MACQUARIE

# Macquarie Motorways Group Limited

**Registered number 5879935**

# Financial Report
# 30 June 2008

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# Directors' Report

The Directors of Macquarie Motorways Group Limited (the Company) submit the following report in respect of the year ended 30 June 2008

## Principal activity

The principal activity of the Company consists of investment in infrastructure projects and associated activities as part of the Macquarie Infrastructure Group International Limited (MIGIL) group (the Group) The Group forms part of Macquarie Infrastructure Group (MIG)

The Company does not envisage any changes in activity for the foreseeable future

## Results and dividends

The Company's retained loss of £58,948,000 (2007 £70,812,000) for the year was transferred to reserves No dividend has been proposed or paid to ordinary shareholders in the year ended 30 June 2008 (2007 £Nil)

## Business review and future developments

- ***New Swap Transaction***

During the year the Company entered into a 1 year basis swap agreement for a notional amount of £1 00 billion Under the terms of the swap agreement the Company will pay 6 month LIBOR and receive 1 month LIBOR plus a premium from 30 June 2008 to 30 June 2009

- ***Principal risks and uncertainties***

The business risks that affect the Company are principally the risks that affect the infrastructure projects that the Company has invested in These are considered to be

- The continued ability to collect tolls over the life of the concession,
- The security of road infrastructure and tolling facilities

- ***Key Performance Indicators (KPIs)***

Given the straightforward nature of the business and the information provided elsewhere in this report, the directors are of the opinion that the reproduction of KPIs in the Directors' Report is not necessary for an understanding of the development, performance or position of the business KPIs are monitored at a MIG level

# Directors' Report (continued)

## Creditor payment policy

The Company seeks to treat all of its suppliers fairly It is the Company's policy to agree the terms of payment at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations

## Environment policy

The Company's only operational subsidiary, Midland Expressway Limited (MEL), is a limited company set up exclusively to construct, operate and maintain the M6 Toll motorway over a 53 year concession period MEL recognises that its activities impact on the environment to some degree, therefore it aims to secure the positive advantages and reduce the negative impacts through a system of active environmental management, which will in many cases contribute positively to its future performance

MEL aims to

- comply with current and future legislative requirements, encourage best environmental practice and commit to continual improvement,
- fulfil applicable landscape and ecological commitments,
- prevent pollution from its activities,
- plan the contingency / emergency response for major incidents, with other environmental stakeholders, to minimise environmental impact,
- engender within its staff, and as far as practicable its contractors, a culture of awareness and responsibility for relevant environmental issues by promoting its environmental policy internally,
- develop, implement and audit an Environmental Management System to support these aims,
- achieve certification to ISO 14001 'Environmental Management Systems',
- promote its environmental-friendly credentials as widely as possible

## Health and safety policy

MEL is committed to complying with applicable health and safety legislation, and to continual improvement in achieving a high standard of heath, safety and welfare for its operating environments and for all those in the organisation and others who may be affected by its activities

MEL achieved certification to the Occupational Health and Safety Standard OHSAS 18001 in July 2005

# Directors' Report (continued)

## Directors and their interests

The following persons held office as Directors of the Company during the year and up to the date of this report, except as otherwise noted

| | |
|---|---|
| — David Harrison | |
| — Colin Chanter | |
| — Sean MacDonald | |
| — Stephen Allen | Resigned 15th November 2007 |
| — Karim Mourad | Resigned 27th March 2008 |
| — John Hughes | Appointed 13th December 2007 |

## Secretary

The following persons held office as joint company secretaries of the Company during the year and up to the date of this report, except as otherwise noted

| | |
|---|---|
| — Annabelle Helps | |
| — Steven Smith | Appointed 14th December 2007 |

## Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year In preparing those financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable 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 Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They 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

The Directors also confirm that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have taken all the necessary steps to ensure that both they and the Company's auditors are aware of any relevant audit information

# Directors' Report (continued)

## Financial risk management objectives and policies

The Company has both interest bearing assets and interest bearing liabilities The Company has entered into a number of interest rate swap agreements to minimize the risk of adverse interest rate movements on bank loan liabilities

Interest bearing assets consist of short term deposits and cash balances The Company has a policy of maximising finance income from short term deposits via the monitoring of cash balances to ensure working capital requirements are at an appropriate level to fund its operations

## Auditors

In accordance with s487(2) of the Companies Act 2006 the auditors, PricewaterhouseCoopers LLP, are deemed to be re-appointed

By order of the board

**A Helps**
Secretary

20 August 2008
Level 35
CityPoint
1 Ropemaker Street
London EC2Y 9HD

# Independent Auditors' Report to the Members of Macquarie Motorways Group Limited

We have audited the financial statements of Macquarie Motorways Group Limited for the year ended 30 June 2008 which comprise the profit and loss account, the balance sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

# Independent Auditors' Report (continued)

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008 and of its loss for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
London

2[illegible] August 2008

# Profit and Loss Account

| | Note | Year ended 30 June 2008 £'000 | Period ended 30 June 2007 £'000 |
|---|---|---|---|
| Administrative expenses | | (224) | (8,459) |
| **Operating loss** | | (224) | (8,459) |
| Interest receivable and similar income | 3 | 70,957 | 44,411 |
| Interest payable and similar charges | 4 | (129,681) | (106,764) |
| **Loss on ordinary activities before taxation** | | **(58,948)** | **(70,812)** |
| Taxation on loss on ordinary activities | 5 | - | - |
| **Loss for the year** | 14 | **(58,948)** | **(70,812)** |

The above Profit and Loss Account should be read in conjunction with the accompanying notes on pages 9 to 16

The loss on ordinary activities before taxation relates wholly to continuing operations

A statement of total recognised gains and losses has not been provided as all gains and losses are dealt with in the profit and loss account

There is no difference between the result for the year as disclosed and that calculated on an historical cost basis

# Balance Sheet

| | Note | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 8 | 1,236,066 | 1,236,066 |
| **Current assets** | | | |
| Cash at bank | 7 | 25,668 | 24,874 |
| Investments | 8 | 581,819 | 577,319 |
| Debtors amounts falling due within one year | 9 | - | 6 |
| | | **607,487** | **602,199** |
| **Current Liabilities** | | | |
| Creditors amounts falling due within one year | 10 | (952,553) | (896,875) |
| **Net current liabilities** | | **(345,066)** | **(294,676)** |
| **Total assets less current liabilities** | | **891,000** | **941,390** |
| **Non-current liabilities** | | | |
| Creditors amounts falling due after one year | 11 | (998,760) | (990,202) |
| **Net liabilities** | | **(107,760)** | **(48,812)** |
| **Capital and reserves** | | | |
| Called up share capital | 13 | 2 000 | 2,000 |
| Capital contribution account | 14 | 20,000 | 20,000 |
| Profit and loss account | 14 | (129,760) | (70,812) |
| **Total shareholders' funds** | 15 | **(107,760)** | **(48,812)** |

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 9 to 16

These financial statements were approved by the Board of Directors on 20 August 2008 and were signed on its behalf by

**D Harrison**
Director

# Notes to the Financial Statements

## 1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

The Company is exempt under the Companies Act 1985 from the requirement to prepare group financial statements, as the Company is included in the consolidated financial statements of MIGIL and MIG, which are publicly available These financial statements present information about the Company as an individual undertaking and not as a group

### (a) Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention in accordance with Schedule 4 to the Companies Act 1985

### (b) Cash flow statements

The Company has taken advantage of the exemption under the rules of Financial Reporting Standard (FRS) 1 "Cash Flow Statements" (revised) not to produce a cash flow statement The results are included in the consolidated financial statements of MIGIL, which are publicly available

### (c) Related party transactions

The Company's ultimate parent undertaking, MIGIL, prepares consolidated financial statements which are publicly available Accordingly, the Company has taken advantage of the exemptions available in FRS 8 "Related Party Disclosures" for disclosure of transactions with entities that are part of the group or investees of group entities as related parties in these financial statements

### (d) Taxation and deferred taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes Deferred taxation is provided fully in respect of all timing differences between the accounting and tax treatment of income and expenses at the reporting date, the anticipated reversal of which will result in a change in future liability to tax The provision is calculated using the rates expected to be applicable when the asset or liability crystallises based on current tax rates and law measured on a non-discounted basis A 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 against which to recover carried forward tax losses and from which the future reversal of timing differences can be deducted

### (e) Borrowings

Borrowings are carried at their issue proceeds, net of issue costs, less amounts repaid Issue costs are allocated over the years of the borrowing to achieve a constant rate on the carrying amount

## 1. Principal accounting policies (continued)

### (f) Interest

Interest receivable and payable is brought to account on an accruals basis

### (g) Fixed and current asset investments

Fixed and current asset investments are stated at cost less provisions for impairment

### (h) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements The interest receivable and payable on interest rate swap agreements are included in the interest charge for the year The fair value of the instruments themselves are not recognised in the financial statements

### (i) Cash at bank

Cash at bank, call deposits and other short-term highly liquid investments are disclosed within cash at bank

### (j) Going concern

The Directors confirm that they are satisfied that the immediate parent undertaking, Macquarie European Infrastructure (MEI), has adequate resources to continue in business for the foreseeable future The Directors of MEI have undertaken not to require the payment of principal amounts owed to it by the Company, whilst the Company has net current liabilities and remains part of the MEI group For this reason, they continue to adopt the going concern basis in preparing the financial statements of the Company

## 2 Operating expenses

The Company had no employees during the year. Fees payable to the Company's auditor for the audit of the Company's Financial Statements amounting to £5,000 (2007 £5,000) were borne by its ultimate parent company

## 3 Interest receivable and similar income

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Bank interest receivable | 663 | 282 |
| Interest receivable on loan with MEL | 52,019 | 44,129 |
| Derivative financial instruments | 18,275 | - |
| | 70,957 | 44,411 |

## 4 Interest payable and similar charges

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Interest payable and similar charges | | |
| Bank loans | 70,214 | 53,232 |
| Loan from immediate parent undertaking | 43,998 | 36,123 |
| Loan from ultimate parent undertaking | 15,469 | 11,802 |
| Derivative financial instruments | - | 5,607 |
| | 129,681 | 106,764 |

## 5 Taxation on loss on ordinary activities

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax charge at 28% (2007 30%) | - | - |
| | - | - |

Factors affecting the current tax charge for the year are as follows

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| **Reconciliation of current tax charge** | | |
| Loss on ordinary activities before taxation | **(58,948)** | (70,812) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax of 28% (2007 30%) | **(16,505)** | (21,244) |
| Expenses not deductible for tax purposes | - | 615 |
| Group relief given for nil consideration | **759** | 3,040 |
| Losses not utilised in the year | **15,746** | 17,589 |
| **Current tax charge for the year** | - | - |

## 6 Directors' remuneration

The Directors were employees of Macquarie Group Limited, the parent of Macquarie Capital Funds (Europe) Limited, the adviser of the Group, and received no remuneration in respect of their services to the Company during the year

## 7 Cash at bank

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Bank and cash balances | **25,668** | 24,874 |

Cash at bank includes amounts that have restrictions on their use This comprises restricted amounts relating to the Company's debt service obligations, amounting to £11 9 million (2007 £11 9 million)

# 8 Investments

## Investments in controlled entities

| Subsidiary undertakings | Country of Corporation | Principal activities | Year end | Class and percentage of shares held |
|---|---|---|---|---|
| Macquarie Infrastructure (UK) Limited | United Kingdom | Infrastructure investment | 30 June | 100% ordinary |
| Midland Expressway Limited | United Kingdom | Infrastructure investment | 30 June | 100% ordinary |

## Investments in associated undertakings

| Associated undertakings | Country of Corporation | Principal activities | Year end | Class and percentage of shares held |
|---|---|---|---|---|
| MIBL Finance (Luxembourg) SARL | Luxembourg | Infrastructure investment | 30 June | 10 7% ordinary |

## Summary of movement of Investments

| | Investments in Associated Undertakings | Investments in Subsidiary Undertakings | Loans to Subsidiary Undertakings | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Current** | | | | |
| As at the beginning of the year | - | - | 577,319 | **577,319** |
| Additions | - | - | 6,500 | **6,500** |
| Repayments | - | - | (2,000) | **(2,000)** |
| As at the end of the year | | | 581,819 | **581,819** |
| **Non-current** | | | | |
| As at the beginning and end of the year | 22,000 | 1,214,066 | - | **1,236,066** |

Loans to subsidiary undertakings represent a shareholder loan advanced to MEL The loan is interest bearing at a fixed rate of 9% per annum and is repayable on demand

# 9 Debtors: amounts falling due within one year

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| VAT debtor | - | 6 |

## 10 Creditors: amounts falling due within one year

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Other creditors | **1,011** | 1,050 |
| Accruals and deferred income (see note 11) | **57,831** | 34,271 |
| Amounts owed to immediate parent undertaking | **752,865** | 736,167 |
| Amounts owed to ultimate parent undertaking | **140,271** | 124,802 |
| Amounts owed to other group undertakings | **575** | 585 |
| | **952,553** | 896,875 |

The loan from the Company's immediate parent undertaking is interest bearing at a fixed rate of 6% per annum and repayable on demand

The loan from Company's ultimate parent undertaking is interest bearing at a fixed rate of 12% per annum and repayable on demand

## 11 Creditors: amounts falling due after one year

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Bank loans | **1,007,350** | 1,000,000 |
| Less issue costs | **(8,590)** | (9,798) |
| | **998,760** | 990,202 |

Bank loans represent amounts borrowed under a Facilities Agreement dated 23 August 2006 and arranged by Banco Espirito Santo de Investimento, S A , Calyon, Dresdner Kleinwort Wasserstein Limited and Banco Santander Central Hispano, S A

The facilities comprise

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Term loan (fully utilised) | **1,000,000** | 1,000,000 |
| Capital expenditure facility | **30,000** | 30,000 |
| | **1,030,000** | 1,030,000 |

As at 30 June 2008 the term loan had been fully utilised and £7 4 million (2007 Nil) of the capital expenditure facility had been drawn

The bank loans have certain covenants attached and are secured by way of a debenture over MEL's assets The loans are repayable in August 2015 Interest on the bank loans is charged at a floating rate at a margin over the London Inter Bank Offered Rate

The Company has entered into a 30 year interest rate hedge, such that all floating rate payments due on the new £1 00 billion term loan have been fixed The swap contracts entered into have structured fixed payments at levels that increase from period to period The levels of fixed payments start at a low rate and then increase over 20 years until they reach a plateau rate for the remainder of the term The swap contracts are currently being settled on a six monthly basis

A liability of £57 8 million (2007 £34 3 million) has been recognised in accruals and deferred income (refer to note 10) to reflect the low level of fixed payments currently being paid under the swap contracts

## 12 Provision for liabilities and charges

### Deferred Tax

As at the year end, the Company has no potential liability to deferred taxation A potential deferred tax asset of £29,137,000 (2007 £17,589,000) has not been recognised

A deferred tax asset should only be recognised where it can be regarded as more likely than not that there will be suitable taxable profits from which a future reversal of the underlying timing differences can be deducted In the opinion of the Directors this is currently not the case and therefore no asset is recognised in the financial statements

## 13 Called up share capital

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| **Authorised** | | |
| 100,000,000 Ordinary shares of £1 00 each | **100,000** | 100,000 |
| **Allotted and fully paid** | | |
| 2,000,001 Ordinary shares of £1 00 each | **2,000** | 2,000 |

## 14 Reserves

| | Capital contribution account £'000 | Profit and loss account £'000 |
|---|---|---|
| As at the beginning of the year | 20,000 | (70,812) |
| Retained loss for the year | - | (58,948) |
| As at the end of the year | **20,000** | **(129,760)** |

On 17 August 2006 MEI made a permanent capital contribution to the Company of £20 0m

## 15 Reconciliation of movements in shareholders' funds

| | 30 June 2008 £'000 | 30 June 2007 £'000 |
|---|---|---|
| Shareholders' funds at the beginning of the year | (48,812) | - |
| Share capital issued in the year | - | 2,000 |
| Capital contribution | - | 20,000 |
| Retained loss for the year | (58,948) | (70,812) |
| Shareholders' funds at the end of the year | (107,760) | (48,812) |

## 16 Immediate and ultimate parent company

The immediate parent company is MEI, whose financial statements can be obtained from Citypoint, 1 Ropemaker Street, London, EC2Y 9HD

The ultimate parent company is MIGIL, a mutual fund company incorporated in Bermuda whose consolidated financial statements which include the results of the Company can be obtained from Rosebank Centre, 11 Bermudiana Road, Pembroke, HM08, Bermuda The consolidated financial statements of MIG which include the results of MIGIL can be obtained from No 1 Martin Place, Sydney, NSW 2000, Australia