

**CONNECT M1-A1 HOLDINGS LIMITED
AND SUBSIDIARY UNDERTAKING**

Report and Financial Statements

31 March 2007



CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING
REPORT AND FINANCIAL STATEMENTS 2007

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CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A C Beauchamp
D S Harrison (Resigned 29 December 2006)
S G MacDonald (Resigned 29 December 2006)
J McDonagh (Appointed 29 December 2006)
M J Ryan (Appointed 29 December 2006)
C L Spencer (Resigned 29 May 2007)
B R Walker (Appointed 29 May 2007)

SECRETARY

N J Marshall

REGISTERED OFFICE

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

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 March 2007

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 2007 are set out on pages 6 to 20. The profit for the year after taxation was £9,570,000 (2006 - £7,947,000)

The Directors declared and paid dividends of £4,350,000 (2006 - £7,300,000)

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 D B F O 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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

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 2007	31 March 2006
	£'000	£'000
Profit after taxation	9,570	7,947
Net assets	13,097	7,877

DIRECTORS AND THEIR INTERESTS

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

A C Beauchamp
D S Harrison (Resigned 29 December 2006)
S G MacDonald (Resigned 29 December 2006)
J McDonagh (Appointed 29 December 2006)
M J Ryan (Appointed 29 December 2006)
C L Spencer (Resigned 29 May 2007)
B R Walker (Appointed 29 May 2007)

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

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985

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, Secretary
27 July 2007

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements the Directors are required to

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 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 group and parent company financial statements (the "financial statements") of Connect M1-A1 Holdings Limited for the year ended 31 March 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 21. 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

The Directors' responsibilities for preparing the Annual Report and 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).

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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group's and 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.

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 Group's and the Parent Company's affairs as at 31 March 2007 and of the Group's profit 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.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

27 July 2007

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2007

	Note	2007 £000's	2006 £000's
TURNOVER	2	48,348	47,625
Cost of sales		(12,322)	(12,646)
GROSS PROFIT		36,026	34,979
Administrative expenses		(313)	(296)
OPERATING PROFIT	3	35,713	34,683
Interest payable (net)	4	(22,047)	(23,325)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,666	11,358
Tax on profit on ordinary activities	5	(4,096)	(3,411)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		9,570	7,947
Dividends paid on equity shares	6	(4,350)	(7,300)
Retained profit for the year transferred to reserves	16	5,220	647

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

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED BALANCE SHEET 31 March 2007

	Note	2007 £000's	2006 £000's
FIXED ASSETS			
Tangible assets	8	216,310	225,871
CURRENT ASSETS			
Stocks	9	265	253
Debtors			
- due within one year	10	4,619	5,521
- due after one year	10	50,768	50,768
Investments	11	12,059	11,600
Cash at bank and in hand		2,216	322
		<u>69,927</u>	<u>68,464</u>
CREDITORS: amounts falling due within one year			
Creditors	12	(2,703)	(3,370)
Borrowings	13	(19,233)	(16,896)
NET CURRENT ASSETS		<u>47,991</u>	<u>48,198</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>264,301</u>	<u>274,069</u>
CREDITORS: amounts falling due after more than one year			
Creditors	12	(3,222)	(3,065)
Borrowings	13	(232,784)	(251,687)
PROVISIONS FOR LIABILITIES	14	<u>(236,006)</u> <u>(15,198)</u>	<u>(254,752)</u> <u>(11,440)</u>
NET ASSETS		<u>13,097</u>	<u>7,877</u>
CAPITAL AND RESERVES			
Called up share capital	15	3,000	3,000
Profit and loss account	16	10,097	4,877
EQUITY SHAREHOLDERS' FUNDS	17	<u>13,097</u>	<u>7,877</u>

The financial statements were approved by the Board of Directors on 27 July 2007 and signed on its behalf by


A. C. Beauchamp
Director

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

COMPANY BALANCE SHEET

31 March 2007

	Note	2007 £000's	2006 £000's
FIXED ASSETS			
Investments	7	<u>3,000</u>	<u>3,000</u>
CAPITAL AND RESERVES			
Called up share capital	15	<u>3,000</u>	<u>3,000</u>

The financial statements on pages 6 to 20 were approved by the Board of Directors on 27 July 2007 and signed on its behalf by



A C Beauchamp

Director

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING**CONSOLIDATED CASH FLOW STATEMENT****31 March 2007**

	Note	2007 £000's	2006 £000's
Net cash inflow from operating activities	18	46,133	45,442
Returns on investments and servicing of finance	18	(21,259)	(22,770)
Taxation		(1,275)	(330)
Equity dividends paid		(4,350)	(7,300)
		<hr/>	<hr/>
Cash inflow before use of liquid resources and financing		19,249	15,042
Management of liquid resources	18	(459)	800
Financing	18	(16,896)	(15,863)
		<hr/>	<hr/>
Increase / (decrease) in cash in the period		1,894	(21)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS

Year ended 31 March 2007

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 2007. The profit before dividends, for the financial period dealt with in the financial statements of the Company was £4,350,000 (2006 - £7,300,000). 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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

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

	2007 £000's	2006 £000's
Depreciation of tangible assets – owned assets	9,561	10,121
Fees payable to the Company's auditors for the audit of the Company's annual accounts	1	1
The audit of the Company's subsidiary pursuant to legislation	12	12
Total audit fees	<u>13</u>	<u>13</u>

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

The Group had no employees (2006 – nil) during the year.

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

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

4. INTEREST PAYABLE (NET)

	2007 £000's	2006 £000's
Senior bank loan	13,309	14,131
European Investment Bank loan	7,363	7,719
Subordinated loan stock 2020	1,291	1,336
Subordinated loans	856	856
Financing fees	330	330
Interest payable on overdue tax	26	-
	<u>23,175</u>	<u>24,372</u>
Interest receivable and similar income	(1,128)	(1,047)
	<u>22,047</u>	<u>23,325</u>

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

	2007 £000's	2006 £000's
Current tax		
UK corporation tax at 30% (2006 – 30%)	338	326
Deferred tax (note 14)		
- Current year	3,758	3,085
	<u>4,096</u>	<u>3,411</u>

Taxation reconciliation

	2007 £000's	2006 £000's
Profit on ordinary activities before tax	<u>13,666</u>	<u>11,358</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 – 30%)	4,100	3,407
Effects of		
Amortisation of finance fees	(6)	(6)
Marginal relief	-	12
Depreciation (less than) / in excess of capital allowances	(127)	10
Utilisation of trading losses brought forward	(3,629)	(3,097)
	<u>338</u>	<u>326</u>

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

6. DIVIDENDS PAID ON EQUITY SHARES

	2007 £000's	2006 £000's
First interim dividend paid of 86 67p (2006 – 136 67p) per ordinary share	2,600	4,100
Second interim dividend paid of 58 33p (2006 – 106 67p) per ordinary share	1,750	3,200
	<u>4,350</u>	<u>7,300</u>

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 2006	267,596	29,519	297,115
At 31 March 2007	<u>267,596</u>	<u>29,519</u>	<u>297,115</u>
Accumulated depreciation			
At 1 April 2006	58,735	12,509	71,244
Charge for the year	7,818	1,743	9,561
At 31 March 2007	<u>66,553</u>	<u>14,252</u>	<u>80,805</u>
Net book value			
At 31 March 2007	<u>201,043</u>	<u>15,267</u>	<u>216,310</u>
At 31 March 2006	<u>208,861</u>	<u>17,010</u>	<u>225,871</u>

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2006 – £42,507,000)

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

9 STOCKS

Group	2007 £000's	2006 £000's
Consumables and spares	<u>265</u>	<u>253</u>

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

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

10. DEBTORS

Group	2007 £000's	2006 £000's
Amounts falling due within one year		
Trade debtors	69	238
Other debtors	-	467
Corporation tax receivable	-	30
Prepayments and accrued income	4,550	4,786
	<u>4,619</u>	<u>5,521</u>
Amounts falling due after more than one year		
Upstream loan to Balfour Beatty plc and M1-A1 Yorkshire Limited	50,768	50,768
	<u>50,768</u>	<u>50,768</u>

The upstream loan was made, in equal shares, to Balfour Beatty plc and M1-A1 Yorkshire Limited (part of Infrastructure Investors LP) The loan bears no interest and is repayable from 2016

11. INVESTMENTS HELD AS CURRENT ASSETS

In accordance with the Group's funding arrangements, £12,059,000 is restricted and not available to fund the ongoing operations of the Group (2006 - £11,600,000) These funds are held as interest bearing cash deposits for terms of no longer than six months

12. CREDITORS

Group	2007 £000's	2006 £000's
Amounts falling due within one year		
Trade creditors	478	587
Value added tax	1,308	1,303
Corporation tax payable	201	781
Accruals	716	699
	<u>2,703</u>	<u>3,370</u>
Amounts falling due after more than one year		
Accruals	3,222	3,065

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)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

13. BORROWINGS

Group	2007 £000's	2006 £000's
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	8,900	9,400
European Investment Bank loan	73,755	76,608
Senior bank loan	167,764	181,307
	<hr/>	<hr/>
	256,128	273,024
Less unamortised arrangement fees	(4,111)	(4,441)
	<hr/>	<hr/>
	252,017	268,583
	<hr/>	<hr/>
The borrowings are repayable as follows		
	2007 £000's	2006 £000's
Repayable within one year	19,233	16,896
Repayable between one and two years	22,022	19,233
Repayable between two and five years	65,393	61,774
Repayable after five years	149,480	175,121
	<hr/>	<hr/>
	256,128	273,024
Less unamortised arrangement fees	(4,111)	(4,441)
	<hr/>	<hr/>
	252,017	268,583
	<hr/>	<hr/>

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 2007 was a liability of £8,839,000 (2006 - £14,100,000). 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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

14. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax

	£000's
Group	
At 1 April 2006	11,440
Charged to the profit and loss account (note 5)	
- Current period deferred tax charge	3,758
	<hr/>
At 31 March 2007	15,198

	2007 £000's	2006 £000's
Group		
Accelerated capital allowances	16,756	16,630
Unrelieved trading losses	(1,558)	(5,190)
	<hr/>	<hr/>
Provision for deferred tax	15,198	11,440

15. CALLED UP SHARE CAPITAL

	2007 £000's	2006 £000's
Authorised		
10,000,000 ordinary shares of £1 each (2006 – 10,000,000 ordinary shares of £1 each)	10,000	10,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
3,000,000 ordinary shares of £1 each (2006 – 3,000,000 ordinary shares of £1 each)	3,000	3,000
	<hr/>	<hr/>

The Company is owned jointly by Balfour Beatty plc and M1-A1 Yorkshire Limited (part of Infrastructure Investors LP) in equal shares (see note 21)

16. RESERVES

Profit and loss account

	2007 £000's	2006 £000's
Group		
At 1 April	4,877	4,230
Retained profit for the year	5,220	647
	<hr/>	<hr/>
At 31 March	10,097	4,877

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	2007 £000's	2006 £000's
Profit for the financial period	9,570	7,947
Dividends paid on equity shares	(4,350)	(7,300)
Net increase to equity shareholders' funds	5,220	647
Opening equity shareholders' funds	7,877	7,230
Closing equity shareholders' funds	13,097	7,877

Company	2007 £000's	2006 £000's
Profit for the financial period	4,350	7,300
Dividends paid on equity shares	(4,350)	(7,300)
Net addition to equity shareholders' funds	-	-
Opening equity shareholders' funds	3,000	3,000
Closing equity shareholders' funds	3,000	3,000

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

18. CONSOLIDATED CASH FLOW STATEMENT

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

	2007 £000's	2006 £000's
Operating profit	35,713	34,683
Depreciation	9,561	10,121
(Increase) / decrease in stocks	(12)	6
Decrease / (increase) in debtors	902	(356)
(Decrease) / increase in creditors	(31)	988
Net cash inflow from operating activities	46,133	45,442

	2007 £000's	2006 £000's
Returns on investments and servicing of finance		
Interest received	1,128	1,047
Interest paid	(22,387)	(23,817)
	(21,259)	(22,770)

Management of liquid resources		
(Increase) / decrease in restricted cash on term deposit	(459)	800

Financing		
Repayment of bank loans	(16,396)	(15,463)
Decrease in subordinated loans	(500)	(400)
	(16,896)	(15,863)

Analysis of net debt

	At 1 April 2006 £000's	Cash flow £000's	Non cash change £000's	At 31 March 2007 £000's
Cash at bank and in hand	322	1,894	-	2,216
Current asset investments	11,600	459	-	12,059
Borrowings	(268,583)	16,896	(330)	(252,017)
Total	(256,661)	19,249	(330)	(237,742)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

18 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net cash flow to movement in net debt

	2007 £000's	2006 £000's
Increase / (decrease) in cash in the year	1,894	(21)
Cash outflow / (inflow) from (decrease) / increase in liquid resources	459	(800)
Cash outflow from net decrease in borrowings	16,896	15,863
Change in net debt resulting from cash flows	19,249	15,042
Amortisation of arrangement fees	(330)	(330)
Net debt at beginning of year	(256,661)	(271,373)
Net debt at end of year	(237,742)	(256,661)

19. SUBSEQUENT EVENT

On 21 March 2007 it was announced in the 2007 budget that the corporation tax rate will be reduced from 30% to 28% with effect from 1 April 2008. In the 2007 Finance Bill this rate change was substantively enacted. The estimated reduction in the deferred tax provision is approximately £1,000,000.

20. RELATED PARTY TRANSACTIONS

Management

During the year to 31 March 2007 the Balfour Beatty plc Group was employed under contracts with Connect M1-A1 Limited for the provision of management services and vehicle rentals. The value of the contracts in the year were £574,000 (2006 – £474,000) for management services and £21,000 (2006 - £18,000) for vehicle rentals. As at 31 March 2007 creditors include £112,000 (2006 - £141,000) due to the Balfour Beatty plc Group.

Maintenance

During the year to 31 March 2007 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 £1,054,000 (2006 - £1,053,000). As at 31 March 2007 the amount due to the joint venture was £159,000 (2006 - £101,000).

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 M1-A1 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 2007 an amount of £3,222,000 (2006 – £3,065,000) relating to a repayment supplement on the subordinated loans is included in creditors, this amount is payable to Balfour Beatty plc and M1-A1 Yorkshire Limited in equal shares.

The Company has issued an upstream loan to Balfour Beatty plc and M1-A1 Yorkshire Limited in equal shares. The loan does not bear interest and is repayable over time.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2007

21. ULTIMATE PARENT COMPANIES AND CONTROLLING PARTIES

The immediate parent companies and controlling parties are Balfour Beatty plc and M1-A1 Yorkshire Limited, companies registered in England and Wales.

The ultimate parent companies and controlling parties are Balfour Beatty plc and Infrastructure Investors LP (acting by its manager, Infrastructure Investors Limited). Connect M1-A1 Holdings Limited is the parent company of the largest and smallest group of which the Company is a member and for which group accounts are drawn up.