

UK HIGHWAYS A55 (HOLDINGS) LIMITED

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

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COMPANIES HOUSE

Registered Number 3600969

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

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DIRECTORS AND ADVISORS

Directors

D Bradbury	
D Rushton	(resigned 11 May 2017)
A Vachell	(resigned 22 December 2016)
J Heemelaar	(appointed 11 May 2017)

Company secretary and registered office

T Hedges (appointed 30 November 2016)
8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Principal Bankers

Mizuho Bank Ltd
Mizuho House
30 Old Bailey
London
EC4M 7AU

Solicitors

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

STRATEGIC REPORT

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

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

On 22nd December 2016 John Laing Infrastructure Limited (JLIL) transferred its interest in the Company to JLIF Holdings (A55) Limited, a subsidiary of John Laing Infrastructure Fund Limited (JLIF). The Company is now a wholly owned subsidiary of JLIF.

The principal activity of the Company is to act as a holding company, with a single subsidiary UK Highways A55 Limited.

The principal activity of the Group is to carry on the business of the design, financing, construction and operation of a new 31km dual two lane trunk road on a green field alignment in Anglesey, North Wales, and the operation and maintenance of 9km of existing trunk road for the Welsh Government. The A55 was completed and commenced operation on 16 March 2001. The concession for the maintenance and operation of the project road runs until December 2028.

Business & Financial Performance

Income and expenditure for the year have been 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 as small. All operational costs are on fixed long-term contracts and again risks to these costs are perceived as being small.

PRINCIPAL RISKS

Liquidity Risk

The Group has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due. UK Highways A55 Limited is required to maintain a Major Maintenance Reserve Account (MMRA) to offset major maintenance costs occurring in the subsequent four year period. Over the next four years these costs include repair and reinstatement of those sections of the road affected by pavement defects.

Interest Rate Risk

The group is highly geared and therefore has financial instrument swap agreements in place which match the senior loan amounts outstanding at any one time. These swap agreements have been established for the full term of the concession thereby mitigating the long term risk from interest rate fluctuations.

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.

Going Concern

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate. In reaching this conclusion, the Directors have specifically considered the Company's relationship with its subsidiary company. More information is provided in note 1 to the financial statements.

KEY PERFORMANCE INDICATORS

The Group's operations are managed by a management services provider whose staff report to the Directors. Operations are 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.

Penalty points are awarded by the client for poor or substandard performance, as stipulated in the contract, and these are monitored regularly by the Board. The project consistently produces acceptable results and few penalty points are accumulated at any one time.

Traffic Volumes

This year traffic volumes on the A55 have increased by 2.4% for cars and 8.1% for HGVs over the same period last year. In the prior year, traffic volumes increased by 2.1% for cars and 4.8% for HGV's. The increase in traffic volumes can be attributed to general improvements in the UK and Irish economies.

Health & Safety Performance

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

STRATEGIC REPORT (continued)

Forecasts

The Board regularly reviews costs and traffic levels against forecasts and accident statistics are compared against benchmarks. Traffic is monitored against forecasts which are based on independent data and revised every three years. Costs are measured against both the Company's own budgets and benchmarked against similar sub-contracts on other projects. Accidents are monitored against the Company's database of historic data for the road and also against the equivalent data for the whole of Wales, as provided by the Welsh Government. Road safety performance has consistently exceeded the performance of the whole of Wales and this has resulted in a positive Safety Payment adjustment for every year of operation to date.

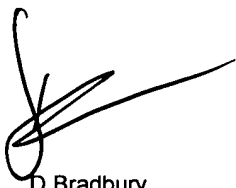
Lifecycle

The Group is responsible for all lifecycle costs on the project. The Directors manage this through close involvement in the project and regular monitoring of its performance. Regular surveys are done on the condition of the road and a full review of lifecycle forecasts is done every three years. Remedial repairs required as a result of the defects in the pavement identified in earlier surveys were carried out during the year. The cost for this additional work charged to the Profit and Loss account in the current year £1,520,000 (2016: £nil).

FUTURE DEVELOPMENTS

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

On behalf of the Board



D Bradbury
Director

20 July 2017

DIRECTORS' REPORT

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

The Company is a holding company with a single subsidiary UK Highways A55 Limited.

RESULTS AND DIVIDENDS

The results for the year are as set out on page 7. The profit after taxation for the year was £4,794,000 (2016: £3,352,000).

The Directors do not recommend the payment of a final dividend (2016: £nil).

DIRECTORS

The Directors who held office during the year and subsequently 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.

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.

DISCLOSURE OF INFORMATION TO AUDITOR

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

- As far as the Director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of audit information and to establish that the group's auditor is aware of that information.

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

AUDITOR

Pursuant to sections 487 (2) of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will continue in office.

On behalf of the Board



D. Bradbury
Director

20 July 2017

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

The Directors are responsible for preparing the Strategic Report, 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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (United Kingdom 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 their profit or loss for that year.

In preparing each of the group and parent company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK HIGHWAYS A55 (HOLDINGS) LIMITED

We have audited the financial statements of UK Highways A55 (Holdings) Limited for the year ended 31 March 2017 set out on pages 7 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 March 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified any material misstatements in those reports; 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

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

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



Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

25 July 2017

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017


	Notes	2017 £'000	2016 £'000
Turnover	4	18,288	15,863
Net operating costs	5	<u>(8,577)</u>	<u>(7,342)</u>
Operating profit		9,711	8,521
Net interest payable	8	(3,788)	(4,042)
Profit before taxation		5,923	4,479
Tax on profit	9	(1,129)	(1,127)
Profit for the financial year		4,794	3,352
Other comprehensive income			
Cash flow hedge gain for the year		1,123	1,545
Tax relating to other comprehensive income	9	(299)	(525)
Total comprehensive income for the year		5,618	4,372

The notes on pages 12 to 20 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	10	69,716	74,236
		<u>69,716</u>	<u>74,236</u>
Current assets			
Debtors - due within one year	12	3,342	2,617
- due after more than one year	12	4,563	5,982
Cash at bank and in hand		20,010	18,454
		<u>27,915</u>	<u>27,053</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(13,297)	(9,553)
Net current assets		<u>14,618</u>	<u>17,500</u>
Total assets less current liabilities		84,334	91,736
Creditors: amounts falling due after more than one year	14	(70,298)	(83,318)
Net assets		<u>14,036</u>	<u>8,418</u>
Capital and reserves			
Called up share capital	17	500	500
Hedging reserve	17	(8,036)	(8,860)
Profit and loss account	17	21,572	16,778
Shareholders' funds		<u>14,036</u>	<u>8,418</u>

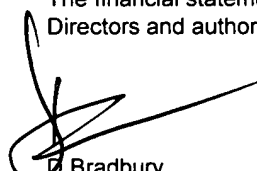
The financial statements of UK Highways A55 (Holdings) Limited, registered number 3600969, were approved by the Board of Directors and authorised for issue on 20 July 2017. They were signed on its behalf by:


D Bradbury
Director
20 July 2017

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	11	500	500
Current assets			
Debtors - due within one year	12	6,043	751
- due after more than one year	12	4,403	8,584
		<u>10,446</u>	<u>9,335</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(6,046)	(754)
Net current assets		<u>4,400</u>	<u>8,581</u>
Total assets less current liabilities		4,900	9,081
Creditors: amounts falling due after more than one year	14	(4,403)	(8,584)
Net assets		<u>497</u>	<u>497</u>
Capital and reserves			
Called up share capital	17	500	500
Profit and loss account	17	(3)	(3)
Shareholders' funds		<u>497</u>	<u>497</u>

The financial statements of UK Highways A55 (Holdings) Limited, registered number 3600969, were approved by the Board of Directors and authorised for issue on 20 July 2017. They were signed on its behalf by:


J Bradbury
Director
20 July 2017

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

	Share Capital £'000	Hedging Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
Balance at 1 April 2015	<u>500</u>	<u>(9,880)</u>	<u>13,426</u>	<u>4,046</u>
Year ended 31 March 2016				
Profit for the year	-	-	3,352	3,352
Other comprehensive income:				
Cash flow hedge gains arising in the year	-	1,545	-	1,545
Tax relating to other comprehensive income	-	(525)	-	(525)
Total comprehensive income for the year	-	1,020	3,352	4,372
Balance as at 31 March 2016	<u>500</u>	<u>(8,860)</u>	<u>16,778</u>	<u>8,418</u>
Year ended 31 March 2017				
Profit for the year	-	-	4,794	4,794
Other comprehensive income:				
Cash flow hedge gains arising in the year	-	1,123	-	1,123
Tax relating to other comprehensive income	-	(299)	-	(299)
Total comprehensive income for the year	-	824	4,794	5,618
Balance as at 31 March 2017	<u>500</u>	<u>(8,036)</u>	<u>21,572</u>	<u>14,036</u>

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

	Share Capital £'000	Profit and Loss Account £'000	Total Equity £'000
Balance at 1 April 2015	<u>500</u>	<u>(3)</u>	<u>497</u>
Year ended 31 March 2016			
Total comprehensive income for the year	-	-	-
Balance as at 31 March 2016	<u>500</u>	<u>(3)</u>	<u>497</u>
Year ended 31 March 2017			
Total comprehensive income for the year	-	-	-
Balance as at 31 March 2017	<u>500</u>	<u>(3)</u>	<u>497</u>

Notes to the financial statements for the year ended 31 March 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 amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling, which is the functional currency of the Company. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company exists to hold investments in its subsidiary, UK Highways A55 Limited, that provides services under a private finance agreement. The Company is limited by shares and incorporated and domiciled in the UK. 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 the default of the subsidiary, the exposure is limited to the extent of the investment it has made.

The Company's ultimate parent undertaking, John Laing Infrastructure Fund Ltd, includes the Company in its consolidated financial statements which are prepared under IFRS. The consolidated financial statements of John Laing Infrastructure Fund Ltd are available from the company's website www.jlif.com. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes;
- Related party transactions between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- Disclosure of compensation for non-directors considered to be key management personnel.

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

a) Going concern

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

The Directors therefore, at the time of approving the financial statements, have a reasonable expectation that the Group 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.

b) Basis of Consolidation

The group accounts consolidate the accounts of UK Highways A55 (Holdings) Limited and its subsidiary undertaking for the year ended 31 March 2017 using the acquisition method. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. All inter-company balances, transactions and profits are eliminated on consolidation.

c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

- (i) freehold properties and improvements, being the depot covered by the Concession Agreement;
- (ii) infrastructure assets, being that section of the A55 road covered by the Concession Agreement (the "Project Road") together with its associated landscaping and over/under bridges; and
- (iii) other assets, including fixed electrical and mechanical equipment, plant and machinery and fixtures and fittings.

Infrastructure assets

The Company's subsidiary, UK Highways A55 Limited, is a special purpose entity that has been established to provide services under certain private finance agreements with the Welsh Government. Under the terms of these Agreements, the Welsh Government (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 April 2014). The nature of the asset has therefore not changed and will continue to be recognised as a tangible fixed asset.

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

1 ACCOUNTING POLICIES (continued)

c) Tangible Fixed Assets and Depreciation (continued)

Infrastructure assets (continued)

The Project Road consists of part new road and part existing road, which includes the Menai Suspension Bridge ("the Bridge"). The existing part of the Project Road was handed over to the company at nil value. All expenditure on the Project Road specified in the Concession Agreement as related to the new road is treated as additions, and is included at cost less depreciation.

Depreciation is charged on the infrastructure assets over the life of the concession pro rata to usage. Annual depreciation on the main project road is a function of the proportion of traffic for the year over the total estimated traffic for the period of the concession.

Other assets

Depreciation is calculated on a straight line basis in order to write down the costs of assets to their estimated residual value over their expected useful lives as follows:

Freehold properties and improvements	25 years
Mechanical and electrical equipment	10 years
Plant, machinery and other equipment	3-10 years
Fixtures and fittings	3-5 years

d) 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.

e) Cash

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

f) Major Maintenance

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

g) Financial assets

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 or parent Company's statement of financial position when the Group or parent Company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specific categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables 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. Other financial assets classified as fair value through profit or loss are measured at fair value.

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 that initial recognition.

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

1 ACCOUNTING POLICIES (continued)

g) Financial assets (continued)

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. The impairment loss 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 when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

h) Financial liabilities

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

Other financial liabilities

Other financial liabilities, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled, or they expire.

i) 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.

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

1 ACCOUNTING POLICIES (continued)

j) Taxation

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

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.

k) Capitalised Interest

Interest costs incurred on borrowings to fund construction of additions to the Project Road were capitalised during the construction period. Capitalisation ceased once the road was commissioned.

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.

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.

Critical judgements

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.

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key sources of estimation uncertainty

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 £9,682,000. The Directors do not consider the impact of own credit risk to be material.

Major maintenance

The Directors use their judgement to estimate the value of the repair and reinstatement of those sections of the road affected by pavement defects. The directors consider the provision for these works in the accounts to be appropriate.

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.

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 parent company result for the financial year was £nil (2016: £nil)

4 TURNOVER

	2017 Group £'000	2016 Group £'000
Turnover in the year is analysed as follows:		
Shadow tolls	17,037	15,314
Other revenue	1,251	549
	<u>18,288</u>	<u>15,863</u>

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

5 OPERATING PROFIT

	2017 Group £'000	2016 Group £'000
Operating profit is stated after charging:		
Fees payable to the Company's auditor for the audit of the annual accounts	17	20
Fees payable to the Company's auditor and its associates for other services –		
Taxation services	5	5
Major maintenance costs	1,867	696
Operational costs	1,668	1,628
Other operating charges	500	674
Operating charges	<u>4,057</u>	<u>3,023</u>
Depreciation of tangible fixed assets	4,520	4,319
Net operating costs	<u>8,577</u>	<u>7,342</u>

6 DIRECTORS' REMUNERATION

The Directors have no contract of service with the Company. The Directors did not receive any remuneration during this year or the previous year.

7 STAFF NUMBERS

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

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

8 NET INTEREST PAYABLE

	2017 Group £'000	2016 Group £'000
Interest receivable and similar income		
Interest receivable on bank deposits	45	68
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(3,265)	(3,567)
Interest payable to parent undertakings	(568)	(543)
	(3,833)	(4,110)
Net interest payable	(3,788)	(4,042)

9 TAX ON PROFIT

	2017 Group £'000	2016 Group £'000
<u>Analysis of tax charge for the year</u>		
Current year taxation		
UK corporation tax @ 20% (2016: 20%)	9	14
Deferred tax	1,120	1,119
Prior year taxation		
Deferred tax	-	(6)
Total tax charge included in profit or loss	1,129	1,127
Other comprehensive income items		
Tax relating to other comprehensive income	299	525
	299	525

Factors affecting tax charge for the current year

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

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

	2017 Group £'000	2016 Group £'000
Profit before taxation	5,923	4,479
Profit multiplied by the ordinary rate of corporation tax in the UK of 20% (2016: 20%)	1,185	896
Effects of:		
Expenses not deductible for tax purposes	2	-
Reduction in deferred tax rate	(58)	237
Adjustment in respect of prior years	-	(6)
Total tax charge included in profit or loss	1,129	1,127

The group has trade losses available to be carried forward of £14.9m (2016: £21.4m), which will be available to set against trading profits arising in future periods.

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

10 TANGIBLE FIXED ASSETS

Group	Freehold Properties £'000	Infrastructure Asset £'000	Menai Bridge £'000	Vehicles, Plant and Equipment £'000	Total £'000
Cost					
At 1 April 2016	496	119,645	1,926	285	122,352
At 31 March 2017	496	119,645	1,926	285	122,352
Depreciation					
At 1 April 2016	(271)	(46,692)	(868)	(285)	(48,116)
Charge for the year	(18)	(4,417)	(85)	-	(4,520)
At 31 March 2017	(289)	(51,109)	(953)	(285)	(52,636)
Net book value					
At 31 March 2017	207	68,536	973	-	69,716
At 31 March 2016	225	72,953	1,058	-	74,236

Included within infrastructure asset cost is £10,607,000 (2016: £10,607,000) of interest capitalised during the construction phase. The NBV of interest capitalised is £6,048,000 (2016: £6,443,000)

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

11 FIXED ASSET INVESTMENTS

<u>Company</u>	2017 £'000	2016 £'000
Interest in subsidiary undertaking (cost and net book value at beginning and end of the year)	500	500

The wholly owned subsidiary undertaking is UK Highways A55 Limited, registered in England and Wales, with registered address at 8 White Oak Square, London Road, Swanley, Kent BR8 7AG, whose only activity is the design, build, finance and operation of the A55 dual carriageway.

12 DEBTORS

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Due within one year				
Unsecured loan notes	-	-	4,181	-
Prepayments and accrued income	3,342	2,617	1,862	751
	<u>3,342</u>	<u>2,617</u>	<u>6,043</u>	<u>751</u>
Due after more than one year				
Unsecured loan notes	-	-	4,403	8,584
Deferred tax asset (note 13)	2,670	4,089	-	-
Other debtors	1,893	1,893	-	-
	<u>4,563</u>	<u>5,982</u>	<u>4,403</u>	<u>8,584</u>

UK Highways A55 Ltd holds a letter of credit for £1,892,500 related to the remedial repair works on the Project Road with an expiry date of 30 April 2018. This is recognised as a non-current asset in other debtors.

13 DEFERRED TAXATION

Deferred tax asset	2017 Group £'000	2016 Group £'000
At 1 April 2016	4,089	5,734
Charged to profit and loss account during the year	(1,120)	(1,120)
Charged to other comprehensive income during the year	(299)	(525)
At 31 March 2017	<u>2,670</u>	<u>4,089</u>

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

13 DEFERRED TAXATION (continued)

	2017 Group £'000	2016 Group £'000
Full provision has been made for deferred taxation as follows: Deferred tax balance provided at 17% (2016: 18%):		
Other timing differences	(1,513)	(1,706)
Tax losses	2,537	3,850
Tax related to other comprehensive income	1,646	1,945
	<u>2,670</u>	<u>4,089</u>

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 and the losses brought forward.

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.

14 CREDITORS

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due within one year				
Bank loans (note 16)	6,200	5,486	-	-
Unsecured loan notes (note 16)	4,181	-	4,181	-
Amounts owed to parent undertaking	1,862	1,294	-	-
Trade Creditors	154	347	1,865	754
Corporation tax	9	14	-	-
Other taxation and social security	451	395	-	-
Accruals and deferred income	440	2,017	-	-
	<u>13,297</u>	<u>9,553</u>	<u>6,046</u>	<u>754</u>
	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due after more than one year				
Bank loans (note 16)	44,876	53,072	-	-
Unsecured loan notes (note 16)	4,403	8,584	4,403	8,584
Other financial liabilities (note 15)	9,682	10,805	-	-
Accruals and deferred income	11,337	10,857	-	-
	<u>70,298</u>	<u>83,318</u>	<u>4,403</u>	<u>8,584</u>

Deferred income includes settlement funds received for the remedial repairs on the Project Road over the next four years.

15 OTHER FINANCIAL LIABILITIES

	2017 £'000	2016 £'000
Amounts falling due after one year		
Financial liabilities designated as fair value through profit or loss	<u>9,682</u>	<u>10,805</u>

In 1998, as part of its interest rate management and in accordance with the terms of its credit agreement, the Company entered into 30 year interest rate hedging agreements to be applied to the future borrowings of the Company under the loan facility until 15 December 2023. The swap agreements with MizuhoBank and Commerzbank fix the interest at 5.70%. The swap agreement with Royal Bank of Scotland fixes the interest rate at 3.17% plus rpi, with rpi being adjusted on an annual basis. The interest rate swaps settle on a quarterly basis with the floating rate being three months LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

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

15 OTHER FINANCIAL LIABILITIES (continued)

The interest rate swap contracts are designated as a hedge of variable interest rate risk of the Company'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 instruments above comprises the fair value of the interest rate swaps designated in an effective hedging arrangement. The change in fair value of the interest rate swaps that was recognised in other comprehensive income in the year was a gain of £1,123,000 (2016: gain £1,545,000).

16 LOANS AND OVERDRAFTS

	2017 £'000	2016 £'000
Bank loans	51,076	58,558
Unsecured loan notes	8,584	8,584
	<u>59,660</u>	<u>67,142</u>
Analysis of debt:		
Debt can be analysed as falling due:		
In one year or less	10,381	5,486
Between one and five years	32,388	30,247
In five years or more	16,891	31,409
	<u>59,660</u>	<u>67,142</u>

Bank loans are made under a £132 million facility to fund the construction of the A55 provided by a syndicate of banks. Repayment is in instalments with the final payment falling due in September 2023. Interest is charged at rates linked to LIBOR. The facilities are secured, by way of first fixed charge, over the Company's Shares and any other stocks, shares, debentures, bonds or other securities and investments in the Company and all their related rights. They are also secured by way of a floating charge over the Company's undertakings and assets, present and future, not otherwise assigned.

During the year no unsecured loan notes were repurchased from UK Highways A55 (Holdings) Limited (2016: £Nil). The unsecured loan notes are repayable by 15 December 2024, or before if funds allow.

17 CALLED UP SHARE CAPITAL AND OTHER RESERVES

	2017 £'000	2016 £'000
Allotted, issued and fully paid:		
Authorised:		
500,200 ordinary shares of £1 each	500	500

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.

18 ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The Company's immediate parent company is JLIF Holdings (A55) Limited, a company registered in England and Wales. Copies of the accounts for JLIF Holdings (A55) Limited can be obtained from 1 Kingsway, London WC2B 6AN.

The Company's ultimate parent and controlling entity is John Laing Infrastructure Fund Limited, a company incorporated in Guernsey. Copies of the accounts of John Laing Infrastructure Fund Limited are available from the Company's website www.jlif.com.