

# **Connect M1-A1 Holdings Limited**

## **and subsidiary undertaking**

**Report and financial statements for the year  
ended 31 March 2008**



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**Registered Number: 3059235**

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**CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING**  
**REPORT AND FINANCIAL STATEMENTS 2008**

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**CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING**  
**REPORT AND FINANCIAL STATEMENTS 2008**  
**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

A C Beauchamp  
J McDonagh  
M J Ryan  
C L Spencer (Resigned 29 May 2007)  
B R Walker (Appointed 29 May 2007)

**SECRETARY**

N J Marshall

**REGISTERED OFFICE**

6<sup>th</sup> 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 2008

### **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 2008 are set out on pages 6 to 20. The profit for the year after taxation was £17,756,000 (2007 - £9,570,000)

The Directors declared and paid dividends of £3,300,000 (2007 - £4,350,000)

### **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 74% 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.

#### *Taxation*

The Directors note that there is currently uncertainty surrounding the likely basis of taxation of Connect M1-A1 Limited in future years. Further details are given in note 15 in respect of changes arising as a result of the Finance Act 2008. The Directors are actively engaged in managing the Group's tax position in order to maintain a substantially consistent effective tax rate.

#### *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 2008	31 March 2007
	£'000	£'000
Profit after taxation	17,756	9,570
Net assets	27,553	13,097

### DIRECTORS

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

A C Beauchamp  
J McDonagh  
M J Ryan  
C L Spencer (Resigned 29 May 2007)  
B R Walker (Appointed 29 May 2007)

### 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  
24 September 2008

## **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 2008 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 2008 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 24 SEP 2008  
Chartered Accountants and Registered Auditors  
London

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2008

	Note	2008 £000's	2007 £000's
<b>TURNOVER</b>	2	49,425	48,348
Cost of sales		(12,649)	(12,322)
<b>GROSS PROFIT</b>		36,776	36,026
Administrative expenses		(256)	(313)
<b>OPERATING PROFIT</b>	4	36,520	35,713
Interest payable (net)	5	(20,928)	(22,047)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		15,592	13,666
Tax credit / (charge) on profit on ordinary activities	6	2,164	(4,096)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		17,756	9,570
Dividends paid on equity shares	7	(3,300)	(4,350)
<b>Retained profit for the year transferred to reserves</b>	17	14,456	5,220

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 2008

	Note	2008 £000's	2007 £000's
<b>FIXED ASSETS</b>			
Tangible assets	9	206,749	216,310
<b>CURRENT ASSETS</b>			
Stocks	10	274	265
Debtors			
- due within one year	11	5,553	4,619
- due after one year	11	50,768	50,768
Investments	12	12,649	12,059
Cash at bank and in hand		2,025	2,216
		71,269	69,927
<b>CREDITORS: amounts falling due within one year</b>			
Creditors	13	(4,067)	(2,703)
Borrowings	14	(22,022)	(19,233)
<b>NET CURRENT ASSETS</b>		45,180	47,991
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		251,929	264,301
<b>CREDITORS: amounts falling due after more than one year</b>			
Creditors	13	(3,268)	(3,222)
Borrowings	14	(211,094)	(232,784)
		(214,362)	(236,006)
<b>PROVISIONS FOR LIABILITIES</b>	15	(10,014)	(15,198)
<b>NET ASSETS</b>		27,553	13,097
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	3,000	3,000
Profit and loss account	17	24,553	10,097
<b>SHAREHOLDERS' FUNDS</b>	18	27,553	13,097

These financial statements were approved by the Board of Directors on 24 September 2008 and signed on its behalf

by  
  
A. C. Beauchamp  
Director

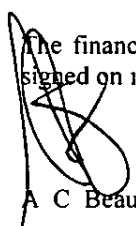
# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## COMPANY BALANCE SHEET

31 March 2008

	Note	2008 £000's	2007 £000's
<b>FIXED ASSETS</b>			
Investments	8	<u>3,000</u>	<u>3,000</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	<u>3,000</u>	<u>3,000</u>

The financial statements on pages 6 to 20 were approved by the Board of Directors on 24 September 2008 and signed on its behalf by

  
A C Beauchamp  
Director

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## CONSOLIDATED CASH FLOW STATEMENT

31 March 2008

	Note	2008 £000's	2007 £000's
Net cash inflow from operating activities	19	44,902	46,133
Returns on investments and servicing of finance	19	(20,256)	(21,259)
Taxation		(1,715)	(1,275)
Equity dividends paid		(3,300)	(4,350)
		<hr/>	<hr/>
Cash inflow before use of liquid resources and financing		19,631	19,249
Management of liquid resources	19	(590)	(459)
Financing	19	(19,232)	(16,896)
		<hr/>	<hr/>
(Decrease) / increase in cash in the period		(191)	1,894

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS

Year ended 31 March 2008

### 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 2008. The profit before dividends for the financial period dealt with in the financial statements of the Company was £3,300,000 (2007 - £4,350,000). 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 substantively 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 and any impairment. 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.

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 2008

### 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. REMUNERATION OF DIRECTORS AND EMPLOYEES

No Directors received any remuneration for services to the Group during the current year (2007 – £nil). The Group is managed by secondees from the shareholders of the Company under a management services contract.

### 4 OPERATING PROFIT BEFORE INTEREST

Operating profit before interest is stated after charging

	2008 £000's	2007 £000's
Depreciation of tangible assets – owned assets	9,567	9,561
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	13	12
Total audit fees	14	13

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

The Group had no employees (2007 – 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 2008

### 5. INTEREST PAYABLE (NET)

	2008 £000's	2007 £000's
Senior bank loan	12,811	13,309
European Investment Bank loan	7,052	7,363
Subordinated loan stock 2020	1,313	1,291
Subordinated loans	861	856
Financing fees	331	330
Interest payable on overdue tax	-	26
	<u>22,368</u>	<u>23,175</u>
Interest receivable and similar income	(1,440)	(1,128)
	<u>20,928</u>	<u>22,047</u>

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

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	2008 £000's	2007 £000's
Current tax		
UK corporation tax at 30% (2007 – 30%)	3,020	338
Deferred tax (credit) / charge (note 15)	(5,184)	3,758
	<u>(2,164)</u>	<u>4,096</u>

#### Taxation reconciliation

	2008 £000's	2007 £000's
Profit on ordinary activities before tax	15,592	13,666
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 – 30%)	4,678	4,100
Effects of		
Expenses not deductible for tax purposes	7	-
Industrial building allowances in excess of depreciation	(613)	
Depreciation in excess of capital allowances	120	(127)
Utilisation of trading losses brought forward	(1,551)	(3,629)
Other timing differences	379	(6)
	<u>3,020</u>	<u>338</u>

From the financial year commencing 1 April 2008 the corporation tax rate will reduce from 30% to 28%

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2008

### 7. DIVIDENDS PAID ON EQUITY SHARES

	2008 £000's	2007 £000's
First interim dividend paid of 70 00p (2007 – 86 67p) per ordinary share	2,100	2,600
Second interim dividend paid of 40 00p (2007 – 58 33p) per ordinary share	1,200	1,750
	<u>3,300</u>	<u>4,350</u>

### 8. 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 6<sup>th</sup> Floor, 350 Euston Road, Regent's Place, London NW1 3AX

### 9. TANGIBLE FIXED ASSETS

Group	M1-A1 Link Road £000's	Other equipment £000's	Total £000's
<b>Cost</b>			
At 1 April 2007	267,596	29,519	297,115
Additions in the year	-	6	6
	<u>267,596</u>	<u>29,525</u>	<u>297,121</u>
At 31 March 2008	267,596	29,525	297,121
<b>Accumulated depreciation</b>			
At 1 April 2007	66,553	14,252	80,805
Charge for the year	7,819	1,748	9,567
	<u>74,372</u>	<u>16,000</u>	<u>90,372</u>
At 31 March 2008	74,372	16,000	90,372
<b>Net book value</b>			
At 31 March 2008	<u>193,224</u>	<u>13,525</u>	<u>206,749</u>
At 31 March 2007	<u>201,043</u>	<u>15,267</u>	<u>216,310</u>

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2007 – £42,507,000)

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

### 10. STOCKS

Group	2008 £000's	2007 £000's
Consumables and spares	<u>274</u>	<u>265</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 2008

### 11 DEBTORS

Group	2008 £000's	2007 £000's
Amounts falling due within one year		
Trade debtors	7	69
Prepayments and accrued income	5,287	4,550
Amounts due from Group companies	259	-
	<u>5,553</u>	<u>4,619</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

### 12. INVESTMENTS HELD AS CURRENT ASSETS

In accordance with the Group's funding arrangements, £12,649,000 is restricted and not available to fund the ongoing operations of the Group (2007 - £12,059,000) These funds are held as interest bearing cash deposits for terms of no longer than six months

### 13. CREDITORS

Group	2008 £000's	2007 £000's
Amounts falling due within one year		
Trade creditors	243	478
Value added tax	1,324	1,308
Corporation tax payable	1,767	201
Accruals	733	716
	<u>4,067</u>	<u>2,703</u>
Amounts falling due after more than one year		
Accruals	3,268	3,222

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 14)



# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2008

### 14. BORROWINGS

Group	2008 £000's	2007 £000's
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	8,300	8,900
European Investment Bank loan	70,641	73,755
Senior bank loan	152,246	167,764
	<u>236,896</u>	<u>256,128</u>
Less unamortised arrangement fees	(3,780)	(4,111)
	<u>233,116</u>	<u>252,017</u>

The borrowings are repayable as follows

	2008 £000's	2007 £000's
Repayable within one year	22,022	19,233
Repayable between one and two years	19,383	22,022
Repayable between two and five years	72,821	65,393
Repayable after five years	122,670	149,480
	<u>236,896</u>	<u>256,128</u>
Less unamortised arrangement fees	(3,780)	(4,111)
	<u>233,116</u>	<u>252,017</u>

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 2008 was a liability of £9,359,000 (2007 - £8,839,000). 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 2008

### 15. PROVISIONS FOR LIABILITIES

#### Deferred tax

	£000's	£000's
<b>Group</b>		
At 1 April 2007		15,198
Credited to the profit and loss account (note 6)		
- Current period deferred tax charge	1,051	
- Rate change from 30% to 28%	(715)	
- Adjustment in respect of prior periods	(227)	
- Release of industrial buildings allowances provision	(5,293)	
Net credit in the year		(5,184)
At 31 March 2008		10,014

	2008 £000's	2007 £000's
<b>Group</b>		
Accelerated capital allowances	1,185	6,683
Capitalised interest and other timing differences	8,829	10,073
Unrelieved trading losses	-	(1,558)
Provision for deferred tax	10,014	15,198

In accordance with Finance Act 2007 the deferred tax associated with industrial buildings allowances has been reversed out as this act triggered the cessation of industrial buildings allowances timing differences. On 2 July 2008, the Finance Act 2008 was substantively enacted, implementing the phased withdrawal of industrial buildings allowances which would lead to an increase in the effective tax rate of the concession company in future periods. The Directors are intending to seek agreement from HMRC to change the basis of taxation of the concession company which would result in no material change in future effective tax rates, other than a one-off exceptional tax charge of £6,700,000 in the year ended 31 March 2009.

### 16 CALLED UP SHARE CAPITAL

	2008 £000's	2007 £000's
<b>Authorised</b>		
10,000,000 ordinary shares of £1 each (2007 – 10,000,000 ordinary shares of £1 each)	10,000	10,000
<b>Allotted, called up and fully paid</b>		
3,000,000 ordinary shares of £1 each (2007 – 3,000,000 ordinary shares of £1 each)	3,000	3,000

The Company is owned jointly by Balfour Beatty plc and M1-A1 Yorkshire Limited (part of Infrastructure Investors LP) in equal shares (see note 20)

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2008

### 17. RESERVES

Profit and loss account

	2008 £000's	2007 £000's
<b>Group</b>		
At 1 April	10,097	4,877
Retained profit for the year	14,456	5,220
	<u>24,553</u>	<u>10,097</u>
At 31 March	<u>24,553</u>	<u>10,097</u>

### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008 £000's	2007 £000's
<b>Group</b>		
Profit for the financial period	17,756	9,570
Dividends paid on equity shares	(3,300)	(4,350)
	<u>14,456</u>	<u>5,220</u>
Net increase to shareholders' funds	14,456	5,220
Opening shareholders' funds	13,097	7,877
	<u>27,553</u>	<u>13,097</u>
Closing shareholders' funds	<u>27,553</u>	<u>13,097</u>

	2008 £000's	2007 £000's
<b>Company</b>		
Profit for the financial period	3,300	4,350
Dividends paid on equity shares	(3,300)	(4,350)
	<u>-</u>	<u>-</u>
Net addition to shareholders' funds	-	-
Opening shareholders' funds	3,000	3,000
	<u>3,000</u>	<u>3,000</u>
Closing shareholders' funds	<u>3,000</u>	<u>3,000</u>

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2008

### 19. CONSOLIDATED CASH FLOW STATEMENT

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

	2008 £000's	2007 £000's
Operating profit	36,520	35,713
Depreciation	9,567	9,561
Increase in stocks	(9)	(12)
(Increase) / decrease in debtors	(934)	902
Decrease in creditors	(242)	(31)
<b>Net cash inflow from operating activities</b>	<b>44,902</b>	<b>46,133</b>

	2008 £000's	2007 £000's
<b>Returns on investments and servicing of finance</b>		
Interest received	1,440	1,128
Interest paid	(21,696)	(22,387)
	<b>(20,256)</b>	<b>(21,259)</b>

<b>Management of liquid resources</b>		
Increase in restricted cash on term deposit	(590)	(459)

<b>Financing</b>		
Repayment of bank loans	(18,632)	(16,396)
Decrease in subordinated loans	(600)	(500)
	<b>(19,232)</b>	<b>(16,896)</b>

Analysis of net debt

	At 1 April 2007 £000's	Cash flow £000's	Non cash change £000's	At 31 March 2008 £000's
Cash at bank and in hand	2,216	(191)	-	2,025
Current asset investments	12,059	590	-	12,649
Borrowings	(252,017)	19,232	(331)	(233,116)
<b>Total</b>	<b>(237,742)</b>	<b>19,631</b>	<b>(331)</b>	<b>(218,442)</b>

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2008

### 19. CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

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

	2008 £000's	2007 £000's
(Decrease) / increase in cash in the year	(191)	1,894
Cash outflow from increase in liquid resources	590	459
Cash outflow from net decrease in borrowings	19,232	16,896
Change in net debt resulting from cash flows	19,631	19,249
Amortisation of arrangement fees	(331)	(330)
Net debt at beginning of year	(237,742)	(256,661)
Net debt at end of year	(218,442)	(237,742)

### 20. RELATED PARTY TRANSACTIONS

#### Management

During the year to 31 March 2008 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 was £585,000 (2007 – £574,000) for management services and £23,000 (2007 - £21,000) for vehicle rentals. As at 31 March 2008 creditors include £63,000 (2007 - £112,000) due to the Balfour Beatty plc Group.

#### Maintenance

During the year to 31 March 2008 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 £1,544,000 (2007 - £1,054,000). As at 31 March 2008 the amount due to the joint venture was £104,000 (2007 - £159,000).

#### 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 5 and 14 to the accounts respectively.

As at 31 March 2008 an amount of £3,267,000 (2007 – £3,222,000) 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 2008**

#### **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