

**UK HIGHWAYS M40 (HOLDINGS) LIMITED**

**DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2011**

**Registered Number 2939644**

**SATURDAY**



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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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**DIRECTORS AND ADVISORS**

**Directors**

M J Mercer-Deadman (resigned 24 January 2012)

N Smith

I R Gethin

N Rae

D Bradbury (appointed 24 January 2012)

**Company secretary and registered office**

R K Miller

Allington House

150 Victoria Street

London

SW1E 5LB

**Auditor**

Deloitte LLP

2 New Street Square

London

EC4A 3BZ

**Principal bankers**

HSBC

8 Canada Square

London

E14 5HQ

United Kingdom

**Solicitors**

CMS Cameron McKenna

Mitre House

160, Aldersgate Street

London

EC1A 4DD

## DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 31 December 2011

## PRINCIPAL TRADING ACTIVITIES

The principal activity of the Company is to act as a holding company, with a single subsidiary UK Highways M40 Limited

The principal activity of the group is to carry on the business of the design, financing, construction and operation of the property and undertaking known as the M40 motorway, junctions 1 to 15, pursuant to and in accordance with the terms of an agreement with Her Majesty's Secretary of State for Transport which was signed by UK Highways M40 Limited, a wholly owned subsidiary, on 8 October 1996

## BUSINESS REVIEW

### *Business and Financial Performance*

Income and expenditure have been broadly in line with budgeted expectations. Turnover is linked to traffic volumes in a non-linear way, the charging mechanism is such that volume changes have to be significant to impact materially on reported turnover. Risks to turnover from normal traffic fluctuations are therefore seen to be relatively small. All operational costs are on fixed long-term contracts and again risks to these costs are perceived as being small.

### *Liquidity Risk*

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

### *Solvency & 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 relationships with the entities that jointly control it. More information is provided in note 1 to the financial statements.

## KEY PERFORMANCE INDICATORS

The Group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates the monitoring of the key performance criteria on operational activities detailed in the following sections.

This year's traffic volumes on the M40 have increased by 3.1% for cars and 3.6% for HGVs over the same period last year. In the prior year, traffic volumes increased by 0.1% and 5.3% respectively. The increase can be partly attributed to the comparatively mild weather conditions in 2011 which continued through to the end of the year.

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.

Major maintenance work undertaken in the year on the M40 consisted primarily of resurfacing works between junctions 6 to 9 and repairs to structural assets.

### *Health & Safety Performance*

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

### *Forecasts*

The Board regularly reviews costs and traffic levels against forecasts and accident statistics are compared against benchmarks. Traffic is monitored against independent forecasts provided by our advisors and costs are measured against both our own budgets and benchmarked against similar sub-contracts on other projects.

### *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.

**DIRECTORS' REPORT (continued)**

**RESULTS AND DIVIDENDS**

The profit on ordinary activities after taxation for the year was £4,057,000 (2010 profit of £3,076,000)

During the year the Company paid a dividend of £3,398,000 (2010 £2,737,000)

**SHARE CAPITAL**

Details of the authorised and issued share capital are shown in note 17

**CHARITABLE AND POLITICAL CONTRIBUTIONS**

The group made no charitable or political contributions during the year

**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 Company'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 Company'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

**DIRECTORS**

The Directors who served throughout the year 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

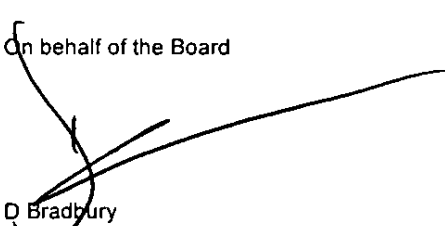
**POLICY ON PAYMENT OF CREDITORS**

It is the Group's policy to comply with the terms of supply agreed with suppliers Where payment terms are not negotiated the Group endeavours to adhere with the suppliers' standard terms The average creditors days outstanding for the group at the year end was 34 (2010 28)

**AUDITOR**

Pursuant to sections 485-488 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will continue in office

On behalf of the Board

  
D Bradbury  
Director  
30 April 2012

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

In preparing these financial statements, the Directors are required to

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

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the group and parent company financial statements of UK Highways M40 (Holdings) Limited for the year ended 31 December 2011 which comprise the Consolidated Profit and Loss account, the Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 23. 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).

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 auditors' 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, 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 December 2011 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **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.



Jacqueline Holden FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
30 April 2012

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
Turnover	3	28,699	28,083
Net operating costs		<u>(19,240)</u>	<u>(19,510)</u>
<b>Operating profit</b>	4	9,459	8,573
Net interest payable	7	(4,142)	(4,401)
<b>Profit on ordinary activities before taxation</b>		<u>5,317</u>	<u>4,172</u>
Tax on profit on ordinary activities	8	(1,260)	(1,096)
<b>Profit for the financial year</b>	18	<u>4,057</u>	<u>3,076</u>

A reconciliation of movements in shareholders' funds is given in note 19

All items in the profit and loss account relate to continuing operations

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents

All gains and losses are recognised in the profit and loss account in both the current and preceding year, and therefore no separate statement of total recognised gains and losses has been presented

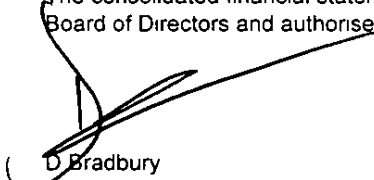


**UK HIGHWAYS M40 (HOLDINGS) LIMITED**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Tangible assets	10	52,781	55,725
Investment	11	<u>63,442</u>	<u>60,436</u>
		116,223	116,161
<b>Current assets</b>			
Debtor- due within one year	12	6,882	6,069
Cash at bank and in hand		<u>12,863</u>	<u>18,242</u>
		19,745	24,311
<b>Current liabilities</b>			
Creditors amounts falling due within one year	13	<u>(20,262)</u>	<u>(20,402)</u>
<b>Net current (liabilities)/assets</b>		<u>(517)</u>	<u>3,909</u>
<b>Total assets less current liabilities</b>		115,706	120,070
<b>Creditors</b> amounts falling due after more than one year	13	<u>(100,000)</u>	<u>(104,783)</u>
<b>Provision for liabilities</b>	15	<u>(1,717)</u>	<u>(1,957)</u>
<b>Net assets</b>		<u>13,989</u>	<u>13,330</u>
<b>Capital and reserves</b>			
Called up share capital	17	3,550	3,550
Profit and loss account	18	10,439	9,780
<b>Shareholders' funds</b>	19	<u>13,989</u>	<u>13,330</u>

The consolidated financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 30 April 2012. They were signed on its behalf by

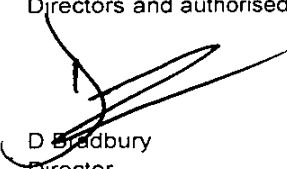
  
D. Bradbury  
Director  
30 April 2012

**UK HIGHWAYS M40 (HOLDINGS) LIMITED**

**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments	11	3,500	3,500
<b>Current assets</b>			
Debtors		10,423	10,547
- due within one year	12	410	412
- due after more than one year	12	10,013	10,135
Cash at bank and in hand		6	7
		<u>10,429</u>	<u>10,554</u>
<b>Current liabilities</b>			
<b>Creditors</b> amounts falling due within one year	13	(470)	(452)
		<u>9,959</u>	<u>10,102</u>
<b>Net current assets</b>			
		<u>13,459</u>	<u>13,602</u>
<b>Total assets less current liabilities</b>			
<b>Creditors</b> amounts falling due after more than one year	13	(9,795)	(9,938)
		<u>3,664</u>	<u>3,664</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	17	3,550	3,550
Profit and loss account	18	114	114
		<u>3,664</u>	<u>3,664</u>
<b>Shareholders' funds</b>	19		

The financial statements of UK Highways M40 (Holdings) Limited, registered number 2939644, were approved by the Board of Directors and authorised for issue on 30 April 2012. They were signed on its behalf by

  
D. Bradbury  
Director  
30 April 2012

**UK HIGHWAYS M40 (HOLDINGS) LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
<b>Net cash inflow from operating activities</b>	21	<b>10,776</b>	11,178
<b>Returns on investments and servicing of finance</b>			
Interest received		90	65
Interest and other financing costs paid		(6,660)	(6,724)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(6,570)</b>	(6,659)
Taxation		(1,504)	(800)
Investment bond matured		-	7,318
Equity dividends paid		(3,398)	(2,737)
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(696)</b>	8,300
<b>Financing</b>			
Repayment of secured loan		(4,562)	(4,296)
Repayment of loan notes		(121)	(166)
<b>Net cash outflow from financing</b>		<b>(4,683)</b>	(4,462)
<b>(Decrease)/increase in cash in the year</b>	22	<b>(5,379)</b>	3,838

Notes to the financial statements for the year ended 31 December 2011

1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Accounting Standards in the United Kingdom and comply with the Companies Act 2006. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently throughout the current and preceding year, is shown below.

Company

The Company exists to hold investments in its subsidiary that provides services under a private finance agreement. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made. Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Group

The Directors have considered the ability of key sub-contractors to continue to meet contractual commitments and do not consider there to be a material risk.

The Group's forecasts and projections show that the Company expects to be able to continue to operate.

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, they continue to adopt the going concern basis in preparing the annual report and accounts.

a) Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of UK Highways M40 (Holdings) Limited and its subsidiary undertaking UK Highways M40 Limited. The financial statements of each company in the Group are prepared to 31 December. A reconciliation of movements in shareholder's funds is given in Note 19.

b) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise

- (i) leasehold properties and improvements, being the depots covered by the Concession Agreement
- (ii) infrastructure assets, being that section of the M40 road covered by the Concession Agreement (the "Project Road") together with its associated landscaping and over/under bridges
- (iii) other assets, including fixed electrical and mechanical equipment, plant and machinery and fixtures and fittings

d) Leasehold properties

These were handed over to the Group at nil value. Improvements to the leasehold properties are recorded at cost and are depreciated upon commissioning, over the remaining life of the leasehold or concession, whichever is the shorter.

e) Infrastructure assets

The Project Road was handed over to the Group at nil value. All expenditure on the Project Road specified in the Concession Agreement as related to increased capacity is treated as additions, which are included at cost less depreciation.

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

f) Other assets

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

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

g) Fixed Asset Investments

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

ACCOUNTING POLICIES (continued)

h) Major Maintenance

Provision for major maintenance of the Project Road is based on the expenditure required to maintain the Project Road in the condition laid down in the Concession Agreement. The charge made in the year reflects the costs to be borne by the Company in making good the wear and tear sustained by the road in the year. Cash expenditure is charged against the balance sheet provision as and when incurred, and to the extent that cash expenditure exceeds the amount provided to date, the balance is disclosed as a prepayment or accrual.

The annual cost of repair is calculated with reference to the expenditure required over the life of the Concession to maintain the Project Road to the specified standard and the annual traffic movements which give rise to the wear and tear. The annual cost of repair to structural and other assets is calculated with respect to the duration of the concession. The future cost has been discounted at a rate of 8.5%. The unwinding of the discount is recognised in the income statement with other finance costs.

i) Deferred Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

In accordance with FRS19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are not discounted.

j) 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 additions were commissioned.

k) Interest Rate Fluctuations

Interest rate swaps are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match net income or cost with the related finance expense. These amounts are accounted for on a cost basis.

l) PFI Accounting

The construction and operation of the road is a PFI project. Applying the guidance within Financial Reporting Standard (FRS) 5 application note F indicates that the project's principal agreements do not substantially transfer all the risks and rewards of ownership to the group. As such the costs incurred by the Company on the design and construction of the road have been treated as a fixed asset in these accounts.

m) Turnover

Turnover is derived entirely in the United Kingdom and is recognised net of VAT, to the extent that the Company 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.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in the financial statements. The profit after taxation incurred in the financial statements of the Company was £3,398,000 (2010 profit £2,735,000)

3 TURNOVER

Turnover in the year is analysed as follows

Shadow tolls

Additional works revenue

Group 2011 £'000	Group 2010 £'000
25,463	24,735
3,236	3,348
<b>28,699</b>	<b>28,083</b>

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

4 OPERATING PROFIT

Operating profit is stated after charging

Fees payable to the Group's auditor for the audit of the annual accounts

Fees payable to the Group's auditor and its associates for other services – Taxation services

Major maintenance (see note 13)

Operational costs

Other operating charges – others (see note 21)

Depreciation and amortisation

Group 2011 £'000	Group 2010 £'000
13	15
5	5
6,305	6,764
9,223	9,028
749	828
<b>2,944</b>	<b>2,870</b>

Fees paid to the auditor for audit services on behalf of the Company amounted to £nil (2010 £2,392)

5 DIRECTORS' REMUNERATION

The Directors did not receive any remuneration during the year or the previous year. Fees are due to the shareholding companies for the services of the Directors. The amounts were £50,000 (2010 £50,000) per shareholding, a total of £100,000 (2010 £100,000)

6 STAFF NUMBERS AND COSTS

The Group had no employees during the year (2010 - nil). The Directors are shown on page 1

7 NET INTEREST PAYABLE

Interest receivable and similar income

Interest receivable on bank deposits

Interest on EIB zero coupon bonds

Interest payable and similar charges

Interest payable on bank loans and overdrafts

Interest payable to shareholder loan notes

Amortised of finance issue costs

Other finance costs - unwinding of discount on major maintenance accrual

Net interest payable

Group 2011 £'000	Group 2010 £'000
88	65
3,006	2,943
<b>3,094</b>	<b>3,008</b>
(4,557)	(5,100)
(1,526)	(1,571)
(200)	(200)
(953)	(538)
<b>(7,236)</b>	<b>(7,409)</b>
<b>(4,142)</b>	<b>(4,401)</b>

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group 2011 £'000	Group 2010 £'000
<u>Analysis of tax charge for the year</u>		
<b>Current tax</b>		
UK corporation tax	(1,510)	(896)
Adjustments in respect of prior year	10	-
Total current tax	<u>(1,500)</u>	<u>(896)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	240	(200)
Total deferred tax	<u>240</u>	<u>(200)</u>
<b>Total tax charge on profit on ordinary activities</b>	<u>(1,260)</u>	<u>(1 096)</u>

Factors affecting tax charge for the current year

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

	Group 2011 £'000	Group 2010 £'000
Profit on ordinary activities before taxation	<u>5,317</u>	<u>4,172</u>
Profit on ordinary activities multiplied by the blended rate of corporation tax in the UK of 26.5% (2010 - 28%)	(1,408)	(1 168)
<b>Effects of</b>		
Origination and reversal of timing differences	(102)	(106)
Adjustments in respect of previous years	10	-
Utilisation of tax losses	-	378
<b>Total current tax charge for the year</b>	<u>(1,500)</u>	<u>(896)</u>

Factors affecting future tax charges

The Group has trade losses available to carry forward of £nil (2010 £1,351,000) available to set against trading profits arising in future periods

9 DIVIDENDS

	Group 2011 £'000	Group 2010 £'000
- Interim and final dividend paid of £0.97 (2010 £0.77) per £1 share	<u>(3,398)</u>	<u>(2 737)</u>

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 TANGIBLE FIXED ASSETS

	Short Leasehold Properties and Improvements £'000	Infrastructure Asset £'000	Vehicles, Plant and Equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2011	828	85,011	765	86,604
At 31 December 2011	828	85,011	765	86,604
<b>Depreciation</b>				
At 1 January 2011	(333)	(29,786)	(760)	(30,879)
Charge for the year	(31)	(2,912)	(1)	(2,944)
At 31 December 2011	(364)	(32,698)	(761)	(33,823)
<b>Net book value</b>				
At 31 December 2011	464	52,313	4	52,781
At 31 December 2010	495	55,225	5	55,725

Included within infrastructure asset costs is £9 332 000 (2010 £9 332 000) of interest capitalised during the construction phase. The net book value of interest capitalised is £5 742,000 (2010 £6,061,000).

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

11 FIXED ASSET INVESTMENTS

	Group	Company Interest in Group Undertakings £'000
<b>Cost</b>		
At 1 January 2011	63,442	3,500
Interest	3,006	-
At 31 December 2011	66,448	3,500
<b>Net book value</b>		
At 31 December 2011	66,448	3,500
At 31 December 2010	63,442	3,500
	Group EIB bond	2011 2010 £'000 £'000
Fixed asset investments	63,442	60,436
	63,442	60,436

The Company's subsidiary undertaking, UK Highways M40 Limited, holds EIB zero coupon bonds which are used to fund major maintenance works on the motorway as and when they fall due. The first of the bonds matured in 2010 with the remaining six maturing at specified intervals through to 2021.

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

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

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



## Notes to the financial statements for the year ended 31 December 2011 (continued)

## 12 DEBTORS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<b>Due within one year</b>				
Amounts owed from group undertakings	-	-	409	411
Deferred tax asset	-	-	1	1
Prepayments and accrued income	6,882	6,069	-	-
	<b>6,882</b>	<b>6,069</b>	<b>410</b>	<b>412</b>
<b>Due after more than one year</b>				
Loan notes	-	-	10,013	10 135
	<b>-</b>	<b>-</b>	<b>10,013</b>	<b>10 135</b>

During the year the Company was repaid £121,000 (2010 £166,000) on its loan notes to its subsidiary UK Highways M40 Limited. Interest on the remaining loan notes is charged at 15% per annum and they are re-payable by 1 May 2026, or before if funds allow.

## 13 CREDITORS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year</b>				
Bank loans (note 14)	4,841	4,562	-	-
Trade creditors	277	358	252	255
Unsecured loan notes	218	197	218	197
Corporation tax	1,063	896	-	-
Other taxation and social security	236	73	-	-
Major maintenance accrual	10,827	11 217	-	-
Accruals and deferred income	2,800	3,099	-	-
	<b>20,262</b>	<b>20 402</b>	<b>470</b>	<b>452</b>
<b>Amounts falling due after more than one year</b>				
Bank loans (note 14)	90,205	94,845	-	-
Unsecured loan notes to shareholders	9,795	9 938	9,795	9 938
	<b>100,000</b>	<b>104,783</b>	<b>9,795</b>	<b>9 938</b>

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

Issue costs are amortised over the length of the loan in accordance with FRS 4.

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<b>Analysis of debt</b>				
Debt can be analysed as falling due				
In one year or less	5,059	4,759	218	197
Between one and two years	4,175	5 058	252	217
Between two and five years	15,538	13,150	218	581
In five years or more	82,942	89,432	9,325	9 140
	<b>107,714</b>	<b>112,399</b>	<b>10,013</b>	<b>10 135</b>
Less issue costs	(2,656)	(2 857)	-	-
	<b>105,058</b>	<b>109,542</b>	<b>10,013</b>	<b>10,135</b>

Notes to the financial statements for the year ended 31 December 2011 (continued)

13 CREDITORS (continued)

The major maintenance accrual comprises the following elements

	2011 £'000	2010 £'000
Balance as at 1 January	(11,217)	(11,032)
Unwinding of discount	(953)	(538)
Expensed in the year	7,649	7,117
Charge for the year	(6,305)	(6,764)
<b>Balance as at 31 December</b>	<b>(10,826)</b>	<b>(11,217)</b>

The major maintenance provision is based on projected future cash flows and has been discounted at a rate of 8.5%, which is considered to be an appropriate rate of discount. Applying a discount rate of 7.5% gives rise to a provision of £13,589,000, and applying a discount rate of 9.5% gives rise to a provision of £8,303,000.

14 BANK LOANS

Bank borrowings relate to term loan facilities granted on 8 October 1996 by a banking syndicate with HSBC PLC acting as agent. As at 31 December 2011 a total of £97,702,000 (2010: £102,264,000) was drawn on this facility.

Loan issue costs in respect of these facilities have been deducted from the gross proceeds of the bank borrowings and are being amortised over the period of the facility as part of the finance costs in accordance with the provisions of FRS4.

The loan is repayable in six monthly instalments. Repayments commenced on 31 March 2002 and they are due to end on 31 March 2025.

Interest is charged on the facility based on floating libor. There is an interest rate swap in place with a notional principal of £110,603,000 at a fixed rate payable at 3.98% to 31 March 2025. The fair value of this instrument at 31 December 2010 was a liability of £13,628,000 (2010: liability of £4,647,000).

The facility is secured by way of a first legal mortgage over the leasehold property.

15 PROVISIONS FOR LIABILITIES

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Deferred Taxation</b>				
At 1 January	1,957	1,757	-	-
(Credited)/charged to profit and loss account during the year	(240)	200	(1)	-
<b>At 31 December</b>	<b>1,717</b>	<b>1,957</b>	<b>(1)</b>	<b>-</b>
 The balance provided at 25% (2010: 27%) comprises	 2011 £'000	 2010 £'000		
Other timing differences	1,717	1,957		
<b>At 31 December</b>	<b>1,717</b>	<b>1,957</b>		

On 21 March 2012, the UK Government announced a reduction in the main rate of corporation tax from 26% to 24% effective from 1 April 2012. As it was not substantively enacted at the balance sheet date the rate reduction is not reflected in these financial statements in accordance with FRS 21, as it is a non-adjusting event occurring after the reporting period. The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 22% by 1 April 2014.

16 CAPITAL COMMITMENTS

There was no capital expenditure contracted but not provided at 31 December 2011 (2010: £nil).

Notes to the financial statements for the year ended 31 December 2011 (continued)

17 CALLED UP SHARE CAPITAL

	Group / Company	
	2011	2010
	£'000	£'000
<b>Allotted, issued and fully paid</b>		
3,550,000 ordinary shares of £1 each	3,550	3,550
<b>Authorised</b>	No	No
40,000,000 ordinary shares of £1 each	40,000,000	40,000,000

18 MOVEMENT IN RESERVES

	Group Profit and loss account £'000	Company Profit and loss account £'000
<b>At 1 January 2011</b>	9,780	114
Profit for the financial year	4,057	3,398
Dividends paid on equity shares (note 9)	(3,398)	(3,398)
<b>At 31 December 2011</b>	10,439	114

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Profit for the financial year	4,057	3,076	3,398	2,735
Dividends paid on equity shares (note 9)	(3,398)	(2,737)	(3,398)	(2,737)
Net addition in shareholders' funds	659	339	-	(2)
Opening shareholders' funds	13,330	12,991	3,664	3,666
<b>Closing shareholder's funds</b>	<b>13,989</b>	<b>13,330</b>	<b>3,664</b>	<b>3,664</b>

20 TRANSACTIONS WITH RELATED PARTIES

The Company had the following related party transactions during the year

	2011 £'000	2010 £'000
<b>UK Highways Management Services Limited</b>		
Company concession overheads	-	377
Balance payable at 31 December	-	5
<b>Semperian PPP Investment Partners No 2 Limited and subsidiaries</b>		
Directors' fees	50	50
Balance payable at 31 December	-	-
Loan note interest charged	763	786
Loan notes owed at 31 December	5,007	5,067
<b>John Laing Infrastructure Fund Limited and subsidiaries</b>		
Directors' fees	50	-
Balance payable at 31 December	50	-
Loan note interest charged	763	69
Loan notes owed at 31 December	5,007	5,067

Notes to the financial statements for the year ended 31 December 2011 (continued)

20 TRANSACTIONS WITH RELATED PARTIES (continued)

UK Highways Management Services Limited is a company controlled jointly by John Laing Infrastructure Limited and Carillion Private Finance Limited, and provides seconded staff and other support services to allow the Company to perform its functions. John Laing Infrastructure Limited is a subsidiary of John Laing plc.

On 29 November 2010 John Laing plc sold its shares in the Company to Palio (No 7) Limited, a subsidiary of John Laing Infrastructure Fund Limited. At this time UK Highways Management Services Limited ceased to be a related party.

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 £'000	2010 £'000
Operating profit	9,459	8,573
Decrease/(increase) in debtors	(815)	1,203
Decrease in creditors	(794)	(1,450)
Movements in deferred income	(18)	(18)
Non-cash expense (depreciation)	2,944	2,870
<b>Net cash inflow from operating activities</b>	<b>10,776</b>	<b>11,178</b>

22 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2011 £'000	Cash flow £'000	Other non- cash changes £'000	At 31 December 2011 £'000
Cash in hand and at bank	18,242	(5,379)	-	12,863
Bank debt	(99,407)	4,562	(200)	(95,045)
Loan notes to shareholders	(10,135)	121	-	(10,014)
<b>Net debt</b>	<b>(91,300)</b>	<b>(696)</b>	<b>(200)</b>	<b>(92,196)</b>

23 ULTIMATE PARENT UNDERTAKING

The Company is a joint venture between Palio (No 7) Limited (50%) an English Limited Partnership registered in England and Wales, and Semperian Subholdings M40 Limited (50%), a company registered in England and Wales. The Directors consider there to be no ultimate controlling entity.