

Connect M1-A1 Holdings Limited

and subsidiary undertaking

**Report and financial statements for the year
ended 31 March 2011**



Registered Number: 03059235

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING
REPORT AND FINANCIAL STATEMENTS 2011

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CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING
REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A C Beauchamp
D W Bowler
A Matthews
B R Walker

SECRETARY

N J Marshall

REGISTERED OFFICE

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

AUDITOR

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 2011

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 "DBFO 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 Company's operating profit and its profit on ordinary activities after taxation are in line with expectations

GOING CONCERN

The Company's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements. More information is provided in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 March 2011 are set out on pages 8 to 23. The profit for the year after taxation was £16,116,000 (2010 – £12,916,000).

The Directors declared and paid dividends of £3,000,000 (2010 - £3,088,000).

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 DBFO 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 67% 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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

DIRECTORS' REPORT (Continued)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Financial Instruments (continued)

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.

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 2011	31 March 2010
	£'000	£'000
Turnover	51,075	47,757
Profit after taxation	16,116	12,916
Net assets	59,194	46,078

DIRECTORS

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

A C Beauchamp
D W Bowler
A Matthews
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 2011 creditor days for the Group amounted to 28 days (2010 – 30 days).

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

DIRECTORS' REPORT (Continued)

AUDITOR

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 auditor is 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP has indicated its willingness to be reappointed for another term and appropriate arrangements have been put in place for it to be deemed reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board and signed on its behalf by



N J Marshall, Secretary
22 July 2011

CONNECT MI-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

DIRECTORS' RESPONSIBILITIES STATEMENT

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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNECT M1-A1 HOLDINGS LIMITED

We have audited the financial statements of Connect M1-A1 Holdings Limited for the year ended 31 March 2011 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Parent company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006


In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNECT
M1-A1 HOLDINGS LIMITED (Continued)**

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit



Makhan Chahal (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

25 July 2011

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2011

	Note	2011 £000's	2010 £000's
TURNOVER	2	51,075	47,757
Cost of sales		(14,345)	(13,200)
GROSS PROFIT		36,730	34,557
Administrative expenses		(231)	(243)
OPERATING PROFIT	4	36,499	34,314
Interest payable and similar charges	5	(15,071)	(16,568)
Interest receivable and similar income	6	161	186
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		21,589	17,932
Tax charge on profit on ordinary activities	7	(5,473)	(5,016)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	16,116	12,916

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 2011

	Note	2011 £000's	2010 £000's
FIXED ASSETS			
Tangible assets	10	179,898	188,937
CURRENT ASSETS			
Debtors			
- due within one year	11	7,625	3,734
- due after one year	11	50,768	50,768
Investments	12	12,446	11,069
Cash at bank and in hand		4,141	3,594
		74,980	69,165
CREDITORS: amounts falling due within one year			
Creditors	13	(6,856)	(6,005)
Borrowings	14	(25,641)	(20,369)
NET CURRENT ASSETS		42,483	42,791
TOTAL ASSETS LESS CURRENT LIABILITIES		222,381	231,728
CREDITORS: amounts falling due after more than one year			
Creditors	13	(9,275)	(5,505)
Borrowings	14	(146,629)	(171,966)
		(155,904)	(177,471)
PROVISIONS FOR LIABILITIES	15	(7,283)	(8,179)
NET ASSETS		59,194	46,078
CAPITAL AND RESERVES			
Called up share capital	16	3,000	3,000
Profit and loss account	17	56,194	43,078
SHAREHOLDERS' FUNDS	18	59,194	46,078

These financial statements for Connect M1-A1 Holdings Limited, company registration number 03059235, were approved by the Board of Directors on 22 July 2011 and signed on its behalf by



A. C. Beauchamp
Director

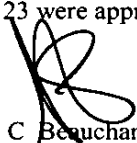
CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

COMPANY BALANCE SHEET

31 March 2011

	Note	2011 £000's	2010 £000's
FIXED ASSETS			
Investments	9	<u>3,000</u>	<u>3,000</u>
CAPITAL AND RESERVES			
Called up share capital	16	<u>3,000</u>	<u>3,000</u>

The financial statements for Connect M1-A1 Holdings Limited, company registration number 03059235, on pages 8 to 23 were approved by the Board of Directors on 22 July 2011 and signed on its behalf by


A C Beauchamp
Director

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

CONSOLIDATED CASH FLOW STATEMENT

31 March 2011

	Note	2011 £000's	2010 £000's
Net cash inflow from operating activities	19	45,763	45,022
Returns on investments and servicing of finance	19	(14,594)	(16,386)
Taxation		(5,868)	(5,060)
Capital Expenditure		(8)	(18)
Equity dividends paid		(3,000)	(3,088)
Cash inflow before use of liquid resources and financing		22,293	20,470
Management of liquid resources	19	(1,377)	65
Financing	19	(20,369)	(19,383)
Increase in cash in the year		547	1,152

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS

Year ended 31 March 2011

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 2011. The profit before dividends for the financial period dealt with in the financial statements of the Company was £3,000,000 (2010 - £3,088,000). As permitted by Section 408 of the Companies Act 2006, 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 Group'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.

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

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 to 4.

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 (2010 – £nil). The Group is managed by secondees from the shareholders of the Company under a management services contract.

The Group had no employees (2010 – none) 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 2011

4. OPERATING PROFIT BEFORE INTEREST

Operating profit before interest is stated after charging

	2011 £000's	2010 £000's
Depreciation	9,047	8,857
Fees payable to the Company's auditor for the audit of the Company's annual accounts	1	1
The audit of the Company's subsidiary pursuant to legislation	17	17
Total audit fees	18	18

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

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £000's	2010 £000's
Senior bank loan	7,001	8,140
European Investment Bank loan	6,071	6,434
Subordinated loan stock 2020	762	828
Subordinated loans	856	856
Financing fees	304	310
Other	77	-
Total interest payable and similar charges	15,071	16,568

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

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £000's	2010 £000's
Bank interest receivable	161	186

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	2011 £000's	2010 £000's
Current tax		
UK corporation tax at 28% (2010 – 28%)	6,369	5,339
Deferred tax credit (note 15)	(896)	(323)
	<u>5,473</u>	<u>5,016</u>

Taxation reconciliation

	2011 £000's	2010 £000's
Profit on ordinary activities before tax	<u>21,589</u>	<u>17,932</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 – 28%)	6,044	5,021
Effects of Depreciation disallowed in respect of finance costs	<u>325</u>	<u>318</u>
Current tax charge	<u>6,369</u>	<u>5,339</u>

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No2) Act 2010 included legislation to reduce the main stream rate of corporation tax from 28% to 27% from 1 April 2011. Additional changes were announced in the March 2011 Budget Statement to further reduce the main stream rate of corporation tax to 26% from 1 April 2011. As a result of the change the deferred tax balances have been remeasured accordingly.

Additional changes were announced in the March 2011 Budget Statement to further reduce the main stream rate of corporation by 1% per annum to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

8. DIVIDENDS PAID ON EQUITY SHARES

	2011 £000's	2010 £000's
First interim dividend paid of £1 (2010 – £0.40) per ordinary share	3,000	1,203
Second interim dividend paid of £nil (2010 – £0.63) per ordinary share	-	1,885
	<u>3,000</u>	<u>3,088</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 2011

10. TANGIBLE FIXED ASSETS

Group	M1-A1 Link Road £000's	Other equipment £000's	Total £000's
Cost			
At 1 April 2010	267,596	29,690	297,286
Additions	-	8	8
At 31 March 2011	267,596	29,698	297,294
Accumulated depreciation			
At 1 April 2010	88,901	19,448	108,349
Charge for the year	7,338	1,709	9,047
At 31 March 2011	96,239	21,157	117,396
Net book value			
At 31 March 2011	171,357	8,541	179,898
At 31 March 2010	178,695	10,242	188,937

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2010 – £42,507,000)

Other equipment comprises traffic management equipment and computers

11. DEBTORS

Group	2011 £000's	2010 £000's
Amounts falling due within one year		
Trade debtors	301	352
Prepayments and accrued income	7,262	3,307
Amounts due from Group companies	62	75
	7,625	3,734
Amounts falling due after more than one year		
Upstream loan to Balfour Beatty plc and Barclays Integrated Infrastructure Fund	50,768	50,768
	50,768	50,768

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

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

12. INVESTMENTS HELD AS CURRENT ASSETS

In accordance with the Group's funding arrangements, £12,446,000 is restricted and not available to fund the ongoing operations of the Group (2010 - £11,069,000). These funds are held as interest bearing cash deposits for terms of no longer than six months.

13. CREDITORS

Group	2011 £000's	2010 £000's
Amounts falling due within one year		
Trade creditors	417	801
Other taxation	1,460	1,219
Corporation tax	3,302	2,783
Accruals	1,677	1,202
	<u>6,856</u>	<u>6,005</u>
Amounts falling due after more than one year		
Accruals	3,209	3,255
Deferred Income	6,065	2,250
	<u>9,275</u>	<u>5,505</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 14).

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

14. BORROWINGS

Group	2011 £000's	2010 £000's
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	6,500	7,100
European Investment Bank loan	59,409	63,495
Senior bank loan	103,504	119,187
	<u>175,122</u>	<u>195,491</u>
Less unamortised arrangement fees	(2,852)	(3,156)
	<u>172,270</u>	<u>192,335</u>

The borrowings are repayable as follows

	2011 £000's	2010 £000's
Repayable within one year	25,641	20,369
Repayable between one and two years	26,811	25,641
Repayable between two and five years	48,351	63,462
Repayable after five years	74,319	86,019
	<u>175,122</u>	<u>195,491</u>
Less unamortised arrangement fees	(2,852)	(3,156)
	<u>172,270</u>	<u>192,335</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 2011 was a liability of £9,725,000 (2010 - £12,369,000). 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 2011

15 PROVISIONS FOR LIABILITIES

Deferred tax

	£000's	
Group		
At 1 April 2010		8,179
Credited to the profit and loss account (note 7)		(896)
		<u>7,283</u>
At 31 March 2011		<u>7,283</u>
	2011	2010
	£000's	£000's
Group		
Capitalised interest and other timing differences	<u>7,283</u>	<u>8,179</u>
Provision for deferred tax	<u>7,283</u>	<u>8,179</u>

16. CALLED UP SHARE CAPITAL

	2011	2010
	£000's	£000's
Allotted, called up and fully paid		
3,000,000 ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>

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 21)

17. RESERVES

Profit and loss account

	2011	2010
	£000's	£000's
Group		
At 1 April	43,078	33,250
Profit for the year	16,116	12,916
Dividends paid on equity shares (see note 8)	<u>(3,000)</u>	<u>(3,088)</u>
At 31 March	<u>56,194</u>	<u>43,078</u>

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2011 £000's	2010 £000's
Profit for the financial year	16,116	12,916
Dividends paid on equity shares	(3,000)	(3,088)
	<hr/>	<hr/>
Net increase to shareholders' funds	13,116	9,828
Opening shareholders' funds	46,078	36,250
	<hr/>	<hr/>
Closing shareholders' funds	<u>59,194</u>	<u>46,078</u>
Company	2011 £000's	2010 £000's
Profit for the financial year	3,000	3,088
Dividends paid on equity shares	(3,000)	(3,088)
	<hr/>	<hr/>
Net addition to shareholders' funds	-	-
Opening shareholders' funds	3,000	3,000
	<hr/>	<hr/>
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 2011

19 CONSOLIDATED CASH FLOW STATEMENT

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

	2011 £000's	2010 £000's
Operating profit	36,499	34,314
Depreciation	9,047	8,857
Decrease in stocks	-	280
Increase in debtors	(3,887)	(703)
Increase in creditors	4,104	2,274
Net cash inflow from operating activities	45,763	45,022

	2011 £000's	2010 £000's
Returns on investments and servicing of finance		
Interest received	156	184
Interest paid	(14,750)	(16,570)
	(14,594)	(16,386)

Management of liquid resources		
(Increase)/decrease in restricted cash on term deposit	(1,377)	65

Financing		
Repayment of bank loans	(19,769)	(18,783)
Repayment of subordinated loans	(600)	(600)
	(20,369)	(19,383)

Analysis of net debt

	At 1 April 2010 £000's	Cash flow £000's	Non cash change £000's	At 31 March 2011 £000's
Cash at bank and in hand	3,594	547	-	4,141
Current asset investments	11,069	1,377	-	12,446
Borrowings	(192,335)	20,369	(304)	(172,270)
Total	(177,672)	22,293	(304)	(155,683)

CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2011

19. CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Reconciliation of net cash flow to movement in net debt

	2011 £000's	2010 £000's
Increase in cash in the year	547	1,152
Cash outflow/(inflow) from increase/(decrease) in liquid resources	1,377	(65)
Cash outflow from net decrease in borrowings	20,369	19,383
Change in net debt resulting from cash flows	22,293	20,470
Amortisation of arrangement fees	(304)	(310)
Net debt at beginning of year	(177,672)	(197,832)
Net debt at end of year	(155,683)	(177,672)

20. RELATED PARTY TRANSACTIONS

Management

During the year to 31 March 2011 the Balfour Beatty Group was employed under contracts with Connect M1-A1 Limited for the provision of management. The value of the contracts in the year was £361,540 (2010 – £435,000). As at 31 March 2011 creditors include £18,000 (2010 – £120,000) due to Balfour Beatty Group.

Maintenance

During the year to 31 March 2011, Balfour Beatty Civil Engineering Limited, 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 £3,214,000 (2010 – £2,873,000). As at 31 March 2011 the amount due to Balfour Beatty Civil Engineering Limited was £279,000 (2010 – £514,000).

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 2011 an amount of £3,209,000 (2010 – £3,255,000) 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 2011

21 ULTIMATE PARENT COMPANIES AND CONTROLLING PARTIES

The immediate parent companies and controlling parties are Balfour Beatty plc and M1-A1 Yorkshire Limited, which is incorporated in Great Britain and 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