Company Registration No. 3059235

# CONNECT M1-A1 HOLDINGS LIMITED

# AND SUBSIDIARY UNDERTAKING

## Report and Financial Statements

## 31 March 2006

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# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

# REPORT AND FINANCIAL STATEMENTS 2006

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

A. C. Beauchamp
D. S. Harrison
S. G. MacDonald
C. L. Spencer

### SECRETARY

N. J. Marshall

### REGISTERED OFFICE

6th Floor
350 Euston Road
Regent's Place
London
NW1 3AX

### AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company whose sole business is the holding of an investment in its wholly owned subsidiary, Connect M1-A1 Limited.

On 26 March 1996, Connect M1-A1 Limited entered into a 30 year concession agreement with the Secretary of State for Transport (the "D.B.F.O. Contract") to design, build, finance and operate the M1-A1 Link Road (Lofthouse to Bramham) under the Government's Private Finance Initiative.

The M1-A1 Link Road is a motorway link of almost 30 kilometres in length which provides a strategic connection between the M1 and M62 motorways south of Leeds and the A1 Trunk Road south of Wetherby.

The Group maintains and operates the M1-A1 Link Road for the duration of the concession, and receives revenue from the Secretary of State for Transport in the form of shadow tolls based on the volume of traffic using the road. Payment of shadow tolls commenced when the M1-A1 Link Road opened and will continue until the end of the concession. In accordance with the concession agreement the Group is responsible for operating the road together with carrying out all of the routine and major life cycle maintenance for the life of the concession. The directors expect the general level of activity to continue at current levels.

## RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 March 2006 are set out on pages 6 to 20. The profit for the year after taxation was £7,947,000 (2005 - £7,215,000).

The directors declared and paid dividends of £7,300,000 (2005 - £4,500,000).

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the PPP contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil our contractual obligations.

*Financial instruments*

The financial risk management objectives of the Group are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest swaps are in place between 1996 and 2024 for notional principal amounts equating to 70% of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Credit and cash flow risks to the Group arise from its client, The Highways Agency. The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation.

The Group's liquidity risk is principally managed through financing the Group by means of long term borrowings with an amortisation profile that matches the expected availability of funds from the Group's operating activities. In addition the Group maintains reserve bank accounts to provide short term liquidity against future debt service and other expenditure requirements.

*Contractual relationships*

The Group operates within a contractual relationship with its primary customer the Highways Agency. A significant impairment of this relationship could have a direct and detrimental effect on the Group's results and could ultimately result in termination of the concession. To manage this risk the Group has regular meetings with the Highways Agency including discussions on performance, project progress, future plans and customer requirements.

# DIRECTORS' REPORT

## KEY PERFORMANCE INDICATORS

The Group has set specific business objectives, which are monitored using a number of key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

| | 31 March 2006 | 31 March 2005 |
|---|---|---|
| | £'000 | £'000 |
| Profit after taxation | 7,947 | 7,215 |
| Net assets | 7,877 | 7,230 |

## DIRECTORS AND THEIR INTERESTS

The following persons were Directors of the Company throughout the year, except where noted:

| | |
|---|---|
| A. C. Beauchamp | |
| D. S. Harrison | |
| S. G. MacDonald | |
| M. M. B. Ross | (Resigned 28 February 2006) |
| C. L. Spencer | (Appointed 28 February 2006) |

No director had any interest in the issued share capital of the Company or its subsidiary undertaking.

## AUDITORS

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

i) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

ii) the Director 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.

In accordance with section 386 of the Companies Act 1985 the Company has dispensed with the obligation to appoint auditors annually and accordingly Deloitte & Touche LLP shall be deemed to be reappointed as auditors for a further term.

By order of the Board

N J Marshall

N. J. Marshall, Secretary
22 September 2006

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements. The directors have chosen to prepare the accounts for the Company and the Group in accordance with Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that 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 accounting standards have been followed; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONNECT M1-A1 HOLDINGS LIMITED

We have audited the financial statements of Connect M1-A1 Holdings Limited for the year ended 31 March 2006, which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes numbered 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors**

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company and other members of the group is not disclosed.

We read the directors' report and other information contained in the annual report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**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 circumstances of the company and the group, 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.

**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 affairs of the Company and of the Group as at 31 March 2006 and of the profit of the Group for the year then ended, 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.

Deloitte & Touche LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London
22 September 2006

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## Year ended 31 March 2006

| | Note | 2006 £000's | 2005 £000's |
|---|---|---|---|
| **TURNOVER** | 2 | 47,625 | 47,138 |
| Cost of sales | | (12,646) | (11,930) |
| **GROSS PROFIT** | | 34,979 | 35,208 |
| Administrative expenses | | (296) | (261) |
| **OPERATING PROFIT BEFORE INTEREST** | 3 | 34,683 | 34,947 |
| Interest payable (net) | 4 | (23,325) | (24,749) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 11,358 | 10,198 |
| Tax on profit on ordinary activities | 5 | (3,411) | (2,983) |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | | 7,947 | 7,215 |
| Dividends paid on equity shares | 6 | (7,300) | (4,500) |
| **Retained profit for the year transferred to reserves** | 16 | 647 | 2,715 |

The Group has no recognised gains or losses in either year other than the reported profit shown above; consequently no statement of total recognised gains and losses is presented.

All activities are from continuing operations in the United Kingdom.

## CONSOLIDATED BALANCE SHEET
## 31 March 2006

| | Note | 2006 £000's | 2005 £000's |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 8 | 225,871 | 235,990 |
| **CURRENT ASSETS** | | | |
| Stocks | 9 | 253 | 259 |
| Debtors | | | |
| - due within one year | 10 | 5,521 | 5,165 |
| - due after one year | 10 | 50,768 | 50,768 |
| Investments | 11 | 11,600 | 12,400 |
| Cash at bank and in hand | | 322 | 343 |
| | | 68,464 | 68,935 |
| **CREDITORS: amounts falling due within one year** | | | |
| Creditors | 12 | (3,370) | (2,378) |
| Borrowings | 13 | (16,896) | (15,863) |
| **NET CURRENT ASSETS** | | 48,198 | 50,694 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 274,069 | 286,684 |
| **CREDITORS: amounts falling due after more than one year** | | | |
| Creditors | 12 | (3,065) | (2,846) |
| Borrowings | 13 | (251,687) | (268,253) |
| | | (254,752) | (271,099) |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 14 | (11,440) | (8,355) |
| **NET ASSETS** | | 7,877 | 7,230 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 15 | 3,000 | 3,000 |
| Profit and loss account | 16 | 4,877 | 4,230 |
| **EQUITY SHAREHOLDERS' FUNDS** | 17 | 7,877 | 7,230 |

These financial statements were approved by the Board of Directors on 22 September 2006 and signed on its behalf by:

A. C. Beauchamp
Director

## COMPANY BALANCE SHEET
## 31 March 2006

| | Note | 2006 £000's | 2005 £000's |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments | 7 | 3,000 | 3,000 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 15 | 3,000 | 3,000 |

The financial statements on pages 6 to 20 were approved by the Board of Directors on 22 September 2006 and signed on its behalf by:

A. C. Beauchamp
Director

## CONSOLIDATED CASH FLOW STATEMENT
## 31 March 2006

| | Note | 2006 £000's | 2005 £000's |
|---|---|---|---|
| **Net cash inflow from operating activities** | 18 | 45,442 | 43,523 |
| Returns on investments and servicing of finance | 18 | (22,770) | (23,938) |
| Taxation | | (330) | (239) |
| Capital expenditure | | - | - |
| *Equity dividends paid* | | (7,300) | (4,500) |
| **Cash inflow before use of liquid resources and financing** | | 15,042 | 14,846 |
| Management of liquid resources | 18 | 800 | 320 |
| Financing | 18 | (15,863) | (15,814) |
| **Decrease in cash in the period** | | (21) | (648) |

# NOTES TO THE ACCOUNTS
## Year ended 31 March 2006

### 1. ACCOUNTING POLICIES

The principal accounting policies have been summarised below. They have all been applied consistently throughout the year and the preceding year.

**Basis of accounting**

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards and under the historical cost convention.

**Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March 2006. The profit before dividends for the financial period dealt with in the financial statements of the Company was £7,300,000 (2005 - £4,500,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company.

**Turnover**

Revenue is recognised as turnover as it is earned and represents amounts received and receivable from the Highways Agency, exclusive of value added tax, in respect of vehicle shadow tolls as specified in the Concession Agreement with the Secretary of State for Transport.

**Taxation**

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

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

**Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents original purchase cost, except in the case of the construction cost of the M1-A1 Link Road where interest on finance up to the date of Permit to Use has been capitalised. Depreciation of these capitalised interest costs commenced at Permit to Use and will be spread over the period of the concession to operate the road.

The carrying value of this tangible fixed asset is reviewed annually by the directors to determine whether there has been any impairment to its value.

Depreciation on the road surface and the other road construction costs is on the basis of usage over the course of the twenty seven year operating life of the concession.

Depreciation on other equipment is provided at rates calculated to write off the cost less any residual value on a straight line basis on useful lives of between three and twenty years.

**Stocks**

Stocks are stated at the lower of cost and net realisable value.

# NOTES TO THE ACCOUNTS (continued)
## Year ended 31 March 2006

### 1. ACCOUNTING POLICIES (continued)

**Borrowings**

Borrowings are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

**Investments held as fixed assets**

The investment in the subsidiary undertaking is stated at cost less provision for any impairment. The carrying value is reviewed annually by the directors to determine whether there has been any impairment to the value.

**Finance costs**

Finance costs of debt in relation to the Group's senior and subordinated debt are amortised at a constant rate in accordance with the current carrying value of that debt.

**Derivative financial instruments**

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

### 2. SEGMENTAL INFORMATION

The Group has a single business segment and all associated assets are UK based.

### 3. OPERATING PROFIT BEFORE INTEREST

Operating profit before interest is stated after charging:

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Depreciation of tangible assets – owned assets | 10,121 | 9,869 |
| Auditors' remuneration for audit services | 13 | 12 |
| Directors' fees | - | 32 |

The audit fee for the Group was borne by Connect M1-A1 Limited in both years.

Directors' fees were not paid to the shareholders of the Company for the provision of the directors' services during the current year.

The Group had no employees (2004 – nil) during the year.

The Group does not operate a pension scheme for its directors.

## NOTES TO THE ACCOUNTS (continued)
**Year ended 31 March 2006**

### 4. INTEREST PAYABLE (NET)

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Senior bank loan | 14,131 | 15,157 |
| European Investment Bank loan | 7,719 | 8,055 |
| Subordinated loan stock 2020 | 1,336 | 1,371 |
| Subordinated loans | 856 | 856 |
| Financing fees | 330 | 342 |
| Interest payable on overdue tax | - | 36 |
| | 24,372 | 25,817 |
| Interest receivable and similar income | (1,047) | (1,068) |
| Net interest payable and similar charges | 23,325 | 24,749 |

Interest payable includes commitment fees, guarantee fees and sums payable under interest rate swap arrangements.

### 5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Current tax | | |
| UK corporation tax at 30% (2005 – 30%) | 326 | 291 |
| Deferred tax (note 14): | | |
| - Current year | 3,085 | 2,733 |
| - Adjustment in respect of previous period | - | (41) |
| | 3,411 | 2,983 |

**Taxation reconciliation**

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Profit on ordinary activities before tax | 11,358 | 10,198 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 – 30%) | 3,407 | 3,059 |
| Effects of: | | |
| Adjustments to tax charge in respect of previous periods | - | (16) |
| Amortisation of finance fees | (6) | (6) |
| Marginal relief | 12 | (12) |
| Depreciation in excess of /(less than) capital allowances | 10 | (108) |
| Utilisation of trading losses brought forward | (3,097) | (2,626) |
| Current tax charge | 326 | 291 |

## 6. DIVIDENDS PAID ON EQUITY SHARES

| | 2006 £000's | 2005 £000's |
|---|---|---|
| First interim dividend paid of 136.67p (2005 – 83.33p) per ordinary share | 4,100 | 2,500 |
| Second interim dividend paid of 106.67p (2005 – 66.67p) per ordinary share | 3,200 | 2,000 |
| | 7,300 | 4,500 |

## 7. INVESTMENTS HELD AS FIXED ASSETS

Investments represent a hundred percent holding in Connect M1-A1 Limited, a company registered in England and Wales, whose financial statements may be obtained from 6th Floor, 350 Euston Road, Regent's Place, London NW1 3AX.

## 8. TANGIBLE FIXED ASSETS

| **Group** | **M1-A1 Link Road £000's** | **Other *equipment* £000's** | ***Total* £000's** |
|---|---|---|---|
| ***Cost*** | | | |
| At 1 April 2005 | 267,596 | 29,517 | 297,113 |
| Additions | - | 2 | 2 |
| At 31 March 2006 | 267,596 | 29,519 | 297,115 |
| **Accumulated depreciation** | | | |
| At 1 April 2005 | 50,355 | 10,768 | 61,123 |
| Charge for the year | 8,380 | 1,741 | 10,121 |
| At 31 March 2006 | 58,735 | 12,509 | 71,244 |
| **Net book value** | | | |
| At 31 March 2006 | 208,861 | 17,010 | 225,871 |
| At 31 March 2005 | 217,241 | 18,749 | 235,990 |

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2005 – £42,507,000).

Other equipment comprises winter maintenance vehicles, traffic management equipment and computers.

## 9. STOCKS

| **Group** | **2006 £000's** | **2005 £000's** |
|---|---|---|
| Consumables and spares | 253 | 259 |

There is no material difference between the balance sheet value of stocks and their replacement cost.

## 10. DEBTORS

| **Group** | **2006 £000's** | **2005 £000's** |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | 238 | 16 |
| Other debtors (see note 19) | 467 | - |
| Corporation tax receivable | 30 | - |
| Prepayments and accrued income | 4,786 | 5,149 |
| | 5,521 | 5,165 |
| Amounts falling due after more than one year: | | |
| Upstream loan to Balfour Beatty plc and Macquarie Yorkshire Limited | 50,768 | 50,768 |
| | 50,768 | 50,768 |

The upstream loan was made, in equal shares, to Balfour Beatty plc and Macquarie Yorkshire Limited. The loan bears no interest and is repayable over time. Other debtors of £467,000 represent amounts due from Balfour Beatty plc and Macquarie Yorkshire Limited in respect of compensating payments for imputed interest on the upstream loan.

## 11. INVESTMENTS HELD AS CURRENT ASSETS

In accordance with the Group's funding arrangements, £11,600,000 is restricted and not available to fund the ongoing operations of the Group (2005 - £12,400,000). These funds are held as interest bearing cash deposits for terms of no longer than six months.

## 12. CREDITORS

| **Group** | **2006 £000's** | **2005 £000's** |
|---|---|---|
| *Amounts falling due within one year:* | | |
| Trade creditors | 587 | 366 |
| Value added tax | 1,303 | 1,336 |
| Corporation tax payable | 781 | 289 |
| Accruals | 699 | 387 |
| | 3,370 | 2,378 |
| Amounts falling due after more than one year: | | |
| Accruals | 3,065 | 2,846 |

Accruals falling due within one year and accruals falling due after more than one year include the redemption premium being accreted on the subordinated loans (note 13).

## 13. BORROWINGS

| Group | 2006 £000's | 2005 £000's |
|---|---|---|
| Subordinated loan stock 2020 | 5,709 | 5,709 |
| Subordinated loans | 9,400 | 9,800 |
| European Investment Bank loan | 76,608 | 79,209 |
| Senior bank loan | 181,307 | 194,169 |
| | 273,024 | 288,887 |
| Less: unamortised arrangement fees | (4,441) | (4,771) |
| | 268,583 | 284,116 |

The borrowings are repayable as follows:

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Repayable within one year | 16,896 | 15,863 |
| Repayable between one and two years | 19,233 | 16,896 |
| Repayable between two and five years | 61,774 | 60,637 |
| Repayable after five years | 175,121 | 195,491 |
| | 273,024 | 288,887 |
| Less: unamortised arrangement fees | (4,441) | (4,771) |
| | 268,583 | 284,116 |

The subordinated loan stock 2020 bears interest at 15% per annum which, if not paid, is compounded each March and September.

The subordinated loans bear interest at LIBOR plus 4% per annum, with a minimum interest rate of 6% per annum, and are repayable in instalments between 2005 and 2016. In addition to the annual interest cost, the loan includes a redemption premium of £6,500,000 that is being accreted on the effective interest rate over the life of the loan.

The European Investment Bank loan is repayable in instalments between 2000 and 2020. A portion of the loan is guaranteed by the European Investment Fund (£22,500,000). The guaranteed portion of the loan bears interest at 9.23% per year and the remaining portion bears interest at 9.53% per year. The loan agreement allows the guarantee to be released based on the achievement of certain financial covenants.

The senior bank loan bears interest at a margin over LIBOR and is repayable in instalments between 2000 and 2024.

The Group has entered into interest rate swap agreements in order to hedge certain senior bank loan borrowings. The fair value of the interest rate swaps at 31 March 2006 was a liability of £14,100,000 (2005 - £15,528,000). Market value has been used to determine the fair value.

All of the Group's borrowings contain either a fixed or varying security interest over the assets of the Group, as defined by an intercreditor agreement. All borrowings would be repaid in advance of other general creditors in the event of the Group becoming insolvent, except as prohibited by any legal restriction.

## 14. PROVISIONS FOR LIABILITIES AND CHARGES

**Deferred tax**

| **Group** | **£000's** |
|---|---|
| At 1 April 2005 | 8,355 |
| Charged to the profit and loss account (note 5) | |
| - Current period deferred tax charge | 3,085 |
| At 31 March 2006 | 11,440 |

| **Group** | **2006 £000's** | **2005 £000's** |
|---|---|---|
| Accelerated capital allowances | 16,630 | 16,640 |
| Unrelieved trading losses | (5,190) | (8,285) |
| Provision for deferred tax | 11,440 | 8,355 |

## 15. CALLED UP SHARE CAPITAL

| | **2006 £000's** | **2005 £000's** |
|---|---|---|
| **Authorised** | | |
| 10,000,000 ordinary shares of £1 each | 10,000 | 10,000 |
| **Allotted, called up and fully paid** | | |
| 3,000,000 ordinary shares of £1 each | 3,000 | 3,000 |

The Company is owned jointly by Balfour Beatty plc and Macquarie Yorkshire Limited (part of Macquarie Infrastructure Company Trust) in equal shares (see note 20).

## 16. RESERVES

Profit and loss account

| **Group** | **2006 £000's** | **2005 £000's** |
|---|---|---|
| At 1 April | 4,230 | 1,515 |
| Retained profit for the year | 647 | 2,715 |
| At 31 March | 4,877 | 4,230 |

## 17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

| Group | 2006 £000's | 2005 £000's |
|---|---|---|
| Profit for the financial period | 7,947 | 7,215 |
| Dividends paid on equity shares | (7,300) | (4,500) |
| Net increase to equity shareholders' funds | 647 | 2,715 |
| Opening equity shareholders' funds | 7,230 | 4,515 |
| Closing equity shareholders' funds | 7,877 | 7,230 |

| Company | 2006 £000's | 2005 £000's |
|---|---|---|
| Profit for the financial period | 7,300 | 4,500 |
| Dividends paid on equity shares | (7,300) | (4,500) |
| Net addition to equity shareholders' funds | - | - |
| Opening equity shareholders' funds | 3,000 | 3,000 |
| Closing equity shareholders' funds | 3,000 | 3,000 |

## 18. CONSOLIDATED CASH FLOW STATEMENT

***Reconciliation of operating profit to net cash inflow from operating activities:***

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Operating profit | 34,683 | 34,947 |
| Depreciation | 10,121 | 9,869 |
| Decrease in stocks | 6 | 30 |
| Increase in debtors | (356) | (323) |
| Increase / (decrease) in creditors | 988 | (1,000) |
| **Net cash inflow from operating activities** | 45,442 | 43,523 |

| | 2006 £000's | 2005 £000's |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | 1,047 | 1,068 |
| Interest paid | (23,817) | (25,006) |
| | (22,770) | (23,938) |
| ***Management of liquid resources*** | | |
| Decrease in restricted cash on term deposit | 800 | 320 |
| **Financing** | | |
| Repayment of bank loans | (15,463) | (15,614) |
| Decrease in subordinated loans | (400) | (200) |
| | (15,863) | (15,814) |

**Analysis of net debt**

| | At 1 April 2005 £000's | Cash flow £000's | Non cash change £000's | At 31 March 2006 £000's |
|---|---|---|---|---|
| Cash at bank and in hand | 343 | (21) | - | 322 |
| Current asset investments | 12,400 | (800) | - | 11,600 |
| Borrowings | (284,116) | 15,863 | (330) | (268,583) |
| Total | (271,373) | 15,042 | (330) | (256,661) |

## 18. CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

**Reconciliation of net cash flow to movement in net debt**

| | 2006 £000's | 2005 £000's |
|---|---|---|
| Decrease in cash in the year | (21) | (648) |
| Cash inflow from decrease in liquid resources | (800) | (320) |
| Cash outflow from net decrease in borrowings | 15,863 | 15,814 |
| Change in net debt resulting from cash flows | 15,042 | 14,846 |
| Amortisation of arrangement fees | (330) | (342) |
| Net debt at beginning of year | (271,373) | (285,877) |
| Net debt at end of year | (256,661) | (271,373) |

## 19. RELATED PARTY TRANSACTIONS

**Management**

Under the terms of Shareholder and Secondment Agreements the Balfour Beatty plc Group and Macquarie Infrastructure Company Trust Group provided the Company and its subsidiary, Connect M1-A1 Limited, with directors, staff and vehicle rentals during the year under review. Amounts paid in the year were £474,000 (2005 – £295,000) for management services, directors' fees of £nil (2005 – £32,000) and vehicle rental of £18,000 (2005 - £23,000). As at 31 March 2006 creditors include £141,000 (31 March 2005 - £42,000) due to the Balfour Beatty plc Group.

**Maintenance**

During the year to 31 March 2006 a joint venture between Serco Limited and a subsidiary of Balfour Beatty plc was employed under a contract with Connect M1-A1 Limited for the maintenance of the DBFO road. The value of the contract in the year was £1,053,000 (2005 - £1,048,000). As at 31 March 2006 the amount due to the joint venture was £101,000 (31 March 2005 - £96,000).

**Financing**

The Company's subsidiary, Connect M1-A1 Limited, has issued subordinated loan stock 2020 and subordinated loans divided equally between Balfour Beatty plc and Macquarie Yorkshire Limited. Details of interest incurred and loan balances outstanding under these loan agreements are given in notes 4 and 13 to the accounts respectively.

As at 31 March 2006 an amount of £3,065,000 (31 March 2005 – £2,845,000) relating to a repayment supplement on the subordinated loans is included in creditors; this amount is payable to Balfour Beatty plc and Macquarie Yorkshire Limited in equal shares.

The Company's subsidiary, Connect M1-A1 Limited, has issued an upstream loan to Balfour Beatty plc and Macquarie Yorkshire Limited in equal shares. The loan does not bear interest and is repayable over time. Other debtors of £467,000 (31 March 2005 – £nil) represents amounts due from Balfour Beatty plc and Macquarie Yorkshire Limited in respect of compensating payments for imputed interest on the upstream loan.

## NOTES TO THE ACCOUNTS (continued)
## Year ended 31 March 2006

### 20 ULTIMATE PARENT COMPANIES AND CONTROLLING PARTIES

The immediate parent companies and controlling parties are Balfour Beatty plc and Macquarie Yorkshire Limited, companies registered in England and Wales.

The ultimate parent companies and controlling parties are Balfour Beatty plc, registered in England and Wales and incorporated in Great Britain, and Macquarie Infrastructure Company Trust, which is registered in the United States of America. Financial statements may be obtained from 130 Wilton Road, London SW1V 1LQ for Balfour Beatty plc and 125 West 55th Street, New York, NY 10019 for Macquarie Infrastructure Company Trust.