UK HIGHWAYS M40 (HOLDINGS) LIMITED

ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2017

Registered Number 2939644

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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DIRECTORS AND ADVISORS

Directors

I R Gethin	(resigned 24 January 2018)
N Rae	
D Bradbury	
C Corpetti	(resigned 11 May 2017)
J Heemelaar	(appointed 11 May 2017)
A Birch	(appointed 24 January 2018)

Company Secretary and registered office

T Hedges
8 White Oak Square
London Road
Swanley
Kent
BR8 7AG
United Kingdom

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Principal bankers

HSBC
8 Canada Square
London
E14 5HQ

STRATEGIC REPORT

The Directors submit their Strategic Report for the year ended 31 December 2017.

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 by UK Highways M40 Limited, a wholly owned subsidiary, 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.

PRINCIPAL RISKS

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

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

KEY PEFORMANCE INDICATORS

The Group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the DBFO 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 0.8% for cars and 5.4% for HGVs over the same period last year. In the prior year, traffic volumes increased by 1.2% for cars and 3.6% 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 time.

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

Forecasts
The Board regularly reviews costs and traffic levels against forecasts and accident statistics are compared against benchmarks. Traffic is monitored against independent forecasts provided by our advisors and costs are measured against both our own budgets and benchmarked against similar sub-contracts on other projects. An independent traffic reforecast was commissioned in 2016, the results of which have been incorporated into the traffic projections going forward.

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

STRATEGIC REPORT *(continued)*

FUTURE DEVELOPMENTS

On 25 January 2018 Carillion LGS Limited, the Company's main operations and maintenance sub-contractor, entered into compulsory liquidation. Their performance guarantor, Carillion Plc, entered into compulsory liquidation on 15 January 2018. Pricewaterhouse Coopers (PwC) were appointed as Special Managers to ensure services continued whilst an alternative service provider could be put in place. On 23 April 2018, following Authority and Lender approval, the Operations and Maintenance Agreement was novated to Egis Road Operation M40 Limited, with Egis Projects S.A. assuming the role of performance guarantor. As the contract is being novated terms and costs will be the same as the existing agreement.

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

On behalf of the Board

N Rae
Director
26 April 2018

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The results for the year are set out on page 8. Profit before taxation is £7.6m (2016: £18.6m). 2016 profit before taxation was significantly higher due to a change in the required major maintenance accrual at 31 December 2016, as explained in the 2016 Annual Report.

During the year the Company paid a dividend of £12,926,000 (2016: £6,023,000).

SHARE CAPITAL

Details of the authorised and issued share capital are shown in note 18.

DIRECTORS

The Directors who served throughout the year, except as noted, are shown on page 1.

DIRECTORS' INTERESTS

No Director has, or has held at any time during the year, any interest in the share capital of the Company.

No Director has a service contract with or receives any remuneration from the Company. No Director has, or had during the year, any personal interest in any significant or material contract with the Company.

There have been qualifying third party indemnity provisions in place for the benefit of the Directors during the year. These provisions remain in force at the reporting date.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a number of financial risks including credit risk, interest rate risk and liquidity risk. These risks are further explained in the strategic report.

FUTURE DEVELOPMENTS

Details of future developments and events that have occurred after the balance sheet date can be found in the strategic report on page 3 and form part of this report by cross-reference.

AUDITORS

Disclosure of information to the auditor

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

Auditor

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

On behalf of the Board

N Rae
Director
26 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:
• give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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 of UK Highways M40 (Holdings) Limited (the 'parent company') and its subsidiary (the 'group') which comprise:
• the consolidated statement of comprehensive income;
• the consolidated and parent company statement of financial position;
• the consolidated and parent company statements of changes in equity;
• the consolidated cash flow statement; and
• the related notes 1 to 22.

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 ISAs (UK) to report in respect of the following matters where:
• the directors' use of the going concern basis of accounting in 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Auditors Report (continued)

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

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 the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

Mark Beddy

Mark Beddy FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

26 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017**	2016
		£'000	£'000
Turnover	4	**36,785**	34,889
Operating costs		**(25,108)**	(10,916)
Operating profit	5	**11,677**	23,973
Net interest payable	8	**(4,079)**	(5,341)
Profit on ordinary activities before taxation		**7,598**	18,632
Tax on profit on ordinary activities	9	**(1,452)**	(3,704)
Profit for the financial year		**6,146**	14,928
Other comprehensive income/(loss)			
Cash flow hedge gain/(loss) for the year		**2,344**	(1,360)
Tax relating to other comprehensive income/(loss)	9	**(399)**	137
Total comprehensive income for the year		**8,091**	13,705

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	12	**32,668**	36,229
Investments maturing after more than one year	13	**27,560**	26,275
		60,228	62,504
Current assets			
Investments maturing within one year	13	**-**	12,715
Debtors- due within one year	14	**31,481**	27,771
- due after one year	14	**685**	982
Cash at bank and in hand		**13,575**	13,526
		45,741	54,994
Current liabilities			
Creditors: amounts falling due within one year	16	**(28,092)**	(25,696)
Net current assets		**17,649**	29,298
Total assets less current liabilities		**77,877**	91,802
Creditors: amounts falling due after more than one year	16	**(76,386)**	(85,476)
Net assets		**1,491**	6,326
Capital and reserves			
Called up share capital	18	**3,550**	3,550
Hedging reserve	18	**(6,993)**	(8,938)
Profit and loss account	18	**4,934**	11,714
Total equity		**1,491**	6,326

The consolidated financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 26 April 2018. They were signed on its behalf by:

N Rae
Director
26 April 2018

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017	2016
		£'000	£'000
Fixed assets			
Investments	13	**3,500**	3,500
Current assets			
Debtors			
- due within one year	14	**885**	828
- due after more than one year	14	**7,593**	8,112
Cash at bank and in hand		**5**	5
		8,483	**8,945**
Current liabilities			
Creditors: amounts falling due within one year	16	**(728)**	(671)
Net current assets		**7,755**	8,274
Total assets less current liabilities		**11,255**	11,774
Creditors: amounts falling due after more than one year	16	**(7,593)**	(8,112)
Net assets		**3,662**	3,662
Capital and reserves			
Called up share capital	18	**3,550**	3,550
Profit and loss account	18	**112**	112
Total equity		**3,662**	3,662

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in the financial statements. The profit after taxation incurred in the financial statements of the Company was £12,926,000 (2016: profit £6,023,000).

The financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 26 April 2018. They were signed on its behalf by:

N Rae
Director
26 April 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share Capital £'000	Hedging Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
Balance as at 1 January 2016		3,550	(7,715)	2,809	(1,356)
Year ended 31 December 2016					
Profit for the year		-	-	14,928	14,928
Other comprehensive income:					
Cash flow hedge losses arising in the year		-	(1,360)	-	(1,360)
Tax relating to other comprehensive income		-	137	-	137
Total comprehensive income for the year		-	(1,223)	14,928	13,705
Dividends paid	10	-	-	(6,023)	(6,023)
Balance as at 31 December 2016		3,550	(8,938)	11,714	6,326
Year ended 31 December 2017					
Profit for the year		-	-	6,146	6,146
Other comprehensive income:					
Cash flow hedge gains arising in the year		-	2,344	-	2,344
Tax relating to other comprehensive income		-	(399)	-	(399)
Total comprehensive income for the year		-	1,945	6,146	8,091
Dividends paid	10	-	-	(12,926)	(12,926)
Balance as at 31 December 2017		3,550	(6,993)	4,934	1,491

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share Capital £'000	Profit and Loss Account £'000	Total Equity £'000
Balance as at 1 January 2016		3,550	112	3,662
Year ended 31 December 2016				
Profit and total comprehensive income for the year		-	6,023	6,023
Dividends paid	10	-	(6,023)	(6,023)
Balance as at 31 December 2016		3,550	112	3,662
Year ended 31 December 2017				
Profit and total comprehensive income for the year		-	12,926	12,926
Dividends paid	10	-	(12,926)	(12,926)
Balance as at 31 December 2017		3,550	112	3,662

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	22	**17,497**	10,114
Taxation paid		**(2,837)**	(2,690)
Net cash inflow from operating activities		**14,660**	7,424
Investing activities			
Interest received		**203**	304
EIB bond matured		**12,869**	5,400
Current asset investment (deposited)/matured		**(3,000)**	1,000
Net cash generated from investing activities		**10,072**	6,704
Financing activities			
Interest and other financing costs paid		**(4,777)**	(4,928)
Equity dividends paid		**(12,926)**	(6,023)
Repayment of secured loan		**(6,530)**	(6,158)
Repayment of loan notes		**(450)**	(391)
Net cash used in financing activities		**(24,683)**	(17,500)
Net increase/(decrease) in cash and cash equivalents		**49**	(3,372)
Cash and cash equivalents at beginning of year		**13,526**	16,898
Cash and cash equivalents at end of year		**13,575**	13,526

Notes to the financial statements for the year ended 31 December 2017

1 ACCOUNTING POLICIES

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 Company exists to hold investments in its subsidiary, UK Highways M40 Limited, that provides services under a private finance agreement. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of certain financial instruments at fair value. 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. A summary of the principal accounting policies adopted are set out below.

a) Going concern

The Directors have reviewed the Company's forecasts and projections, taking into account future cash requirements and forecast receipts, which show the Company can continue to meet its debts as they fall due.

The Directors therefore, at the time of approving the financial statements, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

As a novation contract was signed on 23 April 2018 for Egis Road Operation M40 Limited to continue the operations and maintenance service previously provided by Carillion LGS Limited (and PwC in the intervening period), there has been no interruption of the contractual services delivered to the Secretary of State. As such, the compulsory liquidation of Carillion LGS Limited is not deemed to have an impact on the ability of the Company to continue as a going concern.

b) Basis of consolidation

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

c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

(i) leasehold properties and improvements, being the depots covered by the Concession Agreement.

(ii) infrastructure assets, being that section of the M40 road covered by the Concession Agreement (the "Project Road") together with its associated landscaping and over/under bridges.

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

d) 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.

e) Infrastructure assets

The Group 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

1 ACCOUNTING POLICIES (continued)

f) 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

Mechanical and electrical equipment	10 years
Plant, machinery and other equipment	3-10 years
Fixtures and fittings	3-5 years

g) Fixed Asset Investments

Fixed asset investments are held at cost (including accrued interest income on zero coupon bonds) less provision for any impairment. Cost includes rolled up notional interest which is calculated on a sum of the digits method reflecting the economic benefits received by the Company.

h) Turnover

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

i) Cash

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with original maturity of less than three months.

j) 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 8.0% (2016: 8.0%). The unwinding of the discount is recognised in the income statement with other finance costs.

k) 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 assets are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements 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 at the same time.

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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

1 **ACCOUNTING POLICIES (continued)**
Financial Instruments (continued)

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.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, 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. This 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.

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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

1 ACCOUNTING POLICIES (continued)
Financial Instruments (continued)

Derecognition of financial liabilities
Financial liabilities are derecognised when, and only when, the Group's contractual obligations expire or are discharged or cancelled.

l) 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.

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 of the income statement 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.

m) 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 rates that have been enacted or substantially 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 when the Group has 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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, if the revision affects only that period, or in the period of the revision and future periods if 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; the Group has therefore recognised fair value movements on derivatives in effective hedging arrangements through other comprehensive income as well as the deferred tax thereon.

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 outlined below.

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 market 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 negative fair value of derivative financial instruments at the balance sheet date was a liability of £9,026,000 (2016: £11,414,000 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

3 COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in the financial statements. The profit after taxation incurred in the financial statements of the Company was £12,926,000 (2016: profit £6,023,000).

4 TURNOVER

	Group 2017 £'000	Group 2016 £'000
Turnover in the year is analysed as follows:		
Shadow tolls	**31,939**	30,609
Variation income (additional works)	**4,782**	4,156
Other revenue	**64**	124
	36,785	34,889

Turnover relates wholly to amounts paid under the Concession Agreement in the United Kingdom.

5 OPERATING PROFIT

	Group 2017 £'000	Group 2016 £'000
Operating profit is stated after charging:		
Fees payable to the Group's auditor for the audit of the annual accounts	**16**	16
Fees payable to the Group's auditor and its associates for other services – Taxation services	**5**	5
Major maintenance (see note 16)	**8,861**	(5,568)
Operational costs	**11,790**	11,998
Other operating charges	**875**	938
Depreciation and amortisation	**3,561**	3,527

6 DIRECTORS' REMUNERATION

The Directors did not receive any remuneration during this year or the previous year. Fees are due to the shareholding companies for the services of the Directors. The amounts were £55,785 (2016: £54,420) per shareholding, a total of £115,570 (2016: £108,840).

7 STAFF NUMBERS AND COSTS

The Group had no employees during the year (2016: nil).

8 NET INTEREST PAYABLE

	Group 2017 £'000	Group 2016 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	**225**	243
Interest on EIB zero coupon bonds	**1,439**	1,886
	1,664	2,129
Interest payable and similar charges measured at amortised cost		
Interest payable on bank loans and overdrafts	**(3,648)**	(3,989)
Interest payable on shareholder loan notes	**(1,276)**	(1,351)
Other finance costs - unwinding of discount on major maintenance accrual	**(819)**	(2,130)
	(5,743)	(7,470)
Net interest payable	**(4,079)**	(5,341)

Notes to the financial statements for the year ended 31 December 2017 (continued)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group 2017 £'000	Group 2016 £'000
Analysis of tax charge for the year		
Current tax		
UK corporation tax	**(1,552)**	(3,819)
Prior year adjustment	**(2)**	4
Total current tax	**(1,554)**	(3,815)
Deferred tax		
Origination and reversal of timing differences	**89**	92
Effect of changes in tax rates	**13**	19
Total deferred tax	**102**	111
Total tax charge on profit on ordinary activities	**(1,452)**	(3,704)
Other comprehensive income items		
Deferred tax current year (charge)/credit	**(399)**	137
	(399)	137

Factors affecting tax charge for the current year

For the year ended 31 December 2017, the blended UK rate of 19.25% is applied.

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective 1 April 2017 and to 18% effective 1 April 2020, was substantively enacted on 26 October 2016. Subsequently, the Finance Act 2016, which provided a further reduction in the main rate of corporation tax to 17% effective 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

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

	Group 2017 £'000	Group 2016 £'000
Profit on ordinary activities before taxation	**7,598**	18,632
Profit on ordinary activities multiplied by the blended rate of corporation tax in the UK of 19.25% (2016 - 20%)	**(1,463)**	(3,727)
Effects of:		
Prior year adjustment	**(2)**	4
Change in corporation tax rate	**13**	19
Total tax charge on profit on ordinary activities	**(1,452)**	(3,704)

10 DIVIDENDS

	Group 2017 £'000	Group 2016 £'000
Equity shares		
Final paid	**(4,300)**	(2,090)
Interim paid	**(8,626)**	(3,933)
	(12,926)	(6,023)

Notes to the financial statements for the year ended 31 December 2017 (continued)

11 FINANCIAL INSTRUMENTS

	Group		Company	
	2017	2016	**2017**	2016
Carrying amount of financial assets	**£'000**	£'000	**£'000**	£'000
Debt instruments measured at amortised cost	**34,575**	31,526	**8,483**	8,945
Equity instruments measured at cost less impairment	**-**	-	**3,500**	3,500
	34,575	31,526	**11,983**	12,445
Carrying value of financial liabilities				
Measured at amortised cost	**93,846**	97,694	**8,321**	8,783
	93,846	97,694	**8,321**	8,783
Amounts relating to cash flow hedges reclassified from equity to profit and loss in the period	**-**	-	**-**	-

12 TANGIBLE FIXED ASSETS

	Short Leasehold Properties and Improvements	Infrastructure Assets	Other Assets	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	828	85,011	765	86,604
At 31 December 2017	**828**	**85,011**	**765**	**86,604**
Depreciation				
At 1 January 2017	(519)	(49,091)	(765)	(50,375)
Charge for the year	(31)	(3,530)	-	(3,561)
At 31 December 2017	**(550)**	**(52,621)**	**(765)**	**(53,936)**
Net book value				
At 31 December 2017	**278**	**32,390**	**-**	**32,668**
At 31 December 2016	309	35,920	-	36,229

Included within infrastructure asset costs is £9,332,000 (2016: £9,332,000) of interest capitalised during the construction phase. The net book value of interest capitalised is £3,554,000 (2016: £3,941,000).

The Group has the right to the benefits derived from the operation of the Concession fixed assets throughout the term of the Concession, but in certain instances has no legal title to those assets. The Group's subsidiary has an obligation to maintain the Concession fixed assets throughout the Concession period and to hand them back to the Secretary of State at the end of the Concession in an agreed condition.

13 FIXED ASSET INVESTMENTS

	Group	Company
	EIB bond	Interest in Group Undertakings
	£'000	£'000
Cost		
At 1 January 2017	38,990	3,500
Interest	1,439	-
Matured in the period	(12,869)	-
At 31 December 2017	**27,560**	**3,500**
Net book value		
At 31 December 2017	**27,560**	**3,500**
At 31 December 2016	38,990	3,500

Notes to the financial statements for the year ended 31 December 2017 (continued)

13 FIXED ASSET INVESTMENTS (continued)

	Group	
	2017	2016
	£'000	£'000
Fixed asset - investments maturing after more than one year	**27,560**	26,275
Current asset - investment maturing within one year	**-**	12,715
	27,560	38,990

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 fifth of these bonds matured in 2017 with the remaining two maturing at specified intervals through to 2021.

The interest in respect of these bonds is being recognised in the profit and loss account, even though no interest is received in cash, to spread the receipt of interest over the life of the bonds. The interest is being rolled up into the investments and will be realised in cash when the bonds mature.

The Company's only subsidiary undertaking is UK Highways M40 Limited, which is wholly owned and whose only activity is the design, building, finance and operation of the M40 motorway.

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

14 DEBTORS

	Group		Company	
	2017	2016	**2017**	2016
Amounts falling due within one year	**£'000**	£'000	**£'000**	£'000
Trade debtors	**668**	-	**-**	-
Amounts owed from group undertakings	**-**	-	**363**	376
Unsecured loan notes	**-**	-	**522**	452
Corporation tax	**861**	-	**-**	-
Other taxation	**-**	528	**-**	-
Current asset investment	**21,000**	18,000	**-**	-
Prepayments and accrued income	**8,952**	9,243	**-**	-
	31,481	27,771	**885**	828
Amounts falling due after one year				
Unsecured loan notes	**-**	-	**7,593**	8,112
Deferred tax asset (note 15)	**685**	982	**-**	-
	685	982	**7,593**	8,112

As at 31 December 2017 the Group had £6,000,000 on twelve month deposit with an interest rate of 0.43% maturing in March 2018, £3,000,000 on four month deposit with an interest rate of 0.28% maturing in February 2018, and £12,000,000 on three month deposit with an interest rate of 0.42% maturing in February 2018.

During the year the Company was repaid £450,000 (2016: £390,770) on its loan notes from its subsidiary, UK Highways M40 Limited. Interest on the remaining loan notes is charged at 15% per annum and they are re-payable by 1 May 2026, or before if funds allow.

15 DEFERRED TAX

	Group		Company	
Deferred tax asset	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Balance as at 1 January	**982**	734	**-**	-
Credited to the profit and loss account during the year	**102**	111	**-**	-
(Charged)/credited to other comprehensive income during the year	**(399)**	137	**-**	-
Balance as at 31 December	**685**	982	**-**	-

Notes to the financial statements for the year ended 31 December 2017 (continued)

15 DEFERRED TAX (continued)

The balance provided at 17% (2016: 17%) comprises:	Group 2017 £'000	Group 2016 £'000
Other timing differences	**(747)**	(849)
Tax relating to other comprehensive income	**1,432**	1,831
	685	982
The balance is payable:		
Within one year	**88**	88
After one year	**597**	894
	685	982

The deferred tax liability in relation to other timing differences set out above is expected to reverse over the concession length and relates to a difference in accounting and taxation treatment of certain expenses.

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

16 CREDITORS

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due within one year				
Bank loans (note 17)	**6,384**	6,530	**-**	-
Trade creditors	**437**	343	**206**	219
Unsecured shareholder loan notes (note 17)	**522**	452	**522**	452
Corporation tax	**-**	1,442	**-**	-
Related party payable - consortium relief	**1,644**	622	**-**	-
Other taxation and social security	**567**	-	**-**	-
Major maintenance accrual	**13,401**	10,237	**-**	-
Accruals and deferred income	**5,137**	6,070	**-**	-
	28,092	25,696	**728**	671
Amounts falling due after more than one year				
Bank loans (note 17)	**59,767**	65,950	**-**	-
Unsecured shareholder loan notes (note 17)	**7,593**	8,112	**7,593**	8,112
Derivative financial instruments	**9,026**	11,414	**-**	-
	76,386	85,476	**7,593**	8,112

Derivative financial instruments

In 2008, as part of its interest rate management and in accordance with the terms of its credit agreement, the Group entered into a 16 year interest rate hedging agreement to be applied to the future borrowings of the Group under the loan facility. This swap agreement with Lloyds Bank fixes the interest rate at 3.98% to 31 March 2025. The interest rate swaps settle on a semi-annual basis with the floating rate being six months LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The interest rate swap contract was designated as a hedge 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 £2,344,000 (2016: loss £1,360,000).

Major maintenance accrual

The major maintenance accrual comprises the following elements:

	2017 £'000	2016 £'000
Balance as at 1 January	**(10,237)**	(26,624)
Unwinding of discount	**(819)**	(2,130)
Expensed in the year	**6,516**	12,949
(charge)/credit for the year	**(8,861)**	5,568
Balance as at 31 December	**(13,401)**	(10,237)

Notes to the financial statements for the year ended 31 December 2017 (continued)

16 CREDITORS (continued)

The major maintenance accrual is based on projected future cash flows and has been discounted at a rate of 8.0% (2016: 8.0%), which is considered to be an appropriate rate of discount. Applying a discount rate of 7.0% gives rise to a provision of £15,517,000, and applying a discount rate of 9.0% gives rise to a provision of £11,410,000.

17 LOANS AND OVERDRAFTS

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Bank loans	**66,151**	72,480	**-**	-
Unsecured loan notes	**8,115**	8,564	**8,115**	8,564
	74,266	81,044	**8,115**	8,564
Analysis of debt:				
Debt can be analysed as falling due:				
In one year or less	**6,706**	6,782	**522**	452
Between one and five years	**32,932**	30,076	**3,036**	2,627
In five years or more	**34,628**	44,186	**4,557**	5,485
	74,266	81,044	**8,115**	8,564

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 instalments based on an agreed percentage of the total amount drawn down. Interest is charged on the facility based on floating LIBOR.

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

18 CALLED UP SHARE CAPITAL AND OTHER RESERVES

	Group / Company	
	2017	2016
Ordinary share capital	**£'000**	£'000
Allotted, issued and fully paid:		
3,550,000 ordinary shares of £1 each	**3,550**	3,550
	No.	No.
Authorised:		
40,000,000 ordinary shares of £1 each	**40,000,000**	40,000,000

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 accumulate 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.

19 TRANSACTIONS WITH RELATED PARTIES

	2017	2016
The Group had the following related party transactions during the year:	**£'000**	£'000
Semperian PPP Investment Partners Limited and subsidiaries		
Directors' fees	**56**	54
Loan note interest charged	**638**	675
Loan notes owed at 31 December	**4,057**	4,282
John Laing Infrastructure Fund Limited and subsidiaries		
Directors' fees	**56**	54
Loan note interest charged	**638**	675
Loan notes owed at 31 December	**4,057**	4,282

Notes to the financial statements for the year ended 31 December 2017 (continued)

20 ULTIMATE CONTROLLING ENTITY

The Company is a joint venture between Palio (No.7) Limited (50%), a wholly owned subsidiary of John Laing Infrastructure Fund Limited, and Semperian Subholdings M40 Limited (50%), a wholly owned subsidiary of Semperian PPP Investment Partners Holdings Limited. Both of these companies are registered in England and Wales. The Directors consider there to be no ultimate controlling entity.

21 SUBSIDIARIES

Details of the Company's subsidiary at 31 December 2017 are as follows:

Name of undertaking	**Country of incorporation or residency**	**Class of shareholding**	**% Held direct**
UK Highways M40 Limited	United Kingdom	Ordinary shares	100

The registered address of the subsidiary is 8 White Oak Square, London Road,Swanley, Kent BR8 7AG, United Kingdom.

22 CASH GENERATED FROM OPERATIONS

	2017	2016
	£'000	£'000
Profit for the financial year	**6,146**	14,928
Adjustments for:		
Corporation tax	**1,452**	3,704
Finance costs	**5,743**	7,470
Investment income	**(1,664)**	(2,129)
Increase in debtors	**(354)**	(836)
Increase/(decrease) in creditors	**2,634**	(16,529)
Movements in deferred income	**(21)**	(21)
Non-cash expense (depreciation)	**3,561**	3,527
Cash generated from operations	**17,497**	10,114