

AUTOLINK HOLDINGS (M6) LIMITED
REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



Registered in England and Wales No. 3319443

AUTOLINK HOLDINGS (M6) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

Directors: N J E Crowther
J Graham
R J W Wotherspoon
J G Neill (resigned on 13 December 2017)
A R Gates (appointed on 13 December 2017 – alternate to R J W Wotherspoon)
D R Bradbury

Secretary: K J Pearson

The directors present their report together with the audited financial statements of Autolink Holdings (M6) Limited (“the company”) and subsidiary company Autolink Concessionaires (M6) Plc, together “the group”, for the year ended 31 December 2017.

1. DIRECTORS

The directors, as set out above, served throughout the year and remain in office, except A R Gates who was appointed from 13 December 2017 and J G Neill who resigned on 13 December 2017.

2. DIVIDENDS

The company paid interim dividends during the year of £10,000,000 (2016: £19,475,000). The directors do not recommend payment of a final dividend (2016: £Nil).

3. DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors’ report confirm that:

- so far as they are each aware, there is no relevant audit information of which the group’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 group’s auditor is aware of that information.

In accordance with Section 489 of the Companies Act 2006 a resolution to reappoint KPMG LLP, as auditor will be put to the forthcoming annual general meeting.

This information is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

By Order of the Board



K J Pearson
Secretary

Registered Office:
Eaton Court
Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 7TR

11th June 2018

AUTOLINK HOLDINGS (M6) LIMITED

STRATEGIC REPORT

1. RESULTS FOR THE YEAR

The group profit for the year after taxation was £4,943,000 (2016: £4,227,000).

The company paid interim dividends during the year of £10,000,000 (2016: £19,475,000). The directors do not recommend payment of a final dividend (2016: £Nil).

2. REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITIES

The company was incorporated in 1997 and is a holding company. The main asset of the company is its investment in Autolink Concessionaires (M6) Plc, which on the 29 April 1997 entered into a Private Finance Initiative ("PFI") contract (the "Contract") with The Secretary of State for Scotland to Design, Build, Finance and Operate a motorway link between the existing A74(M) and the M74 and an extension to the existing M6 Motorway, linking it to the existing A74(M) (together "the Road"). The company's subsidiary commenced operation and maintenance of the Road on 29 July 1997. On 1 July 1999 the Contract was assigned to The Scottish Ministers under The Scotland Act 1998.

The operation of the Contract is the principal activity of the group. There have not been any significant changes in the group's principal activities during the year, and no major changes are anticipated in the next year.

The company's transactions during the year were limited to the following:

In the profit and loss account there was interest receivable accruing on bank balances, receipt of dividends and fees from its subsidiary and an impairment of its investment in its subsidiary. During the year the company also made a payment of dividends to its shareholders. The company will remain the holding company of Autolink Concessionaires (M6) Plc for the foreseeable future.

During the year the company changed its accounting policies regarding the valuation of its investment in the subsidiary. Previously the investment was valued at cost less impairment, the valuation method has been changed in the year to fair value. The results of this change in accounting policy can be seen in note 1(c) to the financial statements.

The group continues to meet its contractual obligations to The Scottish Ministers whilst also working to improve its efficiency in controlling costs. As shown in the group's profit and loss account on page 7 the group made a profit in the year. Revenue for the year was £14,349,000 (2016: £13,377,000) on operating costs of £13,204,000 (2016: £12,668,000). The increase in operating costs was driven by an increased programme of major maintenance works in 2017 which was in line with programme of works set out at the start of the year. The group incurred unavailability deductions of £1,393,000 (2016: £1,339,000) the majority of which were planned as part of the programme of major maintenance works. The interest income for the year of £11,913,000 (2016: £12,555,000) exceeded the interest expense for the year of £6,584,000 (2016: £7,508,000) by £5,329,000 (2016: £5,047,000) and this was the primary factor for the increase in profit for the year. The group balance sheet on page 8 of the financial statements shows that the group's financial position at the year end remains robust, and that the group has sufficient funds to cover its liabilities as they fall due. The reduction is due to the interim dividends paid of £9,750,000 exceeding the total comprehensive income of £4,692,000. Creditors falling due after more than 1 year have decreased by £1,890,000, this is due to debt repayments of £11,463,000 offset by an increase in the UCCA of £9,573,000.

The directors have modelled the anticipated financial performance of the group's concession across its full term. The directors monitor its actual performance against the anticipated performance. At 31 December 2017 the group's performance against this measure was satisfactory.

The revenue of the group is dependent upon the unitary charge receivable from the authority and the expected costs over the lifetime of the project. The income receivable from the authority is dependent on traffic flows on the Road with the charge varying with reference to the traffic flow bands within the Contract. The nature of the bands means that traffic flows can vary significantly without changing the banding and hence the income receivable from the authority. The group measures the actual traffic volumes and forecasts future traffic flows, and compares to the original traffic expectations. At 31 December 2017 the group's performance against this measure was satisfactory.

The group's operations are managed under the supervision of its directors in accordance with its funding arrangements. These operations are largely determined by the detailed terms of the Contract. For this reason, the group's directors consider that further Key Performance Initiatives (KPI) for the group are not necessary or appropriate for an understanding of the performance or position of the business.

AUTOLINK HOLDINGS (M6) LIMITED

STRATEGIC REPORT (CONTINUED)

3. PRINCIPAL RISKS AND UNCERTAINTIES

The group's principal activities, now the design and build stage of the project is complete, are the finance and operation of the Road. It carries out these activities within the framework of contracts with its funders and sub-contractors to meet its obligations to The Scottish Ministers. Its main exposure is to financial risks as detailed in the following section.

4. FINANCIAL RISK MANAGEMENT

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group's performance. The board has policies for managing each of these risks and they are summarised below:

Interest rate risk

The Secured debenture loans both have a fixed rate until repayment in June 2022, thus there is no interest rate risk associated with these financial liabilities. The group is exposed to interest rate risk on bank balances and Secured Bank loans, as both of these have floating interest rates, however the directors do not consider this exposure to be significant.

Inflation risk

The group's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk

The group adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its forecast obligations. The nature of the project is such that cash flows are reasonably predictable. The group aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the group.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Transport Scotland are the sole client of the group. The directors consider that no significant risk arises from such a small client base since there are no indications that Transport Scotland will not be able to fulfil their obligations. In addition the Scottish Ministers have underwritten the Transport Scotland's obligations. The carrying value of the financial asset of £95,215,000 (2016: £105,452,000) is the maximum credit exposure.

Approved by the Board and signed on its behalf by:



R J W Wotherspoon
Director

Registered Office:
Eaton Court
Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 7TR

11th June 2018

AUTOLINK HOLDINGS (M6) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT, THE STRATEGIC REPORT AND THE FINANCIAL STATEMENTS

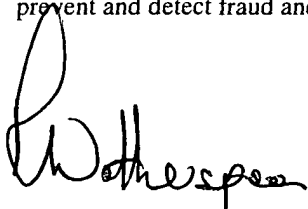
The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 parent 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 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



R J W Wotherspoon
Director

11th June 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOLINK HOLDINGS (M6) LIMITED

Opinion

We have audited the financial statements of Autolink Holdings (M6) Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated profit and loss account and statement of other comprehensive income, Consolidated balance sheet, Company balance sheet, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated cash flow statement and related notes, including the accounting policies in note 1.

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 UK accounting standards, including FRS 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOLINK HOLDINGS (M6) LIMITED
(CONTINUED)

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Arlington Business Park
Theale
Reading RG7 4SD

18 June 2018

AUTOLINK HOLDINGS (M6) LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017**

| | <u>Notes</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|-------------|-------------|
| | | £000 | £000 |
| Turnover | 1 | 14,349 | 13,377 |
| Operating costs | | (13,204) | (12,668) |
| Operating profit | | 1,145 | 709 |
| Other interest receivable and similar income | 2 | 11,913 | 12,555 |
| Interest payable and similar expenses | 3 | (6,584) | (7,508) |
| Profit before taxation | 4 | 6,474 | 5,756 |
| Taxation on profit | 6 | (1,531) | (1,529) |
| Total comprehensive income for the year | | 4,943 | 4,227 |

All of the group's activities during the year were continuing operations, and all turnover is generated within the United Kingdom.

Movements on reserves are shown in the Statement of Changes in Equity.

The notes on pages 13 to 22 form part of these financial statements.

AUTOLINK HOLDINGS (M6) LIMITED

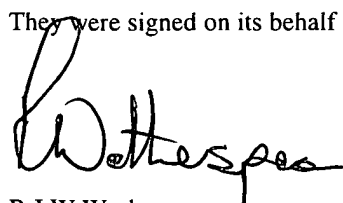
CONSOLIDATED BALANCE SHEET at 31 December 2017

| | <u>Notes</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|-------------|-------------|
| | | £000 | £000 |
| CURRENT ASSETS | | | |
| Work in progress | | - | 5,294 |
| Debtors: Amounts falling due within one year | 8 | 6,540 | 5,975 |
| Debtors: Amounts falling due after more than one year | 9 | 89,352 | 95,215 |
| Short-term deposits | 10 | 9,779 | 21,232 |
| Cash at bank and in hand | | 21,407 | 5,232 |
| | | <hr/> | <hr/> |
| | | 127,078 | 132,948 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 11 | (14,618) | (13,496) |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 112,460 | 119,452 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 12 | (108,045) | (109,935) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 14 | (595) | (640) |
| | | <hr/> | <hr/> |
| NET ASSETS | | 3,820 | 8,877 |
| | | <hr/> | <hr/> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 40 | 40 |
| Share premium account | | 374 | 374 |
| Capital redemption reserve | | 37 | 37 |
| Profit and loss account | | 3,369 | 8,426 |
| | | <hr/> | <hr/> |
| Shareholders' funds | | 3,820 | 8,877 |
| | | <hr/> | <hr/> |

These financial statements were approved by the Board of Directors and authorised for issue on 11th June 2018.

The notes on pages 13 to 22 form part of these financial statements.

They were signed on its behalf by:



R J W Wotherspoon
Director

AUTOLINK HOLDINGS (M6) LIMITED**COMPANY BALANCE SHEET**
at 31 December 2017

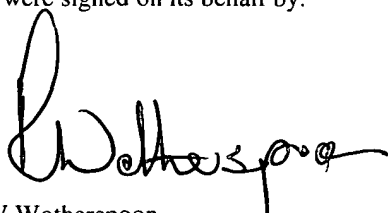
| | <u>Notes</u> | <u>2017</u> | Restated <u>2016</u> |
|-----------------------------|--------------|-------------|-------------------------|
| | | £000 | £000 |
| FIXED ASSETS | | | |
| Investments | 7 | 42,713 | 43,763 |
| CURRENT ASSETS | | | |
| Debtors | 8 | 378 | 378 |
| Cash at bank and in hand | | 4 | 3 |
| | | <hr/> | <hr/> |
| | | 382 | 381 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 382 | 381 |
| | | <hr/> | <hr/> |
| NET ASSETS | | 43,095 | 44,144 |
| | | <hr/> | <hr/> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 40 | 40 |
| Share premium account | | 374 | 374 |
| Capital redemption reserve | | 37 | 37 |
| Revaluation reserve | | 42,634 | 43,684 |
| Profit and loss account | | 10 | 9 |
| | | <hr/> | <hr/> |
| Shareholders' funds | | 43,095 | 44,144 |
| | | <hr/> | <hr/> |

As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the parent company is presented. The profit of the parent company for the year was £8,951,000 (2016: £365,000).

These financial statements were approved by the Board of Directors and authorised for issue on 11th June 2018.

The notes on pages 13 to 22 form part of these financial statements.

They were signed on its behalf by:



R J W Wotherspoon
Director

Company registration number: 3319443

AUTOLINK HOLDINGS (M6) LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

| Group | Called up Share Capital £000 | Share Premium Account £000 | Capital Redemption Reserve £000 | Profit and Loss Account £000 | Total £000 |
|--|---|---|--|---|-----------------------|
| At 1 January 2016 | 40 | 374 | 37 | 23,674 | 24,125 |
| Total comprehensive income for the financial year | - | - | - | 4,227 | 4,227 |
| Interim dividends paid of £49.23 per Ordinary share | - | - | - | (19,475) | (19,475) |
| At 31 December 2016 | <u>40</u> | <u>374</u> | <u>37</u> | <u>8,426</u> | <u>8,877</u> |

| | Called up Share Capital £000 | Share Premium Account £000 | Capital Redemption Reserve £000 | Profit and Loss Account £000 | Total £000 |
|--|---|---|--|---|-----------------------|
| At 1 January 2017 | 40 | 374 | 37 | 8,426 | 8,877 |
| Total comprehensive income for the financial year | - | - | - | 4,943 | 4,943 |
| Interim dividends paid of £25.28 per Ordinary share | - | - | - | (10,000) | (10,000) |
| At 31 December 2017 | <u>40</u> | <u>374</u> | <u>37</u> | <u>3,369</u> | <u>3,820</u> |

The notes on pages 13 to 22 form part of these financial statements.

AUTOLINK HOLDINGS (M6) LIMITED
STATEMENT OF CHANGES IN EQUITY
Company (restated)

| | Called up Share Capital £000 | Share Premium Account £000 | Capital Redemption Reserve £000 | (Restated) Revaluation Reserve £000 | Profit and Loss Account £000 | Total £000 |
|--|---------------------------------------|-------------------------------------|--|--|---------------------------------------|---------------|
| At 1 January 2016 | 40 | 374 | 37 | - | 9 | 460 |
| Effect of change in accounting policy | - | - | - | 62,794 | - | 43,684 |
| At 1 January 2016 (restated) | 40 | 374 | 37 | 62,794 | 9 | 63,254 |
| Total comprehensive income for the financial year | - | - | - | - | 19,475 | 19,475 |
| Interim dividends paid of £49.23 per Ordinary share | - | - | - | - | (19,475) | (19,475) |
| Loss on revaluation of Investment | - | - | - | (19,110) | - | (19,110) |
| At 31 December 2016 (restated) | 40 | 374 | 37 | 43,684 | 9 | 44,144 |

| | Called up Share Capital £000 | Share Premium Account £000 | Capital Redemption Reserve £000 | Revaluation Reserve £000 | Profit and Loss Account £000 | Total £000 |
|--|---------------------------------------|-------------------------------------|--|--------------------------------|---------------------------------------|---------------|
| At 1 January 2017 | 40 | 374 | 37 | - | 9 | 460 |
| Effect of change in accounting policy | - | - | - | 43,684 | - | 43,684 |
| At 1 January 2017 (restated) | 40 | 374 | 37 | 43,684 | 9 | 44,144 |
| Total comprehensive income for the financial year | - | - | - | - | 10,001 | 10,001 |
| Loss on revaluation of investment | - | - | - | (1,050) | - | (1,050) |
| Interim dividends paid of £25.28 per Ordinary share | - | - | - | - | (10,000) | (10,000) |
| At 31 December 2017 | 40 | 374 | 37 | 42,634 | 10 | 43,095 |

The notes on pages 13 to 22 form part of these financial statements.

AUTOLINK HOLDINGS (M6) LIMITED

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2017

| <u>Note</u> | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| | £000 | £000 |
| Cash flows from operating activities | | |
| Profit for the year | 4,943 | 4,227 |
| Adjustments for: | | |
| Interest receivable and similar income | (11,913) | (12,555) |
| Interest payable and similar expenses | 6,584 | 7,508 |
| Taxation | 1,531 | 1,529 |
| | <u>1,145</u> | <u>709</u> |
| Decrease in debtors | 5,298 | 9,768 |
| Decrease in work in progress | 5,294 | 2,055 |
| Increase in creditors | 9,656 | 15,137 |
| | <u>21,393</u> | <u>27,669</u> |
| Corporation tax paid | (1,437) | (1,476) |
| Net cash flows from operating activities | <u>19,956</u> | <u>26,193</u> |
| Cash flows from investing activities | | |
| Interest received | 11,913 | 12,555 |
| Net cash flows from investing activities | <u>11,913</u> | <u>12,555</u> |
| Cash flows from financing activities | | |
| Equity dividends paid | (10,000) | (19,475) |
| Interest paid | (6,116) | (6,988) |
| Repayment of long term loans | (11,031) | (10,171) |
| Net cash flows from financing activities | <u>(27,147)</u> | <u>(36,634)</u> |
| Net decrease in cash and cash equivalents | 4,722 | 2,114 |
| Cash and cash equivalents at 1 January | 26,464 | 24,350 |
| Cash and cash equivalents at 31 December | <u><u>31,186</u></u> | <u><u>26,464</u></u> |

The notes on pages 13 to 22 form part of these financial statements.

AUTOLINK HOLDINGS (M6) LIMITED

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

1. ACCOUNTING POLICIES

Autolink Holdings (M6) Limited is a company limited by shares and incorporated and domiciled in the UK.

The financial statements have been prepared in accordance with applicable United Kingdom law and Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")* as issued in August 2014. The accounting policies have been changed this year, as noted in 1(c) and as such the company's investment is measured under the valuation basis. All other accounting policies have been applied consistently throughout the current and preceding years under the historical cost convention.

The functional currency of the Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. Monetary amounts in these financial statements are rounded to the nearest £000.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 18.

The particular accounting policies adopted by the directors are described below.

(a) Going concern

The group has considerable financial resources together with a long term contract with The Scottish Ministers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

The directors have reviewed the group's projected profits and cash flows by reference to a financial model covering accounting periods up to June 2027. Having examined the current status of the group's principal contracts and likely developments in the foreseeable future, the directors consider that the group will be able to settle their liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis. Further information regarding the group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Principal Activities on page 2.

The company's business activities are set out in the Strategic Report. The financial position of the company is set out in the company balance sheet and the accompanying notes to the financial statements. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary. The acquisition method of accounting has been adopted. Under this method, the results and cash flows of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account and cash flow statement from the date of acquisition or up to the date of disposal.

(c) Change in accounting policy

In these financial statements the Company has changed its accounting policies regarding its investment in its subsidiary (FRS 102 Section 9.26). The Company has moved away from accounting for its investment at cost less impairment and now accounts for its investment at fair value. This voluntary change in accounting policy to fair value has led to a more relevant and reliable presentation of the subsidiary as it takes into account the future cash flows from the subsidiary over the remaining concession life. Adopting the fair value approach has a material impact on the financial statements.

The impact of the change on the comparative period was as at 1 January 2016 the value of the investment increased by £62,794,000. This gain was recognised in the revaluation reserve. The investment was valued at £43,684,000 as at 01 January 2017. The reduction in the valuation was recognised as a loss in the parent company's Statement of Comprehensive Income reducing the revaluation reserve from £63,794,000 to £43,684,000.

AUTOLINK HOLDINGS (M6) LIMITED

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

1. ACCOUNTING POLICIES (CONTINUED)

(d) Finance debtor

The group is an operator of a Public Finance Initiative ("PFI") contract. As the group entered into the contract prior to the date of transition to FRS102, the group has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the group under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The company recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

(e) Turnover

Turnover credited to the profit and loss account is calculated by applying a margin to costs incurred in the year. This margin is calculated as total income forecast to be receivable over the concession, less amounts applied to the finance debtor as set out above, less all major maintenance, routine maintenance and other operating costs forecast to be payable over the concession. Management model these costs over the lifetime of the project to estimate the likely total costs.

(f) Maintenance

Lifecycle costs are recognised on a contractual basis and charge to the Profit and Loss in the period in which the work is completed. To the extent an element is incomplete it is recorded in Work in Progress.

Routine maintenance and major maintenance costs are charged to the profit and loss account as incurred.

(g) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

(h) Basic financial instruments

Financial instruments are recognised when the group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the group are as follows:

Trade debtors

Trade receivables are initially measured at transaction price calculated on the effective interest rate basis, less any impairment.

AUTOLINK HOLDINGS (M6) LIMITED

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

1. ACCOUNTING POLICIES (CONTINUED)

Current asset investments

Current asset investments are short-term deposits of cash which are initially recognised at fair value and then are stated at amortised cost calculated on the effective interest rate basis.

Cash at bank and in hand

Cash at bank and in hand is carried in the balance sheet at nominal value. The group is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £19,203,000 at the year end (2016: £21,232,000).

Trade creditors

Trade payables are initially measured at transaction price calculated on the effective interest rate basis, less any impairment.

Loans

Debenture and bank loans are initially measured at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method. Interest on the loans is recognised as it accrues using the effective interest method.

(i) Investments

Investments in subsidiaries are measured at fair value through the profit and loss using a discounted cashflow.

2. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

| | <u>2017</u> £000 | <u>2016</u> £000 |
|------------------------------------|---------------------|---------------------|
| Finance debtor interest receivable | 11,714 | 12,280 |
| Other interest receivable | 199 | 275 |
| | <u>11,913</u> | <u>12,555</u> |

3. INTEREST PAYABLE AND SIMILAR EXPENSES

| | <u>2017</u> £000 | <u>2016</u> £000 |
|-----------------|---------------------|---------------------|
| Debenture loans | 6,569 | 7,486 |
| Bank loan | 15 | 22 |
| | <u>6,584</u> | <u>7,508</u> |

4. PROFIT BEFORE TAXATION

| | <u>2017</u> £000 | <u>2016</u> £000 |
|--|---------------------|---------------------|
| Profit is stated after charging: | | |
| Fees paid to the auditor for audit services to the company | 5 | 5 |
| Fees paid to the auditor for audit services to subsidiaries of the company | 25 | 18 |
| | <u></u> | <u></u> |

The cost of the audit of the company has been borne by the company's subsidiary in both current and prior years.

AUTOLINK HOLDINGS (M6) LIMITED

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

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The group had no employees during the year (2016: None) and therefore no staff costs (2016: £Nil) and no emoluments were paid to key management personnel or the directors for their services (2016: £Nil). £77,000 was paid to the controlling shareholders for directors' services (2016: £75,000).

6. TAXATION ON PROFIT

On the results for the year at 19.25% (2016: 20.00%):

| | <u>2017</u> £000 | <u>2016</u> £000 |
|--|---------------------|---------------------|
| Current year tax: | | |
| United Kingdom corporation tax | 1,576 | 1,437 |
| Adjustment in respect of previous periods | - | (245) |
| Total United Kingdom corporation tax | <u>1,576</u> | <u>1,192</u> |
| Deferred taxation | | |
| Origination/reversal of timing differences (note 14) | (45) | (47) |
| Effects of changes in tax rates (note 14) | - | (33) |
| Adjustment in respect of previous periods | - | 417 |
| Total deferred taxation | <u>(45)</u> | <u>337</u> |
| Tax on profit | <u>1,531</u> | <u>1,529</u> |

Factors affecting the tax charge for the current period:

| | <u>2017</u> £000 | <u>2016</u> £000 |
|---|---------------------|---------------------|
| Profit before tax | 6,474 | 5,756 |
| Tax at 19.25% (2016: 20.00%) | 1,246 | 1,151 |
| Expenses not deductible for tax purposes | 280 | 239 |
| Change in tax rate on deferred tax balances | 5 | (33) |
| Tax on change of interest loan basis | - | 172 |
| | <u>1,531</u> | <u>1,529</u> |

7. FIXED ASSET INVESTMENTS

| | Company <u>2017</u> £000 | (Restated) Company <u>2016</u> £000 |
|--------------------------------------|--------------------------------|--|
| Interest in subsidiary undertakings: | | |
| Shares | 42,713 | 43,763 |
| | <u>42,713</u> | <u>43,763</u> |

The investment consists of a 100% ownership of the ordinary shares of Autolink Concessionaires (M6) plc, which is incorporated in Great Britain and registered in England and Wales and registered at Eaton Court, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 7TR. The activity of the company's subsidiary is the operation and maintenance of the road which is discussed in the Report of the Directors. The investment is held at fair value which is estimated using the expected future cash flows of the subsidiary and discounting these at an appropriate discount rate. The discount rate used was 7% in the current year (2016: 7%). The expected future cash flows were the total returns to the company based on the group's financial model of £47,659,000 (2016 : £57,721,000). These cash flows were expected predominately in 2018, 2019 and 2020.

AUTOLINK HOLDINGS (M6) LIMITED

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

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group <u>2017</u> £000 | Group <u>2016</u> £000 | Company <u>2017</u> £000 | Company <u>2016</u> £000 |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Trade debtors | 460 | 483 | - | - |
| Amounts owed by subsidiary undertaking | - | - | 378 | 378 |
| Finance debtor (note 9) | 5,863 | 5,227 | - | - |
| Other debtors | 4 | 5 | - | - |
| Prepayments and accrued income | 213 | 260 | - | - |
| | <u>6,540</u> | <u>5,975</u> | <u>378</u> | <u>378</u> |

9. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group <u>2017</u> £000 | Group <u>2016</u> £000 |
|----------------|------------------------------|------------------------------|
| Finance debtor | 89,352 | 95,215 |
| | <u>89,352</u> | <u>95,215</u> |

10. SHORT-TERM DEPOSITS

| | Group <u>2017</u> £000 | Group <u>2016</u> £000 |
|---------------------|------------------------------|------------------------------|
| Short-term deposits | 9,779 | 21,232 |
| | <u>9,779</u> | <u>21,232</u> |

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group <u>2017</u> £000 | Group <u>2016</u> £000 | Company <u>2017</u> £000 | Company <u>2016</u> £000 |
|-----------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Secured debenture loans (note 12) | 11,254 | 10,315 | - | - |
| Secured bank loan (note 12) | 347 | 347 | - | - |
| Trade creditors | 89 | 54 | - | - |
| Taxation | 1,902 | 1,816 | - | - |
| Accruals and deferred income | 1,026 | 964 | - | - |
| | <u>14,618</u> | <u>13,496</u> | <u>-</u> | <u>-</u> |

AUTOLINK HOLDINGS (M6) LIMITED

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

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group 2017 £000 | Group 2016 £000 |
|------------------------------|-----------------------|-----------------------|
| Secured debenture loans (a) | 48,391 | 59,508 |
| Secured bank loan (b) | 1,214 | 1,560 |
| Accruals and deferred income | 58,440 | 48,867 |
| | <u>108,045</u> | <u>109,935</u> |

- (a) The secured debenture loans are secured by a fixed and floating charge on the assets of the company's subsidiary. The loans are repayable by instalments from 15 December 2007 to 15 June 2022.
- (b) The bank loan is secured by a financial guaranty policy, and is repayable by equal semi-annual instalments from 15 June 2004 to 15 June 2022. The interest rate is variable and determined quarterly in advance in accordance with the standard procedures of the lending bank.

The loans are repayable as follows:

| | 2017 £000 | 2016 £000 |
|---|---------------|---------------|
| Within one year: | | |
| A1 secured debenture loan at 8.39% per annum | 10,396 | 9,597 |
| B1 secured debenture loan at 11.27% per annum | 1,210 | 1,085 |
| Secured bank loan | 349 | 349 |
| | <u>11,955</u> | <u>11,031</u> |
| Between one and two years: | | |
| A1 secured debenture loan at 8.39% per annum | 11,294 | 10,396 |
| B1 secured debenture loan at 11.27% per annum | 1,349 | 1,210 |
| Secured bank loan | 349 | 349 |
| | <u>12,992</u> | <u>11,955</u> |
| Between two and five years: | | |
| A1 secured debenture loan at 8.39% per annum | 32,598 | 36,828 |
| B1 secured debenture loan at 11.27% per annum | 4,097 | 4,534 |
| Secured bank loan | 871 | 1,046 |
| | <u>37,566</u> | <u>42,408</u> |
| In more than five years: | | |
| A1 secured debenture loan at 8.39% per annum | - | 7,064 |
| B1 secured debenture loan at 11.27% per annum | - | 913 |
| Secured bank loan | - | 176 |
| | <u>-</u> | <u>8,153</u> |
| | <u>62,513</u> | <u>73,547</u> |
| Less: effective interest rate adjustments | (1,308) | (1,816) |
| | <u>61,205</u> | <u>71,731</u> |
| Included in creditors: amounts falling due within one year | 11,601 | 10,662 |
| Included in creditors: amounts falling due after more than one year | 49,604 | 61,069 |
| | <u>61,205</u> | <u>71,731</u> |

AUTOLINK HOLDINGS (M6) LIMITED

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

13. FINANCIAL INSTRUMENTS

Financial Assets

The company's only financial asset is its £3,000 cash at bank and in hand (2016: £3,000) which matures within one year. The cash balances are sterling denominated and receive interest at a variable rate with reference to the Bank of England base rate.

The carrying amount of the financial assets of the group are as follows:

| | <u>2017</u> £000 | <u>2016</u> £000 |
|-----------------------------------|---------------------|---------------------|
| Assets measured at amortised cost | | |
| - Trade debtors | 460 | 483 |
| - Finance debtor | 95,215 | 100,442 |
| - Current asset investments | 9,779 | 21,232 |
| - Cash at bank and in hand * | 21,407 | 5,232 |
| | <u>126,861</u> | <u>127,389</u> |

The finance debtor has a carrying value of £95,215,000 (2016: £100,442,000). The fair value of the finance debtor is £135,548,000 (2016: £144,377,000). This has been calculated using the discounted cash flows used to repay the finance debtor. The discount rate is based upon the gilt yield reflecting the unexpired term of the concession, which is published by the Bank of England, and a 1.5% (2016: 1.5%) premium is added to reflect the market rate. The directors have not made a provision for diminution in value of the financial asset as it is not impaired.

The fair value of the finance debtor will fluctuate in line with market rates. The effects of a change in market rate on the fair value are as follows:

| | <u>2017</u> £000 | <u>2016</u> £000 |
|------------------------------------|---------------------|---------------------|
| At market rate 3.59% (2016: 4.00%) | 135,548 | 144,377 |
| At market rate plus 1% | 129,563 | 137,502 |
| At market rate less 1% | 141,970 | 151,795 |

The directors perceive little financial or liquidity risk in respect of the finance debtor. The forecast revenue receipts from The Scottish Ministers comfortably exceed the value of the finance debtor. Credit risk is considered to be negligible given that income receipts are from a low risk public sector body. Future changes in interest rates would not affect the future income receivable for the finance debtor, and therefore the financial asset is not directly exposed to interest rate risk.

* All cash balances are sterling denominated and receive interest at a variable rate with reference to the Bank of England base rate.

AUTOLINK HOLDINGS (M6) LIMITED

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

13. FINANCIAL INSTRUMENTS (CONTINUED)

Financial Liabilities

The carrying amount of the financial liabilities of the group are as follows:

| | <u>2017</u> £000 | <u>2016</u> £000 |
|--|---------------------|---------------------|
| Liabilities measured at amortised cost | | |
| - Listed debenture loans | 60,944 | 71,627 |
| - Secured bank loans | 1,569 | 1,918 |
| | <u>62,513</u> | <u>73,545</u> |

Listed debenture loans were issued to provide funding to finance the construction phase of the Contract. As part of the group's risk-averse funding policy the company's subsidiary issued fixed interest rate bonds at inception in order to mitigate the risk of sudden and unexpected changes in financing costs.

See note 11 for the repayment terms of the debenture loans.

The debenture loans are at a fixed rate of interest, denominated in sterling and have a carrying value of £59,645,000 (2016: £69,823,000). The weighted average interest rate is 8.70% (2016: 8.7%) and the weighted average period for which the borrowing is fixed at 31 December 2017 is 4.5 years (2016: 5.5 years).

The fair value of the secured debenture loans has been calculated to be £69,417,000 (2016: £84,096,000) based upon market values. There is no obligation or present intention to repay the debt, other than on maturity, when the redemption would be made at book value.

The secured bank loans are at a floating rate of interest, denominated in sterling, and have a carrying value of £1,561,000 (2016: £1,907,000). The difference between the carrying amount and the fair value is not considered to be material. The loans are repayable as follows:

See note 11 for the repayment terms of the secured bank loans.

AUTOLINK HOLDINGS (M6) LIMITED

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

14. PROVISIONS FOR LIABILITIES AND CHARGES

| Group | Deferred | |
|--|----------|-------|
| | Tax | Total |
| | £000 | £000 |
| At 1 January 2017 | 640 | 640 |
| Charged to the profit and loss account | (45) | (45) |
| At 31 December 2017 | 595 | 595 |

The deferred tax liability is provided for at a rate of 17% and is recognised in the accounts as follows:

| | Group 2017 £000 | Group 2016 £000 |
|--------------------------------|-----------------------|-----------------------|
| Accelerated capital allowances | 436 | 457 |
| Short term timing differences | 159 | 183 |
| | 595 | 640 |

The deferred tax liability has been calculated at 17% as this was the rate substantively enacted at the balance sheet date.

There were no unprovided deferred tax assets or liabilities at the year end (2016: £Nil).

Group and Company

There were no unprovided deferred tax assets or liabilities at the year end (2016: £Nil).

15. CALLED UP SHARE CAPITAL

| | 2017 No. | 2016 No. | 2017 £000 | 2016 £000 |
|-------------------------------------|-------------|-------------|--------------|--------------|
| Allotted, called up and fully paid: | | | | |
| Ordinary 'A' shares of 10p each | 77,138 | 77,138 | 7 | 7 |
| Ordinary 'B' shares of 10p each | 77,138 | 77,138 | 7 | 7 |
| Ordinary 'C' shares of 10p each | 77,138 | 77,138 | 7 | 7 |
| Ordinary 'D' shares of 10p each | 25,713 | 25,713 | 3 | 3 |
| Ordinary 'E' shares of 10p each | 138,453 | 138,453 | 16 | 16 |
| | | | 40 | 40 |

16. RELATED PARTY TRANSACTIONS

The group has entered into the following material transactions with related parties:-

On 29 July 2013 the company entered into a four year Routine Operating and Maintenance contract with Sir Robert McAlpine Limited, a subsidiary of one of the parent company's current controlling shareholders. This contract was amended and restated in February 2016 and now expires at the end of the concession. A total of £5,927,000 (2016: £5,800,000) was paid during the year under this contract.

At the financial year end £487,000 (2016: £683,000) was owed to Sir Robert McAlpine Limited, and included in creditors: amounts falling due within one year.

The group paid subsidiaries of its controlling shareholders a total of £409,000 (2016: £472,000) for the provision of staff and other services.

AUTOLINK HOLDINGS (M6) LIMITED

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

17. ULTIMATE CONTROLLING PARTY

Autolink Holdings (M6) Limited represents both the smallest and largest group to prepare consolidated accounts which include the results of this entity.

The company is jointly owned and controlled by:

Innisfree M&G PPP LP, Innisfree PFI Secondary Fund, Newarthill Limited, John Laing Infrastructure Fund Limited and The Sir Robert McAlpine Limited Staff Pension and Life Assurance Scheme.

18. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. 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 revision and future periods if the revision affects both current and future periods.

Critical judgements

Certain critical accounting judgements in applying the group's accounting policies are described below:

Finance debtor

Accounting for the construction of the underlying asset requires an assessment to be made in respect of its treatment on the balance sheet. The underlying asset has been treated as a finance debtor because the risks and rewards of ownership were deemed to lie principally with The Scottish Ministers.

Service concession accounting

Accounting for the service concession contract and finance debtors requires an estimation of service margins, which are based on forecasted revenues and costs of the PFI contract.

Debtors

The recoverability of the company's debtors has been assessed by the directors and, where any uncertainty has been identified, sufficient provisions have been posted to reflect uncertainty.

Major maintenance accrual

Accounting for major maintenance costs requires an estimate of future maintenance costs of the pavement and other structures. The maintenance costs have been profiled through to the end of the PFI's concession.

Investments valuation

Accounting for the company's investment in its subsidiary requires the determination of an appropriate discount rate to apply to the future cash flows from the subsidiary over its remaining concession life. Due to the subjectivity of the discount rate, management undertake a detailed review of the rate applied on an annual basis. The timings of the cash flows is also considered to be a critical judgment as the cash flows are dependent on major maintenance spend, inflation and tax rates. Major maintenance spend and the associated cash flows are highly predictable. The cash flows are highly sensitive to changes in economic assumptions.

19. POST BALANCE SHEET EVENTS

On 29 March 2018 the sum of £43,008,137, being part of the Company's revaluation reserve, was capitalised and appropriated as Class G Ordinary Shares of £1 each for the benefit of the Company's shareholders. On 12 April 2018 the Directors of the Company agreed to a reduction in the Company's share capital of £43,008,137 and cancelled and extinguished Class G Ordinary Shares of £1 each to create distributable reserves.

On 31 May 2018 the Company received a loan from its subsidiary, Autolink Concessionaires (M6) PLC of £2,625,000. The loan is repayable on demand and bears interest at a rate of 5% + 6 month LIBOR.