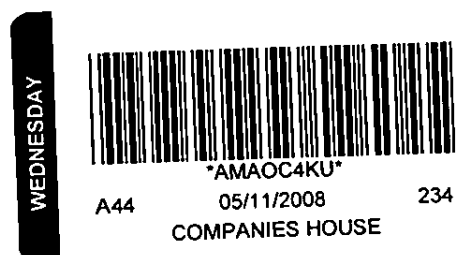


Midland Expressway Limited  
Annual report and financial statements  
for the year ended 30 June 2008

Registered number 2309767



# **Midland Expressway Limited**

## **Annual report and financial statements for the year ended 30 June 2008**

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# **Midland Expressway Limited**

## **Directors and advisers**

### **Directors**

N C Paul	Chairman (Non Executive)
T J Fanning	Chief Executive Officer
D S Harrison	
S G MacDonald	
C D Chanter	

### **Secretary**

D A Slater

### **Registered office**

Midland Expressway Limited  
Operations Centre  
Express Way, Weeford  
Lichfield  
Staffordshire  
WS14 0PQ

### **Bankers**

HSBC Bank Plc  
49 Market Street  
Lichfield  
Staffordshire  
WS13 6LB

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

# **Midland Expressway Limited**

## **Directors' report for the year ended 30 June 2008**

The directors present their report and the audited financial statements for the year ended 30 June 2008

### **Principal activities**

The company's principal activity is the financing and operation of the 27-mile M6 Toll motorway, under a 53 year Concession Agreement with the Government running from 26 January 2001 and expiring in 2054

### **Business review**

The M6 Toll continues to make an important contribution to keeping this major arterial through route corridor available in the Midlands. The fourth full year of trading saw traffic volumes fall by 11.5% on the previous year.

Roadworks on the competing section of the M6 which ran through the previous financial period were completed in early August 2007. As a consequence the benefit of additional traffic using the M6 Toll to avoid roadworks on the M6, as seen in 2006/07, was not evident for most of 2007/08. An increased toll rate was successfully introduced in January 2008, but trading was affected adversely in the final quarter where the additional factors of rising fuel prices and the "credit crunch" negatively impacted on traffic volumes and revenue performance. Over 15.8 million customers used the road during the year (2007: 17.8 million) and tolling revenues of £57.3 million remained on a par with the previous year, (2007: £57.4 million). Other income, to which the M6 Toll's motorway service area continues to make a substantial contribution, increased to £2.42 million, (2007: £2.39 million).

Construction began on the M6 Toll/M42 diverge in January 2008 and was successfully completed in June 2008 on time and below budget. Options for the M54 Link with the M6 Toll have been identified and the company are in discussion with the Department for Transport on securing the progression of a viable option towards public consultation next year.

The company looks forward to maintaining and indeed improving its reliable and quality service to customers. Automation of the smaller toll stations remains on track with three of four completed. Modifications to toll lane layouts have been made and a dedicated tag lane at the mainline stations introduced to improve lane throughput and enhance customer experience of the M6 Toll. Further improvements in technology were introduced to automate back office operations and these will continue to be developed. The company will continue to focus on cost savings and greater efficiencies in the use of resources. Operating costs have been successfully controlled below budget providing a reduction of 12.5% on the previous year. The company will keep under review traffic conditions on competing routes and will investigate other areas to enhance revenue.

Excellent industrial relations have been maintained with UCATT throughout the period.

# Midland Expressway Limited

## Directors' report for the year ended 30 June 2008 (continued)

### Business review (continued)

#### *Principal risks and uncertainties*

The management of the business and the execution of the company strategy are subject to a number of risks evaluated monthly by management and the Board. The principle risks affecting the company are considered to be

- The continued ability to collect tolls over the life of the concession, and not being discriminated against by change in government policy
- Increased competition from other routes and the general down turn within the economy
- The safety and security of the 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 the KPIs in the Directors' report is not necessary for an understanding of the development, performance or positioning of the business

### Results and dividends

The company's loss for the financial year is £26,732,000 (2007 £27,902,000)

The directors do not propose to recommend the payment of any dividend on the issued ordinary share capital of the company in respect of the year ended 30 June 2008 (2007 £nil)

### Directors

The directors who served during the year were as follows

N C Paul	Chairman (Non Executive)	(Appointed 01 January 2008)
Dr P Dyer	Chairman (Non Executive)	(Resigned 20 December 2007)
T J Fanning	Chief Executive Officer	
D S Harrison		
K Mourad		(Resigned 27 March 2008)
C D Chanter		
S G MacDonald		

### Policy and practice on payment of creditors

Trade creditors at the year end represented 35 days (2007 49 days) of invoices received. It is the company's policy in respect of all suppliers to agree payment terms in advance for the supply of goods and services and to adhere to those terms.

### Charitable and political donations

In December 2004, the company committed to an ongoing "Drive for Charity" event whereby a day's toll revenue (net of VAT) is donated to charitable causes. During the year, the company donated £91,675 from an event held on 10 May 2008 (2007 £194,448 from events held on 26 July 2006 and 23 May 2007).

There were no donations to political parties (2007 £Nil)

# **Midland Expressway Limited**

## **Directors' report for the year ended 30 June 2008 (continued)**

### **Statement of directors' responsibilities in respect of the Annual report and financial statements**

The directors are responsible for preparing the Annual 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). The financial statements are required by the law to give a true and fair view of the state of affairs of the company and of its profit or loss of the company for the period.

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 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, in which case there should be supporting assumptions or qualifications as necessary.

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 that 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 1985. 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.

### **Statement of disclosure of information to auditors**

In the case of each of the persons who are directors at the time when the report is approved the following applies:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

# **Midland Expressway Limited**

## **Directors' report for the year ended 30 June 2008 (continued)**

### **Environmental policy**

The company recognises that its activities impact on the environment to some degree, and aims to secure positive advantages and reduce negative impacts through a system of active environmental monitoring and management, which will in many cases contribute positively to its future performance

The company 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 activities,
- plan the contingency/emergency response for major incidents, with other environmental stakeholders, to minimise environmental impact,
- engender within staff and, as far as practicable, contractors, a culture of awareness and responsibility for relevant environmental issues by promoting this policy internally,
- develop, implement and audit an Environmental Management System (EMS) to support these aims,
- maintain certification to ISO 14001 'Environmental management systems' gained on 15 December 2006,
- promote its environmentally-friendly credentials as widely as possible

### **Health and Safety**

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

The company achieved certification to the Occupational Health and Safety Standard OHSAS 18001 in July 2005, and has signed up to a partnership agreement with Lichfield District Council on safety and health

### **Financial risk management objectives and policies**

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Company's finance department as required

The company has both interest bearing assets and interest bearing liabilities. The interest on the group loan from Macquarie Motorways Group Limited is at a fixed rate

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 and working capital requirements at a level sufficient to fund its operations

# **Midland Expressway Limited**

## **Directors' report for the year ended 30 June 2008 (continued)**

### **Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting

By order of the board,

A handwritten signature in black ink, appearing to be 'D S Harrison', with a long horizontal flourish extending to the right.

D S Harrison  
Director  
14 August 2008



## **Independent auditors' report to the members of Midland Expressway Limited**

We have audited the financial statements of Midland Expressway Limited for the year ended 30 June 2008 which comprise the Profit and Loss account, the Balance Sheet, the Cash Flow Statement 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 judgements 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.

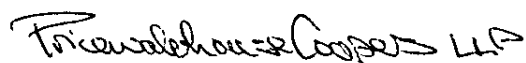
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

## **Independent auditors' report to the members of Midland Expressway Limited (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 and cash flows 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**  
Chartered Accountants and Registered Auditors  
Birmingham

14 August 2008

# Midland Expressway Limited

## Profit and loss account for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Turnover</b>	2	<b>57,252</b>	57,419
Other operating income		<b>2,421</b>	2,391
		<b>59,673</b>	59,810
Staff costs	5	<b>(4,112)</b>	(4,112)
Depreciation		<b>(17,405)</b>	(15,751)
Other operating charges		<b>(3,345)</b>	(4,413)
<b>Operating profit</b>	3	<b>34,811</b>	35,534
Interest receivable and similar income	6	<b>1,156</b>	1,132
Interest payable and similar charges	6	<b>(62,698)</b>	(64,568)
<b>Loss on ordinary activities before taxation</b>		<b>(26,731)</b>	(27,902)
Tax on loss on ordinary activities	7	-	-
<b>Loss for the financial year</b>	15	<b>(26,731)</b>	(27,902)

All the above amounts relate to continuing operations

The above results represent the company's total recognised gains and losses in the year and therefore no separate statement of gains and losses has been presented

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents

# Midland Expressway Limited

## Balance sheet as at 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible assets	8	736,530	741,448
<b>Current assets</b>			
Debtors	9	1,132	1,330
Cash at bank and in hand	10	9,290	9,999
		10,422	11,329
<b>Creditors: amounts falling due within one year</b>	11	(586,681)	(582,112)
<b>Net current liabilities</b>		(576,259)	(570,783)
<b>Total assets less current liabilities</b>		160,271	170,665
<b>Creditors: amounts falling due after more than one year</b>	12	(147,165)	(130,828)
<b>Net assets</b>		13,106	39,837
<b>Capital and reserves</b>			
Called up share capital	14	2,940	2,940
Share premium account	15	144,060	144,060
Profit and loss account	15	(133,894)	(107,163)
<b>Total shareholders' funds</b>	16	13,106	39,837

The financial statements on pages 9 to 26 were approved by the Board of Directors on the date shown below

Signed on behalf of the Board of Directors by



D S Harrison  
Director  
14 August 2008

# Midland Expressway Limited

## Cash flow statement for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Operating activities</b>			
Net cash inflow from operating activities	17	<b>52,483</b>	50,459
<b>Returns on investments and servicing of finance</b>			
Interest paid		<b>(52,019)</b>	(52,625)
Interest received		<b>1,156</b>	1,132
		<b>(50,863)</b>	(51,493)
<b>Capital expenditure</b>			
Sale of tangible fixed assets		-	5
Purchase of tangible fixed assets		<b>(6,829)</b>	(551)
Net cash outflow for capital expenditure and financial investment		<b>(6,829)</b>	(546)
Net cash outflow before financing		<b>(5,209)</b>	(1,580)
<b>Financing</b>			
Issue of new share capital		-	145,530
Proceeds from an intercompany loan		<b>4,500</b>	577,319
Repayment of bank loan		-	(619,909)
Repayment of loan note to related parties		-	(145,530)
Net cash outflow from financing		<b>4,500</b>	(42,590)
Decrease in cash	19	<b>(709)</b>	(44,170)

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008

### 1 Principal accounting policies

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The accounting policies adopted, which have been applied consistently, are described below.

#### Basis of preparation

The financial statements have been prepared under the going concern basis. The company has a credit facility with other group undertakings. These facilities are repayable on demand but the directors do not expect any request for repayment in the foreseeable future.

#### Turnover

Turnover represents amounts received and receivable in respect of tolling revenues, exclusive of value added tax.

#### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents original purchase cost and in the case of the construction of the M6 Toll all expenses that are directly attributable to bringing the road into final condition. Finance costs up to 'Permit to Use' have been capitalised in accordance with FRS 15 "Tangible fixed assets".

Depreciation of tangible fixed assets commenced at 'Permit to Use' or date of acquisition if later at the following rates:

Asset description	Categorisation	Estimated useful life	Depreciation rate
M6 Toll Road Infrastructure	M6 Toll	50 yrs	Vehicle usage over useful life
Roadbase	M6 Toll	15 yrs	Vehicle usage over useful life
Wearing Course	M6 Toll	8 yrs	Vehicle usage over useful life
M6 Toll Buildings and Motorway Service Area	M6 Toll /leasehold land and buildings	50 yrs	2%
Masts and Columns	Plant and machinery	12 yrs	8%
Office Furniture and Fittings	Plant and machinery	10 yrs	10%
Signage	Plant and machinery	6 yrs	17%
Vehicles and Maintenance Equipment	Plant and machinery	5 yrs	20%
IT Equipment	Plant and machinery	3 yrs	33%
Toll Collection System	Plant and machinery	3 yrs	33%
Land Fund	Leasehold land and buildings	50 yrs	2%

The carrying value of these tangible assets is assessed by the directors annually to determine whether there has been any impairment to their value.

# **Midland Expressway Limited**

## **Notes to the financial statements for the year ended 30 June 2008 (continued)**

### **1 Principal accounting policies (continued)**

#### **Stock**

Stocks are valued at the lower of cost and net realisable value

#### **Capital instruments**

Instruments other than shares are classified as liabilities if they contain an obligation to transfer economic benefits otherwise they are included in shareholders' funds

#### **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.

#### **Interest payable**

Interest and other finance costs payable up to 'Permit to Use' have been capitalised in tangible fixed assets and thereafter they are expensed to profit and loss account.

#### **Operating leases**

Rentals in respect of operating leases payable have been expensed to the profit and loss account as incurred.

#### **Finance leases**

Assets acquired under finance leases are capitalised and depreciated in line with assets of a similar nature. The capital element of future payments is treated as a liability. Refer to note 8 for additional information.

#### **Motorway Service Area**

The costs of construction of the Motorway Service Area (MSA) at Norton Canes have been capitalised and depreciated in line with assets of a similar nature.

The operation of the MSA is leased to RoadChef and the rental income received and receivable is included within other operating income.

#### **Deferred tax**

Deferred tax 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. Deferred tax assets are not recognised to the extent that the transfer of future economic benefits in the future is uncertain.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

# **Midland Expressway Limited**

## **Notes to the financial statements for the year ended 30 June 2008 (continued)**

### **1 Principal accounting policies (continued)**

#### **Contingent liabilities**

It is the company's policy to consider claims against the company on a case by case basis, and where appropriate to disclose a contingent liability. If the likelihood of an obligation arising is remote no disclosure is made.

#### **Derivative financial instruments**

Where the company uses derivative financial instruments to reduce exposure to interest rate movements these are considered in arriving at the interest charge for the year. The instruments themselves are not valued for inclusion in the financial statements. The company does not hold or issue derivative financial instruments for speculative purposes.

#### **Significant estimation techniques**

##### *Depreciation*

Depreciation of M6 Toll infrastructure assets is calculated to amortise the cost of the assets using a formula of actual vehicle usage for the period proportionate to the total forecast usage over the remaining asset life. The forecast vehicle usage is provided by independent third party consultants.

##### *Land Fund*

The Land Fund liability includes an accrual for outstanding land compensation claims. The accrual is made on a best estimate basis by the directors from information available at the balance sheet date from independent sources including the Highways Agency and the Valuations Office Agency.

For the purpose of determining the capital element of future payments an RPI rate of 3.88% has been used.

### **2 Segmental reporting**

All of the company's turnover and operating results were derived from its activities based in the United Kingdom.



# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 3 Operating profit

	2008	2007
	£'000	£'000
Operating profit is stated after charging		
Other staff costs (including temporary labour and secondment fees)	138	319
Depreciation of tangible fixed assets		
- owned assets	14,997	13,467
- leased assets	2,408	2,284
Loss on disposal of tangible fixed assets	-	7
Operating lease charges		
- plant and machinery	7	9
- other	47	34
Auditors' remuneration		
- audit services	54	52
- non audit services *	29	45

\* The non audit fees above include taxation £28,800 (2007 £26,100) and other services £nil (2007 £19,000)

### 4 Directors' emoluments

	2008	2007
	£'000	£'000
Aggregate emoluments including benefits in kind	276	237
Sums paid to third parties for directors' services	45	54

No directors (2007 nil) were accruing retirement benefits under any pension scheme

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 4 Directors' emoluments (continued)

#### Highest paid director

	2008	2007
	£'000	£'000
Total amounts of emoluments and amounts receivable under long-term incentive schemes	261	237

### 5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was

	2008	2007
By activity	Number	Number
Construction	-	1
Operations and maintenance	115	113
Administration and marketing	31	32
	146	146

#### Staff costs expensed to profit and loss account

	2008	2007
	£'000	£'000
Salaries	3,794	3,772
Social security costs	318	340
	4,112	4,112

#### Staff costs capitalised within tangible fixed assets

	2008	2007
	£'000	£'000
Salaries	-	26
Social security costs	-	3
	-	29

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 6 Interest payable and receivable

	2008	2007
	£'000	£'000
Interest payable and similar charges		
Bank loans	-	(5,442)
Loan payable to parent company (Macquarie Motorways Group Ltd)	(52,019)	(44,129)
Land Fund	(10,679)	(7,557)
Interest rate swap charges	-	(3,054)
Loan issue costs written off	-	(4,386)
	(62,698)	(64,568)
Interest receivable and similar income		
On bank deposits	1,156	1,132

### 7 Tax on loss on ordinary activities

There is no corporation tax charge for the year (2007 £nil) The £nil charge for the current year is higher (2007 higher) than the charge calculated at the standard rate of corporation tax in the UK 29.5% (2007 30%) The difference is explained below

	2008	2007
	£'000	£'000
<b>Loss on ordinary activities before taxation</b>	<b>(26,731)</b>	<b>(27,902)</b>
Loss on ordinary activities multiplied by standard rate in the UK 29.5% (2007 30%)	(7,885)	(8,371)
Effects of		
Short term timing differences on deferred tax asset not provided	10,110	21,185
Impact of changes to Industrial Buildings Allowances as a result of the March 2007 Budget	(2,792)	(9,179)
Expenses not deductible for tax purposes	25	(3,635)
Change in the rate of corporation tax	542	-
	-	-

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 8 Tangible fixed assets

	Plant and machinery	Short leasehold land and buildings	M6 Toll	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 July 2007	39,738	123,270	637,836	800,844
Additions	402	5,661	6,424	12,487
Disposals	(2)	-	-	(2)
<b>At 30 June 2008</b>	<b>40,138</b>	<b>128,931</b>	<b>644,260</b>	<b>813,329</b>
<b>Accumulated depreciation</b>				
At 1 July 2007	19,999	5,843	33,554	59,396
Charge for the period	2,993	2,664	11,748	17,405
Disposals	(2)	-	-	(2)
<b>At 30 June 2008</b>	<b>22,990</b>	<b>8,507</b>	<b>45,302</b>	<b>76,799</b>
<b>Net book value</b>				
<b>At 30 June 2008</b>	<b>17,148</b>	<b>120,424</b>	<b>598,958</b>	<b>736,530</b>
At 1 July 2007	19,739	117,427	604,282	741,448

No finance costs have been capitalised during the year (2007 £nil) Aggregate finance costs, after depreciation, included in tangible fixed assets are £90,260,000 (2007 £92,106,000)

Additions to short leasehold land and buildings comprise expenditure charged and accrued to the Land Fund asset during the year

#### Short leasehold land and buildings comprise:

	Land Fund	Motorway Service Area	Total
	£'000	£'000	£'000
Cost	116,126	12,805	128,931
Aggregate depreciation	7,342	1,165	8,507
<b>Net book amount</b>	<b>108,784</b>	<b>11,640</b>	<b>120,424</b>

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 8 Tangible fixed assets (continued)

#### Assets held under finance lease

The Land Fund asset represents the capital cost of land leased by Midland Expressway Limited from the Highways Agency. Lease payments are payable from 2010 until 2054 by Midland Expressway Limited.

The lease payments are established using a formula provided by the Highways Agency to settle all costs associated with the purchase of that land and interest on those costs at 6% real per annum. Interest accruing on the Land Fund after 'Permit to Use' is charged to the profit and loss account.

The Land Fund liability has been valued by the Highways Agency as at 30 June 2008 at £124.4 million (2007: £89.2 million). The increase in liability arises from expenditure by the Highways Agency of £24.5 million and annual interest of £10.7 million. A further £22.8 million (2007: £41.7 million) has been accrued to the Land Fund asset and corresponding liability for outstanding land compensation claims yet to be paid or agreed by the Highways Agency (note 12).

### 9 Debtors

Debtors due within one year

	2008	2007
	£'000	£'000
Trade debtors	276	268
Prepayments and accrued income	856	1,062
	1,132	1,330

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 10 Cash at bank and in hand

	2008	2007
	£'000	£'000
Bank and cash balances	9,290	9,999
The following bank and cash balances have restrictions on their use		
Amount held in escrow under the Concession Agreement	8,000	8,000

### 11 Creditors: amounts falling due within one year

	2008	2007
	£'000	£'000
Trade creditors	388	609
Amounts due to group undertakings	581,858	577,358
Taxation and social security	1,218	1,979
Accruals and deferred income	3,217	2,166
	586,681	582,112

Amounts due to group undertakings include borrowings of £581,819,368 (2007 £577,319,368) from the immediate parent company, Macquarie Motorways Group Limited. The terms of the agreement state that the loan is repayable on demand. However the directors do not foresee any payments will be made over the next 12 months. The loan is unsecured and bears a fixed interest rate of 9.0% pa.

The company is party to financing arrangements entered into by Macquarie Motorways Group Limited with its lenders on 24 August 2006.

The company has guaranteed all of Macquarie Motorways Group Limited's obligations under the finance documents designated by the facilities agreement, by way of a debenture created 24 August 2006. The debenture is subject to the terms of a security trust and intercreditor deed between amongst others the company, Macquarie Motorways Group Limited and Calyon, acting as the security trustee for the benefit of the secured creditors. The debenture grants fixed and floating charges over all of the company's assets in favour of the security trustee as security for the payment of all liabilities.

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 12 Creditors: amounts falling due after more than one year

	2008	2007
	£'000	£'000
Obligations under finance leases (note 8)	147,165	130,828
	147,165	130,828

	2008	2007
	£'000	£'000
Obligations under finance leases are repayable as follows		
Repayable in two to five years	34,291	20,540
Repayable after five years	112,874	110,288
	147,165	130,828

### 13 Deferred taxation

At the year end the company has no potential liability to deferred taxation

A deferred tax asset of £52,006,000 (2007 £41,850,000) has not been recognised as currently there is insufficient evidence that any asset would be recoverable. The asset consists of

	2008		2007	
	Provided £'000	Un- recognised £'000	Provided £'000	Un- recognised £'000
Accelerated capital allowances	(7,588)	-	(6,541)	-
Capitalised interest	(35,312)	-	(35,832)	-
Short term timing differences	7	-	14	-
Losses	42,893	52,006	42,359	41,850
	-	52,006	-	41,850

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 14 Called up share capital

	2008	2007
	£'000	£'000
<b>Authorised</b>		
3,000,000 (2007 3,000,000) ordinary shares of £1 each	3,000	3,000
<b>Allotted, called up and fully paid</b>		
2,940,000 (2007 2,940,000) ordinary shares of £1 each	2,940	2,940

### 15 Reserves

	Share Premium Account	Profit and loss account	Total
	£'000	£'000	£'000
At 1 July 2007	144,060	(107,163)	36,897
Loss for the year	-	(26,731)	(26,731)
<b>At 30 June 2008</b>	<b>144,060</b>	<b>(133,894)</b>	<b>(10,166)</b>

### 16 Reconciliation of movement in total shareholders' funds

	2008	2007
	£'000	£'000
Opening total shareholders' funds/(deficit)	39,837	(77,791)
Issue of new shares	-	1,470
Premium arising on issue of shares (note 15)	-	144,060
Loss for the year	(26,731)	(27,902)
<b>Closing total shareholders' funds</b>	<b>13,106</b>	<b>39,837</b>



# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 17 Reconciliation of operating profit to net cash inflow from operating activities

	2008	2007
	£'000	£'000
Operating profit	34,811	35,534
Depreciation	17,405	15,751
Loss on disposal of tangible fixed assets	-	7
Decrease in debtors	198	12
Increase/(decrease) in creditors	69	(845)
<b>Net cash inflow from operating activities</b>	<b>52,483</b>	<b>50,459</b>

### 18 Analysis of changes in net debt

	At 1 July 2007	Cash flows	Other non cash changes*	At 30 June 2008
	£'000	£'000	£'000	£'000
Cash at bank and in hand	9,999	(709)	-	9,290
Debt				
Macquarie Motorways Group loan	(577,319)	(4,500)	-	(581,819)
Finance leases due after one year	(130,828)	-	(16,337)	(147,165)
<b>Net debt</b>	<b>(698,148)</b>	<b>(5,209)</b>	<b>(16,337)</b>	<b>(719,694)</b>

\*Other non-cash changes arise from finance lease liabilities payable after one year

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 19 Reconciliation of net cashflow to movement in net debt

	2008	2007
	£'000	£'000
Decrease in cash in the year	(709)	(44,170)
Cash outflow from (increase)/decrease in net debt	(4,500)	183,734
Changes in net debt resulting from cash flows	(5,209)	139,564
New finance leases	(16,337)	(64,000)
	(21,546)	75,564
Net debt at 1 July	(698,148)	(773,712)
Net debt at 30 June	(719,694)	(698,148)

### 20 Contingent liabilities

There are no contingent liabilities at 30 June 2008 (2007 £nil)

### 21 Operating lease commitments

	2008	2007
	£'000	£'000
Other leases which expire		
Within one year	31	20
Within two to five years	39	10
	70	30

None of the above operating lease commitments relate to land and buildings

# Midland Expressway Limited

## Notes to the financial statements for the year ended 30 June 2008 (continued)

### 22 Related party transactions

The ultimate parent company is Macquarie Infrastructure Group International Limited (formerly Macquarie Infrastructure Bermuda Limited), a company incorporated in Bermuda

As 100% of the voting rights of the company are controlled by the Macquarie Infrastructure Group International Limited group as at the year-end, the company is exempt from the requirement in FRS 8 to disclose transactions with entities that are part of this group, or investees of this group, qualifying as related parties

Macquarie Capital Funds (Europe) Limited, a subsidiary of Macquarie Group Limited is an advisor to the company's ultimate parent entity, Macquarie Infrastructure Group International Limited, and is considered to have been a related party during the year, under the definitions of FRS 8. Full disclosure is given of transactions during the year and outstanding balances with Macquarie Capital Funds (Europe) Limited

#### a) Financing

Details of interest incurred and amounts outstanding under shareholder loan arrangements are given in notes 6 and 12 to the financial statements

#### b) Management

Macquarie Group companies provided Midland Expressway Limited with directors, staff and technical support services. Midland Expressway Limited provided staff and technical support services to Macquarie Group companies

	2008	2007
	£'000	£'000

#### Fees and disbursements receivable:

Macquarie Capital Funds (Europe) Limited	5	-
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#### At the year-end, the following amounts were owed to related parties:

	2008	2007
	£'000	£'000
Macquarie Capital Funds (Europe) Limited	1	-
Macquarie Investment Management (UK) Limited	-	5

No sums were provided against or written off amounts due to or from related parties during the year

#### c) Directors

There were no related party transactions with any of the directors during the current or preceding year

## **Midland Expressway Limited**

### **Notes to the financial statements for the year ended 30 June 2008 (continued)**

#### **23 Ultimate parent undertaking and controlling party**

The immediate parent undertaking is Macquarie Motorways Group Limited a company incorporated in Great Britain

The ultimate controlling party is Macquarie Infrastructure Group International Limited (formerly Macquarie Infrastructure Bermuda Limited), a company incorporated in Bermuda. Copies of Macquarie Infrastructure Group International Limited financial statements can be obtained from Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda

Macquarie Infrastructure Group International Limited (formerly Macquarie Infrastructure Bermuda Limited) is the smallest and largest group of undertakings to consolidate these financial statements