

# **Connect M1-A1 Holdings Limited**

## **and subsidiary undertaking**

**Report and financial statements for the year  
ended 31 March 2010**



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**Registered Number: 03059235**

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

## **REPORT AND FINANCIAL STATEMENTS 2010**

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

## **REPORT AND FINANCIAL STATEMENTS 2010**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

A C Beauchamp  
D W Bowler (Appointed 22 March 2010)  
O J W Jennings (Resigned 25 June 2009)  
D J Lomas (Appointed 25 June 2009, resigned 22 March 2010)  
A Matthews  
B R Walker

#### **SECRETARY**

N J Marshall

#### **REGISTERED OFFICE**

6<sup>th</sup> 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 2010

### **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 Group's operating profit has decreased compared to the prior year primarily due to a reduction in traffic volumes resulting from the economic downturn. The Directors expect future traffic volumes to move with underlying economic trends.

### **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 2010 are set out on pages 8 to 23. The profit for the year after taxation was £12,916,000 (2009 – £12,431,000).

The Directors declared and paid dividends of £3,088,000 (2009 - £3,734,000).

### **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 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.

# 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 2010	31 March 2009
	£'000	£'000
Turnover	47,757	48,478
Profit after taxation	12,916	12,431
Net assets	46,078	36,250

Turnover has decreased compared to the prior year due to a reduction in traffic volumes resulting from the economic downturn.

### DIRECTORS

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

A C Beauchamp

D W Bowler (Appointed 22 March 2010)

O J W Jennings (Resigned 25 June 2009)

D J Lomas (Appointed 25 June 2009, resigned 22 March 2010)

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 2010 creditor days for the Group amounted to 30 days (2009 – 32 days).

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## DIRECTORS' REPORT (Continued)

### 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 s418 of the Companies Act 2006

In accordance with s487(2) of the Companies Act 2006, 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  
21 July 2010

# **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). 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 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 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 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 AUDITORS' REPORT TO THE MEMBERS OF CONNECT M1-A1 HOLDINGS LIMITED**

We have audited the financial statements of Connect M1-A1 Holdings Limited for the year ended 31 March 2010 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. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As 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 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 (APB'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 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.

### **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 Company's affairs as at 31 March 2010 and of the Group's 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



**INDEPENDENT AUDITORS' 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

26 July 2010

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2010

	Note	2010 £000's	2009 £000's
<b>TURNOVER</b>	2	47,757	48,478
Cost of sales		(13,200)	(12,981)
<b>GROSS PROFIT</b>		34,557	35,497
Administrative expenses		(243)	(379)
<b>OPERATING PROFIT</b>	4	34,314	35,118
Interest payable and similar charges	5	(16,568)	(20,740)
Interest receivable and similar income	6	186	1,242
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		17,932	15,620
Tax charge on profit on ordinary activities	7	(5,016)	(3,189)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	18	12,916	12,431

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

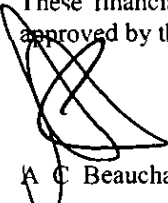
# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## CONSOLIDATED BALANCE SHEET

31 March 2010

	Note	2010 £000's	2009 £000's
<b>FIXED ASSETS</b>			
Tangible assets	10	188,937	197,776
<b>CURRENT ASSETS</b>			
Stocks	11	-	280
Debtors			
- due within one year	12	3,734	3,031
- due after one year	12	50,768	50,768
Investments	13	11,069	11,134
Cash at bank and in hand		3,594	2,442
		69,165	67,655
<b>CREDITORS: amounts falling due within one year</b>			
Creditors	14	(6,005)	(4,970)
Borrowings	15	(20,369)	(19,383)
<b>NET CURRENT ASSETS</b>		42,791	43,302
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		231,728	241,078
<b>CREDITORS amounts falling due after more than one year</b>			
Creditors	14	(5,505)	(4,301)
Borrowings	15	(171,966)	(192,025)
		(177,471)	(196,326)
<b>PROVISIONS FOR LIABILITIES</b>	16	(8,179)	(8,502)
<b>NET ASSETS</b>		46,078	36,250
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	3,000	3,000
Profit and loss account	18	43,078	33,250
<b>SHAREHOLDERS' FUNDS</b>	19	46,078	36,250

These financial statements for Connect M1-A1 Holdings Limited, company registration number 03059235, were approved by the Board of Directors on 21 July 2010 and signed on its behalf by

  
A C Beauchamp  
Director


# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## COMPANY BALANCE SHEET

31 March 2010

	Note	2010 £000's	2009 £000's
<b>FIXED ASSETS</b>			
Investments	9	<u>3,000</u>	<u>3,000</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	<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 21 July 2010 and signed on its behalf by

  
A C Beachamp  
Director

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## CONSOLIDATED CASH FLOW STATEMENT

31 March 2010

	Note	2010 £000's	2009 £000's
Net cash inflow from operating activities	20	45,022	48,228
Returns on investments and servicing of finance	20	(16,386)	(19,110)
Taxation		(5,060)	(4,313)
Capital Expenditure		(18)	(147)
Equity dividends paid		(3,088)	(3,734)
<b>Cash inflow before use of liquid resources and financing</b>		<b>20,470</b>	<b>20,924</b>
Management of liquid resources	20	65	1,515
Financing	20	(19,383)	(22,022)
<b>Increase in cash in the year</b>		<b>1,152</b>	<b>417</b>

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS

Year ended 31 March 2010

### 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 2010. The profit before dividends for the financial period dealt with in the financial statements of the Company was £3,088,000 (2009 - £3,734,000). 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.

#### **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 2010

### 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 (2009 – £nil). The Group is managed by secondees from the shareholders of the Company under a management services contract.

The Group had no employees (2009 – 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 2010

### 4 OPERATING PROFIT BEFORE INTEREST

Operating profit before interest is stated after charging

	2010 £000's	2009 £000's
Depreciation	8,857	9,120
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	17	13
Total audit fees	18	14

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

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £000's	2009 £000's
Senior bank loan	8,140	11,496
European Investment Bank loan	6,434	6,768
Subordinated loan stock 2020	828	1,273
Subordinated loans	856	878
Financing fees	310	314
Interest payable on overdue tax	-	11
Total interest payable and similar charges	16,568	20,740

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

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £000's	2009 £000's
Bank interest receivable	186	1,242



# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2010

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	2010 £000's	2009 £000's
Current tax		
UK corporation tax at 28% (2009 – 28%)	5,339	4,701
Deferred tax credit (note 16)	(323)	(1,512)
	<u>5,016</u>	<u>3,189</u>

#### Taxation reconciliation

	2010 £000's	2009 £000's
Profit on ordinary activities before tax	<u>17,932</u>	<u>15,620</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 – 28%)	5,021	4,374
Effects of Depreciation disallowed in respect of finance costs	<u>318</u>	<u>327</u>
Current tax charge	<u>5,339</u>	<u>4,701</u>

### 8. DIVIDENDS PAID ON EQUITY SHARES

	2010 £000's	2009 £000's
First interim dividend paid of £0 40 (2009 – £1 24) per ordinary share	1,203	3,734
Second interim dividend paid of £0 63 (2009 – £nil) per ordinary share	<u>1,885</u>	<u>-</u>
	<u>3,088</u>	<u>3,734</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 6<sup>th</sup> 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 2010

### 10. TANGIBLE FIXED ASSETS

Group	M1-A1 Link Road £000's	Other equipment £000's	Total £000's
<b>Cost</b>			
At 1 April 2009	267,596	29,672	297,268
Additions	-	18	18
At 31 March 2010	267,596	29,690	297,286
<b>Accumulated depreciation</b>			
At 1 April 2009	81,749	17,743	99,492
Charge for the year	7,152	1,705	8,857
At 31 March 2010	88,901	19,448	108,349
<b>Net book value</b>			
At 31 March 2010	178,695	10,242	188,937
At 31 March 2009	185,847	11,929	197,776

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2009 – £42,507,000)

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

### 11. STOCKS

Group	2010 £000's	2009 £000's
Consumables and spares	-	280

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 2010

### 12. DEBTORS

Group	2010 £000's	2009 £000's
Amounts falling due within one year		
Trade debtors	352	209
Prepayments and accrued income	3,307	2,574
Amounts due from Group companies	75	248
	<u>3,734</u>	<u>3,031</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, £11,069,000 is restricted and not available to fund the ongoing operations of the Group (2009 - £11,134,000) These funds are held as interest bearing cash deposits for terms of no longer than six months

### 14. CREDITORS

Group	2010 £000's	2009 £000's
Amounts falling due within one year		
Trade creditors	801	693
Value added tax	1,219	1,017
Corporation tax	2,783	2,416
Accruals	1,202	844
	<u>6,005</u>	<u>4,970</u>
Amounts falling due after more than one year		
Accruals	5,505	4,301

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 2010

### 15. BORROWINGS

Group	2010 £000's	2009 £000's
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	7,100	7,700
European Investment Bank loan	63,495	67,230
Senior bank loan	119,187	134,235
	<hr/>	<hr/>
	195,491	214,874
Less unamortised arrangement fees	(3,156)	(3,466)
	<hr/>	<hr/>
	192,335	211,408
	<hr/>	<hr/>

The borrowings are repayable as follows

	2010 £000's	2009 £000's
Repayable within one year	20,369	19,383
Repayable between one and two years	25,641	20,369
Repayable between two and five years	63,462	78,790
Repayable after five years	86,019	96,332
	<hr/>	<hr/>
	195,491	214,874
Less unamortised arrangement fees	(3,156)	(3,466)
	<hr/>	<hr/>
	192,335	211,408
	<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 2010 was a liability of £12,369,000 (2009 - £14,833,000). 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 2010

### 16. PROVISIONS FOR LIABILITIES

#### Deferred tax

	£000's
<b>Group</b>	
At 1 April 2009	8,502
Credited to the profit and loss account (note 7)	(323)
	<hr/>
At 31 March 2010	8,179
	<hr/>

	2010 £000's	2009 £000's
<b>Group</b>		
Capitalised interest and other timing differences	8,179	8,502
	<hr/>	<hr/>
Provision for deferred tax	8,179	8,502
	<hr/>	<hr/>

### 17. CALLED UP SHARE CAPITAL

	2010 £000's	2009 £000's
<b>Allotted, called up and fully paid</b>		
3,000,000 ordinary shares of £1 each	3,000	3,000
	<hr/>	<hr/>

The Company is owned jointly by Balfour Beatty plc and M1-A1 Yorkshire Limited (part of Barclays Integrated Infrastructure Fund) in equal shares (see note 22)

### 18. RESERVES

#### Profit and loss account

	2010 £000's	2009 £000's
<b>Group</b>		
At 1 April	33,250	24,553
Profit for the year	12,916	12,431
Dividends paid on equity shares (see note 8)	(3,088)	(3,734)
	<hr/>	<hr/>
At 31 March	43,078	33,250
	<hr/>	<hr/>

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2010

### 19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

<b>Group</b>	<b>2010 £000's</b>	<b>2009 £000's</b>
Profit for the financial year	12,916	12,431
Dividends paid on equity shares	(3,088)	(3,734)
Net increase to shareholders' funds	9,828	8,697
Opening shareholders' funds	36,250	27,553
Closing shareholders' funds	46,078	36,250

<b>Company</b>	<b>2010 £000's</b>	<b>2009 £000's</b>
Profit for the financial year	3,088	3,734
Dividends paid on equity shares	(3,088)	(3,734)
Net addition to shareholders' funds	-	-
Opening shareholders' funds	3,000	3,000
Closing shareholders' funds	3,000	3,000

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2010

### 20. CONSOLIDATED CASH FLOW STATEMENT

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

	2010 £000's	2009 £000's
Operating profit	34,314	35,118
Depreciation	8,857	9,120
Decrease/(increase) in stocks	280	(6)
(Increase)/decrease in debtors	(703)	2,522
Increase in creditors	2,274	1,474
<b>Net cash inflow from operating activities</b>	<b>45,022</b>	<b>48,228</b>

	2010 £000's	2009 £000's
<b>Returns on investments and servicing of finance</b>		
Interest received	184	1,242
Interest paid	(16,570)	(20,352)
	<b>(16,386)</b>	<b>(19,110)</b>

<b>Management of liquid resources</b>		
Decrease in restricted cash on term deposit	65	1,515

<b>Financing</b>		
Repayment of bank loans	(18,783)	(21,422)
Repayment of subordinated loans	(600)	(600)
	<b>(19,383)</b>	<b>(22,022)</b>

#### Analysis of net debt

	At 1 April 2009 £000's	Cash flow £000's	Non cash change £000's	At 31 March 2010 £000's
Cash at bank and in hand	2,442	1,152	-	3,594
Current asset investments	11,134	(65)	-	11,069
Borrowings	(211,408)	19,383	(310)	(192,335)
<b>Total</b>	<b>(197,832)</b>	<b>20,470</b>	<b>(310)</b>	<b>(177,672)</b>

# CONNECT M1-A1 HOLDINGS LIMITED AND SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2010

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

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

	2010 £000's	2009 £000's
Increase in cash in the year	1,152	417
Cash inflow from decrease in liquid resources	(65)	(1,515)
Cash outflow from net decrease in borrowings	19,383	22,022
	<hr/>	<hr/>
Change in net debt resulting from cash flows	20,470	20,924
Amortisation of arrangement fees	(310)	(314)
	<hr/>	<hr/>
Net debt at beginning of year	(197,832)	(218,442)
	<hr/>	<hr/>
Net debt at end of year	(177,672)	(197,832)
	<hr/>	<hr/>

### 21. RELATED PARTY TRANSACTIONS

#### Management

During the year to 31 March 2010 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 £435,000 (2009 – £655,000) for management services and £1,000 (2009 – £18,000) for vehicle rentals. As at 31 March 2010 creditors include £120,000 (2009 – £108,000) due to Balfour Beatty Group.

#### Maintenance

During the year to 31 March 2010 a change in maintenance contractor occurred replacing the joint venture between Serco Limited and a subsidiary of Balfour Beatty plc with Balfour Beatty Civil Engineering Limited and were 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 £2,873,000 (2009 – £2,349,000). As at 31 March 2010 the amount due to the maintenance contractor was £514,000 (2009 – £420,000).

#### 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 2010 an amount of £3,255,000 (2009 – £4,301,000) 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 2010**

#### **22. 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