"), the manager. The delivery by the manager of its services is fundamental to the long-term success of the group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

b. The interests of the group's employees

As an externally managed company, the group's activities are all outsourced and therefore it does not have any employees. The group does however, pay due regard to the interests and safety of all those engaged by contractors to the group to perform services on its behalf.

c. The need to foster the group's business relationships with suppliers, customers and others

The group is committed to upholding the underlying principle of PFI of working in partnership with all parties to the arrangement. As noted above, the group has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that group obligations to its public sector client and service providers can be upheld.

d. The impact of the group's operations on the community and the environment

The group has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the group is committed to minimizing environmental disruption from its activities. The board upholds the group's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises that the group is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

e. The desirability of the group maintaining a reputation for high standards of business conduct

The group is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

f. The need to act fairly between members of the group

The members of the group are represented at board meetings by their appointed directors. Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the group's key stakeholders and reflect the board's belief that the long term sustainable success of the group is linked directly to its key stakeholders.

On behalf of the board



N Rae

Director

28 May 2020

UK HIGHWAYS M40 (HOLDINGS) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their annual report and audited financial statements for the year ended 31 December 2019.

Principal 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 continued to be that of operating the property and undertaking known as the M40 motorway junctions 1 to 15 under the Design, Build, Finance, Operate contract.

There have not been any significant changes in the Group's principal activities in the year under review.

The Company is a joint venture between Semperian Subholdings M40 Limited (50%), a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited and Palio No 7 Limited (50%), a wholly owned subsidiary of Craighouse UK 3 Limited. Both of these companies are incorporated in Great Britain and registered in England.

Directors

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

D Bradbury	(Resigned 30 April 2019)
N Rae	
J Heemelaar	(Resigned 30 April 2019)
J Pritchard	(Appointed 30 April 2019)
M Lopez-Simon	(Appointed 30 April 2019)
I R Gethin	

Going concern

The Directors have assessed liquidity and covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Group to meet all loan and interest repayments including the potential impact of Covid-19 on the project. The Group earns a unitary payment from the authority linked to traffic volumes. Following Covid-19 and the implementation of UK lockdown, traffic volumes on the road declined but have recently started to rise as lockdown is eased. The unitary payment for the year ending 31 March 2021 is based on traffic volumes for the year ending 31 March 2020 (i.e. is retrospective), and therefore the impact of lower traffic volumes will only start to be seen within the year ending 31 March 2022 (i.e. from 1 April 2021). The Directors forecasts show that the Group can continue to fully meet its debt obligations (including covenant compliance and ensuring all reserves are all fully funded). The Directors have run various stress scenarios which show that the Group can continue to meet all its debt obligations (including covenant compliance and the funding of reserves) in the next twelve months, even if traffic volumes were to halve over the period to March 2021. The Group would also have further mitigating actions available to mitigate any further decline in traffic including dividend reductions.

The Directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

Results

The results for the year are set out on page 12.

The increase in pre-tax profit is mainly due to an increase in toll revenue and the reduction in the major maintenance accrual following the three year lifecycle review.

Ordinary dividends were paid amounting to £14,000,000 (2018: £8,616,000). The Directors do not recommend payment of a final dividend.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Qualifying third party indemnity provisions

The Group has made qualifying third party indemnity provisions for the benefit of its Directors during the year. These provisions remain in force at the reporting date.

Financial risk management objectives and policies

Liquidity Risk

The Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the Group negotiated debt facilities with an external party to ensure that the Group has sufficient funds over the life of the PFI concession.

Interest Rate Risk

The Group's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Group uses interest rate derivatives to manage the risk and reduce its exposure to changes in interest rates.

Credit Risk

The Group's principal financial assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a government authority.

Lifecycle Risk

Lifecycle expenditure is the main risk to the business. The risk being that the allowance for key lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distributions. This is mitigated by regular lifecycle reviews undertaken by the management services provider and a detailed lifecycle review performed every three years.

Future developments

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

Auditor

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of disclosure to auditor

Each of the Directors in office at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- the Director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

On behalf of the board



N Rae
Director
28 May 2020

UK HIGHWAYS M40 (HOLDINGS) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors are responsible for preparing the annual 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 Group and Company, and of the profit or loss of the Group for that period. 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 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

Opinion

In our opinion the financial statements of UK Highways M40 (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 25, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISA's (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

We have nothing to report in respect of these matters.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF UK HIGHWAYS M40 (HOLDINGS) LIMITED

Use of our report

This report is made solely to the group'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 group and the parent 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 group and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

D.Winstone

Daryl Winstone (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor
United Kingdom

29 May 2020
Statutory Auditor
London
EC4A 3BZ

UK HIGHWAYS M40 (HOLDINGS) LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	40,560	38,050
Cost of sales		(16,407)	(22,001)
Gross profit		<u>24,153</u>	<u>16,049</u>
Interest receivable and similar income	8	1,662	1,594
Interest payable and similar expenses	9	(5,171)	(5,727)
Profit before taxation		<u>20,644</u>	<u>11,916</u>
Tax on profit	10	(3,922)	(2,254)
Profit for the financial year		<u>16,722</u>	<u>9,662</u>
Other comprehensive income			
Cash flow hedges gain arising in the year	17	754	2,379
Tax relating to other comprehensive income	20	(128)	(404)
Total comprehensive income for the year		<u><u>17,348</u></u>	<u><u>11,637</u></u>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	12	25,472	29,072
Investments	13	14,514	28,908
		<u>39,986</u>	<u>57,980</u>
Current assets			
Debtors falling due after more than one year	15	327	369
Debtors falling due within one year	15	8,877	8,937
Investments	13	15,813	-
Cash at bank and in hand		22,604	31,284
		<u>47,621</u>	<u>40,590</u>
Creditors: amounts falling due within one year	16	<u>(22,984)</u>	<u>(29,256)</u>
Net current assets being current assets less current liabilities		24,637	11,334
Total assets less current liabilities		<u>64,623</u>	<u>69,314</u>
Creditors: amounts falling due after more than one year	17	<u>(56,763)</u>	<u>(64,802)</u>
Net assets		<u><u>7,860</u></u>	<u><u>4,512</u></u>
Capital and reserves			
Called up share capital	21	3,550	3,550
Hedging reserve	21	(4,392)	(5,018)
Profit and loss reserves	21	8,702	5,980
Total equity		<u><u>7,860</u></u>	<u><u>4,512</u></u>

The financial statements were approved by the board of directors and authorised for issue on 28 May 2020 and are signed on its behalf by:



N Rae
Director

UK HIGHWAYS M40 (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Investments	13	3,500	3,500
Current assets			
Debtors falling due after more than one year	15	4,221	4,688
Debtors falling due within one year	15	747	728
Cash at bank and in hand		4	5
		<u>4,972</u>	<u>5,421</u>
Creditors: amounts falling due within one year	16	<u>(589)</u>	<u>(571)</u>
Net current assets		4,383	4,850
Total assets less current liabilities		<u>7,883</u>	<u>8,350</u>
Creditors: amounts falling due after more than one year	17	<u>(4,221)</u>	<u>(4,688)</u>
Net assets		<u><u>3,662</u></u>	<u><u>3,662</u></u>
Capital and reserves			
Called up share capital	21	3,550	3,550
Profit and loss reserves		112	112
Total equity		<u><u>3,662</u></u>	<u><u>3,662</u></u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £14,000,000 (2018: £8,616,000 profit).

The financial statements were approved by the board of directors and authorised for issue on 28 May 2020 and are signed on its behalf by:



N Rae
Director

Company Registration No. 02939644

UK HIGHWAYS M40 (HOLDINGS) LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Called up share capital £'000	Hedging reserve £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2018		3,550	(6,993)	4,934	1,491
Year ended 31 December 2018:					
Profit for the year		-	-	9,662	9,662
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	2,379	-	2,379
Tax relating to other comprehensive income		-	(404)	-	(404)
Total comprehensive income for the year		-	1,975	9,662	11,637
Dividends	11	-	-	(8,616)	(8,616)
Balance at 31 December 2018		3,550	(5,018)	5,980	4,512
Year ended 31 December 2019:					
Profit for the year		-	-	16,722	16,722
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	754	-	754
Tax relating to other comprehensive income		-	(128)	-	(128)
Total comprehensive income for the year		-	626	16,722	17,348
Dividends	11	-	-	(14,000)	(14,000)
Balance at 31 December 2019		3,550	(4,392)	8,702	7,860

UK HIGHWAYS M40 (HOLDINGS) LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Called up share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2018		3,550	112	3,662
Year ended 31 December 2018:				
Profit and total comprehensive income for the year		-	8,616	8,616
Dividends	11	-	(8,616)	(8,616)
Balance at 31 December 2018		3,550	112	3,662
Year ended 31 December 2019:				
Profit and total comprehensive income for the year		-	14,000	14,000
Dividends	11	-	(14,000)	(14,000)
Balance at 31 December 2019		3,550	112	3,662

UK HIGHWAYS M40 (HOLDINGS) LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£'000	£'000
Cash flows from operating activities			
Cash generated from operations	25	20,251	20,365
Income taxes paid		(4,304)	(1,586)
Net cash inflow from operating activities		15,947	18,779
Investing activities			
Purchase of tangible fixed assets		(30)	-
Interest received		299	292
Current asset investment matured/(deposited)		-	21,000
Net cash generated from investing activities		269	21,292
Financing activities			
Interest and other financing costs paid		(4,107)	(4,341)
Repayment of secured loan		(6,384)	(6,384)
Repayment of loan notes		(405)	(3,021)
Dividends paid to equity shareholders		(14,000)	(8,616)
Net cash used in financing activities		(24,896)	(22,362)
Net (decrease)/increase in cash and cash equivalents		(8,680)	17,709
Cash and cash equivalents at beginning of year		31,284	13,575
Cash and cash equivalents at end of year		22,604	31,284

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

UK Highways M40 (Holdings) Limited is a private company limited by shares, domiciled and incorporated in the United Kingdom and registered in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value, and in accordance with FRS 102. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 December each year. The subsidiary has a year ended of 31 December 2019.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.3 Going concern

The Company exists to hold investments in its subsidiary that provides services under certain private finance agreements. 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.

The Directors have assessed liquidity and covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Group to meet all loan and interest repayments including the potential impact of Covid-19 on the project. The Group earns a unitary payment from the authority linked to traffic volumes. Following Covid-19 and the implementation of UK lockdown, traffic volumes on the road declined but have recently started to rise as lockdown is eased. The unitary payment for the year ending 31 March 2021 is based on traffic volumes for the year ending 31 March 2020 (i.e. is retrospective), and therefore the impact of lower traffic volumes will only start to be seen within the year ending 31 March 2022 (i.e. from 1 April 2021). The Directors forecasts show that the Group can continue to fully meet its debt obligations (including covenant compliance and ensuring all reserves are all fully funded). The Directors have run various stress scenarios which show that the Group can continue to meet all its debt obligations (including covenant compliance and the funding of reserves) in the next twelve months, even if traffic volumes were to halve over the period to March 2021. The Group would also have further mitigating actions available to mitigate any further decline in traffic including dividend reductions.

The Directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

1.4 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Authority.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.5 Tangible fixed assets

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 recorded at cost and are depreciated upon commissioning, over the remaining life of the leasehold or concession, whichever is the shorter.

Infrastructure assets

The Group is a special purpose entity that has been established to provide services under certain private finance agreements with Her Majesty's Secretary of State for Transport. Under the terms of these Agreements, the Secretary of State (as grantor) controls the services to be provided by the Group over the contract term. Based on the contractual arrangements the Group has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements. The Group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10 (i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed and will continue to be recognised as a tangible fixed asset.

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

1.6 Fixed asset investments

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

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 Group.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.7 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.8 Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the balance sheet, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Other financial liabilities

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Group's contractual obligations expire or are discharged or cancelled.

1.9 Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Group.

1.10 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The Group does not hold or issue derivative financial instruments for speculative purposes.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Hedge accounting

The Group designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line in this item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in the profit or loss in the same line as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability concerned.

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.12 Major Maintenance Accrual

Accrual 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 Group in making good the wear and tear sustained by the road in the year. Cash expenditure is charged against the balance sheet provision 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% (2018: 8.5%). The unwinding of the discount is recognised in the income statement with other finance costs.

2 Judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Hedge accounting

The Directors consider the Group to have met the criteria for hedge accounting and the Group has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

(Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Group uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £5,727,000 (2018: £6,531,000 liability). The Directors do not consider the impact of own credit risk to be material.

Major maintenance accrual

The Directors use their judgement to estimate both the value of major maintenance work still to be completed and expected traffic levels over the remaining concession. Third party advice is periodically sought to support these judgements. The Directors also have to judge a suitable discount factor to apply to the calculation. When determining a suitable discount factor, the Directors have considered typical discount rates applied to companies with similar risk profiles and the level of expected major maintenance expenditure remaining to the end of the concession.

Depreciation

Depreciation on infrastructure assets is charged over the concession pro rata to usage. As such, the Directors judgement of expected traffic levels over the remaining concession (as supported by third party projections) determines the value of this charge.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover and other revenue

	2019 £'000	2018 £'000
Turnover analysed by class of business		
Shadow tolls	35,247	33,398
Variation income	4,748	4,627
Other income	565	25
	<u>40,560</u>	<u>38,050</u>

	2019 £'000	2018 £'000
Other significant revenue		
Interest income	<u>1,662</u>	<u>1,594</u>

	2019 £'000	2018 £'000
Turnover analysed by geographical market		
United Kingdom	<u>40,560</u>	<u>38,050</u>

4 Operating profit

	2019 £'000	2018 £'000
Operating profit for the year is stated after charging/(crediting):		
Major maintenance	(893)	5,643
Operational costs	12,923	11,648
Other operating charges	747	1,098
Depreciation of owned tangible fixed assets	<u>3,630</u>	<u>3,596</u>

5 Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	<u>20</u>	<u>16</u>
For other services		
Taxation compliance services	6	6
Other taxation services	-	14
	<u>6</u>	<u>20</u>

6 Employees

The Group had no employees during the current or prior year.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

7 Directors' remuneration

No directors received any remuneration for services to the Group during the current or prior year.

8 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	243	246
Other interest income	1,419	1,348
Total income	<u>1,662</u>	<u>1,594</u>
Interest on financial assets not measured at fair value through profit or loss	<u>243</u>	<u>246</u>

9 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	3,095	3,476
Interest payable to group undertakings	756	1,179
Other finance costs:		
Unwinding of discount on major maintenance provision	1,320	1,072
Total interest expense	<u>5,171</u>	<u>5,727</u>

10 Taxation

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits for the current period	4,008	2,356
Adjustments in respect of prior periods	-	(13)
Total current tax	<u>4,008</u>	<u>2,343</u>
Deferred tax		
Origination and reversal of timing differences	(86)	(89)
Total tax charge	<u>3,922</u>	<u>2,254</u>

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

10 Taxation

(Continued)

For the year ended 31 December 2019, the UK corporation tax rate of 19% is applied.

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The deferred tax asset as at 31 December 2019 has been calculated based on a rate of 17%.

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £'000	2018 £'000
Profit before taxation	20,644	11,916
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	3,922	2,264
Adjustments in respect of prior years	-	(13)
Expenses not deductible	-	3
Taxation charge	3,922	2,254

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £'000	2018 £'000
Deferred tax arising on: Revaluation of financial instruments treated as cash flow hedges	128	404

11 Dividends

	2019 £'000	2018 £'000
Final paid	5,500	4,700
Interim paid	8,500	3,916
	14,000	8,616

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Tangible fixed assets

Group	Short leasehold properties and improvements	Infrastructure assets	Other assets	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	85,011	828	765	86,604
Additions	-	-	30	30
At 31 December 2019	85,011	828	795	86,634
Depreciation and impairment				
At 1 January 2019	56,183	584	765	57,532
Depreciation charged in the year	3,598	31	1	3,630
At 31 December 2019	59,781	615	766	61,162
Carrying amount				
At 31 December 2019	25,230	213	29	25,472
At 31 December 2018	28,828	244	-	29,072

Included within infrastructure asset cost is £9,332,000 (2018: £9,332,000) of interest capitalised during the construction phase. The net book value of interest capitalised is £2,768,000 (2018: £3,163,000).

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 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.

13 Fixed asset investments

	Notes	Group 2019 £'000	2018 £'000	Company 2019 £'000	2018 £'000
Shares in group undertakings	14	-	-	3,500	3,500
Investments maturing after more than one year		14,514	28,908	-	-
Investments maturing within one year		15,813	-	-	-
		30,327	28,908	3,500	3,500

The investment in subsidiaries is an equity instrument measured at cost less impairment.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

13 Fixed asset investments

(Continued)

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 next bond matures in March 2020 and the last of the bonds matures in 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 investments and will be realised in cash when the bonds mature.

Movements in fixed asset investments

Group	EIB Bonds £'000
Cost or valuation	
At 1 January 2019	28,908
Interest	1,419
	<u>30,327</u>
At 31 December 2019	<u>30,327</u>
Carrying amount	
At 31 December 2019	<u>30,327</u>
At 31 December 2018	<u>28,908</u>

Movements in fixed asset investments

Company	Shares in group undertakings £'000
Cost or valuation	
At 1 January 2019 and 31 December 2019	3,500
Carrying amount	
At 31 December 2019	<u>3,500</u>
At 31 December 2018	<u>3,500</u>

14 Subsidiaries

Details of the Company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
UK Highways M40 Limited	8 White Oak Square, London Road, Swanley, BR8 7AG	Design, finance, construction and operation of the M40 motorway junctions 1 to 15	Ordinary shares	100

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

15 Debtors

Amounts falling due within one year:

		Group		Company	
	Notes	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade debtors		-	10	-	-
Amounts due from subsidiary undertakings		-	-	279	323
Unsecured loan notes		-	-	468	405
Prepayments and accrued income		8,877	8,927	-	-
		<u>8,877</u>	<u>8,937</u>	<u>747</u>	<u>728</u>

Amounts falling due after more than one year:

Amounts due from subsidiary undertakings		-	-	4,221	4,688
Deferred tax asset	20	327	369	-	-
		<u>327</u>	<u>369</u>	<u>4,221</u>	<u>4,688</u>

Total debtors		<u>9,204</u>	<u>9,306</u>	<u>4,968</u>	<u>5,416</u>
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Unsecured loan notes

At the year end, the Company was owed £4,689,000 (2018: £5,093,000) in unsecured loan notes and accrued interest of £121,000 (2018: £166,000) from its subsidiary, UK Highways M40 Limited. The loan notes are subject to interest at 15% per annum and they are repayable by 1 May 2026, or before if funds allow.

16 Creditors: amounts falling due within one year

		Group		Company	
	Notes	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Unsecured loan notes	19	468	405	468	405
Bank loans and overdrafts	19	6,968	6,384	-	-
Trade creditors		51	195	-	-
Gross amounts owed to contract customers		284	145	-	-
Amounts owed to parent undertakings	19	121	166	121	166
Corporation tax payable		1,246	1,539	-	-
Other taxation and social security		636	573	-	-
Major maintenance accrual		9,519	15,530	-	-
Accruals and deferred income		3,691	4,319	-	-
		<u>22,984</u>	<u>29,256</u>	<u>589</u>	<u>571</u>

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

16 Creditors: amounts falling due within one year

(Continued)

Major Maintenance Accrual

The major maintenance accrual comprises the following elements:

	2019 £'000	2018 £'000
Balance at 1 January	(15,530)	(13,401)
Unwinding of discount	(1,320)	(1,072)
Expensed in year	6,438	4,586
Release/(charge) for the year	893	(5,643)
Balance at 31 December	(9,519)	(15,530)

The major maintenance accrual is based on projected future cashflows and has been discounted at a rate of 8.5% (2018: 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 £10,921,000 and applying a discount rate of 9.5% gives rise to a provision of £8,191,000.

17 Creditors: amounts falling due after more than one year

		Group 2019 £'000	2018 £'000	Company 2019 £'000	2018 £'000
	Notes				
Unsecured loan notes	19	4,221	4,688	4,221	4,688
Bank loans and overdrafts	19	46,815	53,583	-	-
Derivative financial instruments measured at fair value through profit or loss		5,727	6,531	-	-
		56,763	64,802	4,221	4,688

Derivative financial instruments

The swaps have a fixed interest rate of 3.98% and expire in 2025. The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swap.

The fair value of the derivative financial instrument above comprises the fair value of the interest rate swap designated in an effective hedging arrangement. The change in fair value of the interest rate swap that was recognised in other comprehensive income in the year was a gain of £754,000 (2018: gain £2,379,000).

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

17 Creditors: amounts falling due after more than one year (Continued)

Amounts included above which fall due after five years are as follows:

Payable by instalments	8,472	23,230	1,500	2,334
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

18 Financial instruments

	Group 2019 £'000	2018 £'000	Company 2019 £'000	2018 £'000
Carrying amount of financial assets				
Cash and cash equivalents	22,604	31,284	4	5
Trade and other receivables	8,877	8,936	-	-
Equity instruments measured at cost less impairment	30,327	28,908	-	-
Amounts due from subsidiaries	-	-	4,968	5,416
Measured at cost less impairment				
Fixed asset investments	-	-	3,500	3,500
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Carrying amount of financial liabilities				
Measured at amortised cost				
Bank loans and overdrafts	53,783	59,967	-	-
Trade and other payables	13,545	20,189	-	-
Amounts owed to parent undertakings	4,810	5,259	4,810	5,259
Measured at fair value through profit or loss				
- Other financial liabilities	5,727	6,531	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 Loans and overdrafts

	Group 2019 £'000	2018 £'000	Company 2019 £'000	2018 £'000
Unsecured loan notes	4,689	5,093	4,689	5,093
Bank loans	53,783	59,967	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	58,472	65,060	4,689	5,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Payable within one year	7,436	6,789	468	405
Payable after one year	51,036	58,271	4,221	4,688
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	58,472	65,060	4,689	5,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

19 Loans and overdrafts

(Continued)

Bank loans

Bank borrowings relate to a term loan facility granted on 8 October 1996 by a banking syndicate with HSBC PLC acting as agent. The facility is secured by way of a first legal mortgage over the leasehold property. The loan is repayable in six monthly installments based on an agreed percentage of the total amount drawn down. Interest is charged on the facility based on floating LIBOR.

Unsecured loan notes

Amounts owed to parent undertakings include loan notes of £4,689,000 (2018: £5,093,000) and accrued interest of £121,000 (2018: £166,000). The loan notes were issued to the shareholders in amounts proportionate to their percentage of shareholding. The loan notes are subject to an interest rate at an agreed arms length rate of 15% and they are repayable by 1 May 2026, or before if funds are available.

20 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Group and Company, and movements thereon:

	Assets 2019 £'000	Assets 2018 £'000
Group		
Deferred tax on interest rate swap fair value	900	1,028
Fixed asset timing differences	(573)	(659)
	<u>327</u>	<u>369</u>
Deferred tax asset		
Payable within 12 months	83	197
Payable after 12 months	244	172
	Group	Company
	2019	2019
	£'000	£'000
Movements in the year:		
Asset at 1 January 2019	(369)	-
Credit to profit or loss	(86)	-
Charge to other comprehensive income	128	-
	<u>(327)</u>	<u>-</u>
Asset at 31 December 2019		

The Company has brought forward management expenses of £8,701. A deferred tax asset of £1,479 has not been recognised on the basis that there is insufficient evidence that the asset will be recoverable.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

21 Called up share capital

	Group and company	
	2019	2018
	£'000	£'000
Ordinary share capital		
Authorised		
40,000,000 Ordinary Shares of £1 each	40,000	40,000
Issued and fully paid		
3,550,000 Ordinary Shares of £1 each	3,550	3,550

Other reserves

The Group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

22 Related party transactions

Transactions with related parties

During the year the Group entered into the following transactions with related parties:

	Semperian PPP Investment Partners Limited and subsidiaries		Craighouse UK 3 Limited and subsidiaries	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Group				
Directors' fees	60	58	60	58
Loan note interest charged	378	590	378	590
Loan notes owed at 31 December	2,344	2,546	2,344	2,546

23 Controlling party

The Company is a joint venture between Semperian Subholdings M40 Limited (50%), a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited, and Palio No 7 Limited (50%), a wholly owned subsidiary of Craighouse UK 3 Limited. Both of these companies are incorporated in Great Britain and registered in England.

The Directors consider there to be no ultimate controlling entity.

24 Subsequent events

Subsequent to the balance sheet date, Covid-19 started to increase in the UK which included a UK wide lockdown. The impact of Covid-19 has been assessed as a non-adjusting post balance sheet event. The impact of Covid-19 has been further explained within the going concern note within note 1.

UK HIGHWAYS M40 (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

25 Cash generated from group operations

	2019 £'000	2018 £'000
Profit for the year after tax	16,722	9,662
Adjustments for:		
Taxation charged	3,922	2,254
Finance costs	5,171	5,727
Investment income	(1,662)	(1,594)
Movements in deferred income	(564)	1,295
Non-cash expense (depreciation)	3,630	3,596
Movements in working capital:		
Decrease in debtors	46	681
(Decrease) in creditors	(7,014)	(1,256)
Cash generated from operations	20,251	20,365