

Connect M1-A1 Holdings Limited

and subsidiary undertaking

**Report and financial statements for the year
ended 31 March 2009**



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Registered Number: 3059235

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING
REPORT AND FINANCIAL STATEMENTS 2009

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CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

REPORT AND FINANCIAL STATEMENTS 2009

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A. C. Beauchamp

J. McDonagh (Resigned 24 March 2009)

O. J. W. Jennings (Appointed 24 March 2009; resigned 25 June 2009)

D. J. Lomas (Appointed 25 June 2009)

A. Matthews (Appointed 24 March 2009)

M. J. Ryan (Resigned 24 March 2009)

B. R. Walker

SECRETARY

N. J. Marshall

REGISTERED OFFICE

6th Floor

350 Euston Road

Regent's Place

London

NW1 3AX

AUDITORS

Deloitte 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 2009.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

There have been no changes to the Company's activities in the year under review and none are currently contemplated.

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.

GOING CONCERN

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current economic conditions and concluded that it is appropriate. More information is provided in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 March 2009 are set out on pages 6 to 21. The profit for the year after taxation was £12,431,000 (2008 - £17,756,000).

The Directors declared and paid dividends of £3,734,000 (2008 - £3,300,000).

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 rate 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. The Group continues to be profitable with strong reserves in the Balance Sheet and the Directors foresee this to continue in the future.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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.

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 2009	31 March 2008
	£'000	£'000
Profit after taxation	12,431	17,756
Net assets	36,250	27,553

DIRECTORS

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

A. C. Beauchamp
J. McDonagh (Resigned 24 March 2009)
O. J. W. Jennings (Appointed 24 March 2009; resigned 25 June 2009)
D. J. Lomas (Appointed 25 June 2009)
A. Matthews (Appointed 24 March 2009)
M. J. Ryan (Resigned 24 March 2009)
B. R. Walker

PAYMENT TO SUPPLIERS

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the suppliers. As at 31 March 2009 creditor days for the Group amounted to 32 days (2008 – 23 days).

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.

Pursuant to s386 Companies Act 1985, an elective resolution was passed on 2 August 1996 dispensing with the requirement to appoint auditors annually. This election was in force immediately before 1 October 2007. Therefore Deloitte LLP are deemed to continue as auditors.

By order of the Board



N. J. Marshall, Secretary
22 July 2009

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 2009 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 22. 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 2009 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 LLP

Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

22 July 2009

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2009

	Note	2009 £000's	2008 £000's
TURNOVER	2	48,478	49,425
Cost of sales		(12,981)	(12,649)
GROSS PROFIT		35,497	36,776
Administrative expenses		(379)	(256)
OPERATING PROFIT	4	35,118	36,520
Interest payable and similar charges	5	(20,740)	(22,368)
Interest receivable and similar income	6	1,242	1,440
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		15,620	15,592
Tax (charge) / credit on profit on ordinary activities	7	(3,189)	2,164
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		12,431	17,756
Profit for the year transferred to reserves	18	12,431	17,756

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 2009

	Note	2009 £000's	2008 £000's
FIXED ASSETS			
Tangible assets	10	197,776	206,749
CURRENT ASSETS			
Stocks	11	280	274
Debtors			
- due within one year	12	3,031	5,553
- due after one year	12	50,768	50,768
Investments	13	11,134	12,649
Cash at bank and in hand		2,442	2,025
		67,655	71,269
CREDITORS: amounts falling due within one year			
Creditors	14	(4,970)	(4,067)
Borrowings	15	(19,383)	(22,022)
NET CURRENT ASSETS		43,302	45,180
TOTAL ASSETS LESS CURRENT LIABILITIES		241,078	251,929
CREDITORS: amounts falling due after more than one year			
Creditors	14	(4,301)	(3,268)
Borrowings	15	(192,025)	(211,094)
		(196,326)	(214,362)
PROVISIONS FOR LIABILITIES	16	(8,502)	(10,014)
NET ASSETS		36,250	27,553
CAPITAL AND RESERVES			
Called up share capital	17	3,000	3,000
Profit and loss account	18	33,250	24,553
SHAREHOLDERS' FUNDS	19	36,250	27,553

These financial statements were approved by the Board of Directors on 22 July 2009 and signed on its behalf by:



A. C. Beauchamp
Director

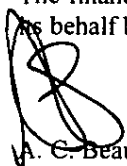
CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

COMPANY BALANCE SHEET

31 March 2009

	Note	2009 £000's	2008 £000's
FIXED ASSETS			
Investments	9	3,000	3,000
CAPITAL AND RESERVES			
Called up share capital	17	3,000	3,000

The financial statements on pages 6 to 21 were approved by the Board of Directors on 22 July 2009 and signed on its behalf by:



A. C. Beauchamp

Director

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED CASH FLOW STATEMENT

31 March 2009

	Note	2009 £000's	2008 £000's
Net cash inflow from operating activities	20	48,228	44,902
Returns on investments and servicing of finance	20	(19,110)	(20,256)
Taxation		(4,313)	(1,715)
Capital Expenditure		(147)	-
Equity dividends paid		(3,734)	(3,300)
Cash inflow before use of liquid resources and financing		20,924	19,631
Management of liquid resources	20	1,515	(590)
Financing	20	(22,022)	(19,232)
Increase / (decrease) in cash in the period		417	(191)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

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 2009. The profit before dividends for the financial period dealt with in the financial statements of the Company was £3,734,000 (2008 - £3,300,000). 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 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 2009

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.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 and 3.

The current economic conditions create some general uncertainty. The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the client (Highways Agency) to continue to pay shadow tolls due under the D.B.F.O Contract to the Group and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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 (2008 – £nil). The Group is managed by secondees from the shareholders of the Company under a management services contract.

The Group had no employees (2008 – 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 2009

4. OPERATING PROFIT BEFORE INTEREST

Operating profit before interest is stated after charging:

	2009 £000's	2008 £000's
Depreciation of tangible assets – owned assets	9,120	9,567
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	14	13
Total audit fees	15	14

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

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £000's	2008 £000's
Senior bank loan	11,496	12,811
European Investment Bank loan	6,768	7,052
Subordinated loan stock 2020	1,273	1,313
Subordinated loans	878	861
Financing fees	314	331
Interest payable on overdue tax	11	-
Total interest payable and similar charges	20,740	22,368

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

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 £000's	2008 £000's
Bank interest receivable	1,242	1,440

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2009

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2009 £000's	2008 £000's
Current tax		
UK corporation tax at 28% (2008 – 30%)	4,701	3,020
Deferred tax credit (note 16)	(1,512)	(5,184)
	<u>3,189</u>	<u>(2,164)</u>
Taxation reconciliation		
	2009 £000's	2008 £000's
Profit on ordinary activities before tax	<u>15,620</u>	<u>15,592</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008 – 30%)	4,374	4,678
Effects of:		
Expenses not deductible for tax purposes	-	7
Industrial building allowances in excess of depreciation	-	(613)
Depreciation in excess of capital allowances	-	120
Utilisation of trading losses brought forward	-	(1,551)
Depreciation disallowed in respect of finance costs	327	379
	<u>327</u>	<u>379</u>
Current tax charge	<u>4,701</u>	<u>3,020</u>

For the financial year commencing 1 April 2008 the corporation tax rate reduced from 30% to 28%.

8. DIVIDENDS PAID ON EQUITY SHARES

	2009 £000's	2008 £000's
First interim dividend paid of £1.24 (2008 – £0.70) per ordinary share	3,734	2,100
Second interim dividend paid of £nil (2008 – £0.40) per ordinary share	-	1,200
	<u>3,734</u>	<u>3,300</u>

9. 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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2009

10. TANGIBLE FIXED ASSETS

Group	M1-A1 Link Road £000's	Other equipment £000's	Total £000's
Cost			
At 1 April 2008	267,596	29,525	297,121
Additions in the year	-	147	147
At 31 March 2009	267,596	29,672	297,268
Accumulated depreciation			
At 1 April 2008	74,372	16,000	90,372
Charge for the year	7,377	1,743	9,120
At 31 March 2009	81,749	17,743	99,492
Net book value			
At 31 March 2009	185,847	11,929	197,776
At 31 March 2008	193,224	13,525	206,749

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2008 – £42,507,000).

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

11. STOCKS

Group	2009 £000's	2008 £000's
Consumables and spares	280	274

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 2009

12. DEBTORS

Group	2009 £000's	2008 £000's
Amounts falling due within one year:		
Trade debtors	209	7
Prepayments and accrued income	2,574	5,287
Amounts due from Group companies	248	259
	<u>3,031</u>	<u>5,553</u>
Amounts falling due after more than one year:		
Upstream loan to Balfour Beatty plc and Barclays Integrated Infrastructure Fund	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 Barclays Integrated Infrastructure Fund). The loan bears no interest and is repayable from 2016.

13. INVESTMENTS HELD AS CURRENT ASSETS

In accordance with the Group's funding arrangements, £11,134,000 is restricted and not available to fund the ongoing operations of the Group (2008 - £12,649,000). These funds are held as interest bearing cash deposits for terms of no longer than six months.

14. CREDITORS

Group	2009 £000's	2008 £000's
Amounts falling due within one year:		
Trade creditors	693	243
Value added tax	1,017	1,324
Corporation tax payable	2,416	1,767
Accruals	844	733
	<u>4,970</u>	<u>4,067</u>
Amounts falling due after more than one year:		
Accruals	<u>4,301</u>	<u>3,268</u>

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 15).

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2009

15. BORROWINGS

Group	2009 £000's	2008 £000's
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	7,700	8,300
European Investment Bank loan	67,230	70,641
Senior bank loan	134,235	152,246
	<hr/>	<hr/>
	214,874	236,896
Less: unamortised arrangement fees	(3,466)	(3,780)
	<hr/>	<hr/>
	211,408	233,116
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The borrowings are repayable as follows:

	2009 £000's	2008 £000's
Repayable within one year	19,383	22,022
Repayable between one and two years	20,369	19,383
Repayable between two and five years	78,790	72,821
Repayable after five years	96,332	122,670
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	214,874	236,896
Less: unamortised arrangement fees	(3,466)	(3,780)
	<hr/>	<hr/>
	211,408	233,116
	<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 2009 was a liability of £14,833,000 (2008 - £9,359,000). 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 2009

16. PROVISIONS FOR LIABILITIES

Deferred tax

	£000's	£000's
Group		
At 1 April 2008		10,014
Credited to the profit and loss account (note 7)		
- Current period deferred tax credit	(327)	
- Release of capital allowances provision	(1,185)	
Net credit in the year		(1,512)
At 31 March 2008		8,502
Group	2009 £000's	2008 £000's
Accelerated capital allowances	-	1,185
Capitalised interest and other timing differences	8,502	8,829
Provision for deferred tax	8,502	10,014

On 2 July 2008, the Finance Act 2008 was substantively enacted, implementing the phased withdrawal of industrial buildings allowances. The Directors have agreed with HMRC to change the basis of taxation for the Company to a composite trade tax treatment effective from 1 April 2008 which has resulted in no material change in future effective tax rates.

17. CALLED UP SHARE CAPITAL

	2009 £000's	2008 £000's
Authorised		
10,000,000 ordinary shares of £1 each (2008 – 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 (2008 – 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 Barclays Integrated Infrastructure Fund) in equal shares (see note 22).

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2009

18. RESERVES

Profit and loss account

	2009 £000's	2008 £000's
Group		
At 1 April	24,553	10,097
Profit for the year	12,431	17,756
Dividends paid on equity shares (see note 8)	(3,734)	(3,300)
At 31 March	<u>33,250</u>	<u>24,553</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009 £000's	2008 £000's
Group		
Profit for the financial period	12,431	17,756
Dividends paid on equity shares	(3,734)	(3,300)
Net increase to shareholders' funds	<u>8,697</u>	<u>14,456</u>
Opening shareholders' funds	<u>27,553</u>	<u>13,097</u>
Closing shareholders' funds	<u>36,250</u>	<u>27,553</u>

	2009 £000's	2008 £000's
Company		
Profit for the financial period	3,734	3,300
Dividends paid on equity shares	(3,734)	(3,300)
Net addition to shareholders' funds	<u>-</u>	<u>-</u>
Opening shareholders' funds	<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 2009

20. CONSOLIDATED CASH FLOW STATEMENT

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

	2009 £000's	2008 £000's
Operating profit	35,118	36,520
Depreciation	9,120	9,567
Increase in stocks	(6)	(9)
Decrease / (increase) in debtors	2,522	(934)
Increase / (decrease) in creditors	1,474	(242)
Net cash inflow from operating activities	48,228	44,902

	2009 £000's	2008 £000's
Returns on investments and servicing of finance		
Interest received	1,242	1,440
Interest paid	(20,352)	(21,696)
	(19,110)	(20,256)

Management of liquid resources		
Decrease / (increase) in restricted cash on term deposit	1,515	(590)

Financing		
Repayment of bank loans	(21,422)	(18,632)
Repayment of subordinated loans	(600)	(600)
	(22,022)	(19,232)

Analysis of net debt

	At 1 April 2008 £000's	Cash flow £000's	Non cash change £000's	At 31 March 2009 £000's
Cash at bank and in hand	2,025	417	-	2,442
Current asset investments	12,649	(1,515)	-	11,134
Borrowings	(233,116)	22,022	(314)	(211,408)
Total	(218,442)	20,924	(314)	(197,832)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2009

20. CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net cash flow to movement in net debt

	2009 £000's	2008 £000's
Increase / (decrease) in cash in the year	417	(191)
Cash (inflow) / outflow from (decrease) / increase in liquid resources	(1,515)	590
Cash outflow from net decrease in borrowings	22,022	19,232
Change in net debt resulting from cash flows	20,924	19,631
Amortisation of arrangement fees	(314)	(331)
Net debt at beginning of year	(218,442)	(237,742)
Net debt at end of year	(197,832)	(218,442)

21. RELATED PARTY TRANSACTIONS

Management

During the year to 31 March 2009 the Balfour Beatty 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 £655,000 (2008 - £585,000) for management services and £18,000 (2008 - £23,000) for vehicle rentals. As at 31 March 2009 creditors include £108,000 (2008 - £63,000) due to the Balfour Beatty Group.

Maintenance

During the year to 31 March 2009 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 £2,349,000 (2008 - £1,544,000). As at 31 March 2009 the amount due to the joint venture was £420,000 (2008 - £104,000).

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 15 to the accounts respectively.

As at 31 March 2009 an amount of £4,301,000 (2008 - £3,267,000) 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 2009

22. 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 Barclays Integrated Infrastructure Fund (acting by its manager, Barclays Private Equity 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.