

Registered number
03059235

Connect M1-A1 Holdings Limited
Annual Report and Financial Statements
For the year ended 31 March 2016

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Connect M1-A1 Holdings Limited
Annual report and financial statements
Contents

	Page
Group strategic report	1-3
Directors' report	4
Statement of directors' responsibilities	5
Independent auditor's report	6-7
Consolidated statement of comprehensive income	8
Balance sheets	9
Consolidated statement of changes in equity	10
Company statement of changes in equity	11
Group cash flow statement	12
Notes to the financial statements	13-24

Connect M1-A1 Holdings Limited

Group Strategic Report

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006

Principal Activities and Business Review

The Company is an investment holding company whose sole business is the holding of an investment in its wholly-owned subsidiary, Connect M1-A1 Limited. The Company is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

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 Company 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.

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

Change to accounting framework

The Financial Reporting Council ('FRC') developed a set of new Financial Reporting Standards ('FRS') applicable for periods beginning on or after 1 January 2015 that provide a number of options for all UK entities. These revised financial reporting standards fundamentally reform financial reporting and are implemented by FRS 100 'Application of Financial Reporting Requirements' ('FRS 100'). FRS 100 sets out rules and guidance on the appropriate accounting framework options for companies and groups within FRS 101 'Reduced Disclosure Framework' ('FRS 101'), FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' ('FRS 102') or EU-adopted IFRS.

Transition to FRS 102

The Group has chosen to adopt FRS 102. The Group assessed the options available and by deciding to adopt FRS102, the existing accounting treatment in the concession is retained to a high degree. This is because this choice of treatment allows the existing concession accounting treatment for the fixed asset to be retained by invoking Section 35.10 and the 'grandfathering' provisions that permit the retention and use of the existing financial standard, FRS5: Reporting the Substance of Transactions.

FRS102 also requires that the values associated with the swap agreements related to the senior loan financing be recorded on to the balance sheet at their fair value.

An explanation of how the transition affected the previously reported financial position and financial performance of the Group has been disclosed in Note 22 to the financial statements. The transition date from the previous accounting standards is 1 April 2014.

Connect M1-A1 Holdings Limited

Group Strategic Report (continued)

Review of business

The results for the year are set out on page 8. The profit for the year before taxation was £9,445,000 (2015 – loss of £4,701,000) and the net assets position as at 31 March 2016 is £42,761,000 (2015 – £80,046,000) for the Company.

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 2016	31 March 2015
	£000's	£000's
Turnover	28,550	27,597
Profit/(Loss) after taxation	7,727	(3,746)
Net assets	42,761	80,046

The Company performance has shown improvement from the prior year driven by the receipt of £12m of insurance recoveries in the current year. These relate to work required on the pavement which have largely been paid to the CJV in previous years (including last year).

Net assets have reduced due to a large dividend payment (£34m) issued in the year which was used to offset the upstream loan to shareholders.

Connect M1-A1 Holdings Limited
Group Strategic Report (continued)

Principal Risks and Uncertainties

The financial risks which the Group is exposed to are credit risk, interest rate risk, liquidity risk and contractual relationships.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, each of which arises from its primary client, Highways England. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

Interest rate risk

The financial risk management objective of the Group is 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.

Liquidity risk

The Group's liquidity risk is principally managed through financing the Company by means of long-term borrowings, with an amortisation profile that matches the expected availability of funds from the Company's operating activities. In addition, the Company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

Future Developments

There has been no indication of any significant developments in the business.

This report was approved by the board on 29 July 2016 and signed by its order.



P. McCarthy
Company Secretary

Connect M1-A1 Holdings Limited**Registered number:** 03059235**Directors' Report**

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2016.

The following information has been disclosed in the Group Strategic Report:

- Key performance indicators
- Financial risk management
- Indication of likely future developments in the business.

Results and dividends

The audited financial statements for the year ended 31 March 2016 are set out on pages 8 to 24. The profit for the year after taxation was £7,727,000 (2015 – loss of £3,746,000).

The directors declared and paid dividends of £45,280,000 (2015 – £5,250,000). The Directors expect the Group to continue its operations for the foreseeable future.

Going Concern

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group 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. Further information is provided in note 1 to the financial statements.

Directors

The following persons served as directors throughout the year and up to the date of this report:

D. W. Bowler

A. Dean

L. J. Falero

B. R. Walker

(resigned 16/12/15)

M.P. Mageean

(appointed 16/12/15)

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

Disclosure of information to auditor

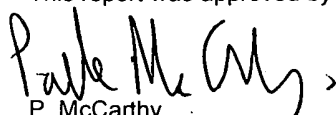
Each person who was a director at the time this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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.

A resolution to appoint KPMG as auditor will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on 29 July 2016 and signed by its order.


P. McCarthy
Company Secretary

Connect M1-A1 Holdings Limited

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 Accounting Standards and applicable law, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 Group 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Connect M1-A1 Holdings Limited
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 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1-22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 Auditor

As explained more fully in the Statement of Directors' Responsibilities, 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 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 the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 Company's affairs as at 31 March 2016 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.

Connect M1-A1 Holdings Limited
Independent Auditors' Report
to the Members of Connect M1-A1 Holdings Limited

Opinion on Other Matters Prescribed by the Companies Act 2006

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

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



Makhana Chahal (Senior Statutory Auditor)
for and on behalf of
Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

29 July 2016

Connect M1-A1 Holdings Limited
Consolidated statement of comprehensive income
for the year ended 31 March 2016

	Notes	2016 £000's	2015 £000's
Turnover	3	28,550	27,597
Cost of sales		(11,299)	(23,719)
Gross profit		<u>17,251</u>	<u>3,878</u>
Administrative expenses		(554)	(230)
Operating profit	4	<u>16,697</u>	<u>3,648</u>
Interest receivable		185	131
Interest payable	5	(7,437)	(8,480)
Profit/(loss) on ordinary activities before taxation		<u>9,445</u>	<u>(4,701)</u>
Tax on profit/(loss) on ordinary activities	6	(1,718)	955
Profit/(loss) on ordinary activities after taxation		<u>7,727</u>	<u>(3,746)</u>
Other Comprehensive income/(loss) for the year			
Fair value movement gain/(loss) on derivatives		615	(538)
Deferred tax on fair value movements on financial instruments		(229)	108
Total comprehensive profit/(loss)		<u><u>8,113</u></u>	<u><u>(4,176)</u></u>

Continuing operations

None of the Company's activities were acquired or discontinued during the above two financial years.

Connect M1-A1 Holdings Limited
Balance Sheets
as at 31 March 2016

	Notes	Group		Company	
		2016 £000's	2015 £000's	2016 £000's	2015 £000's
Fixed assets					
Tangible assets	8	102,787	113,559	-	-
Investments	9	-	-	3,000	3,000
		<u>102,787</u>	<u>113,559</u>	<u>3,000</u>	<u>3,000</u>
Current assets					
Debtors due within one year	10	3,658	4,100	-	-
Debtors due after more than one year		16,768	50,768	-	-
Investments - due within one year		11,094	11,411	-	-
Cash at bank and in hand		<u>3,818</u>	<u>2,126</u>	<u>-</u>	<u>-</u>
		35,338	68,405	-	-
Creditors: amounts falling due within one year					
Creditors	11	(8,777)	(4,129)	-	-
Borrowings	13	(12,497)	(12,300)	-	-
		<u>14,064</u>	<u>51,976</u>	<u>-</u>	<u>-</u>
Net current assets					
		116,851	165,535	3,000	3,000
Creditors: amounts falling due after more than one year					
Creditors	12	(6,359)	(5,489)	-	-
Borrowings	13	(60,391)	(71,515)	-	-
Swap liability	15	(5,314)	(5,930)	-	-
Provisions for liabilities					
Deferred taxation	16	(2,026)	(2,555)	-	-
		<u>42,761</u>	<u>80,046</u>	<u>3,000</u>	<u>3,000</u>
Net assets					
		42,761	80,046	3,000	3,000
Capital and reserves					
Called up share capital	17	3,000	3,000	3,000	3,000
Profit and loss account	18	44,237	81,790	-	-
Hedge reserve account		(4,476)	(4,744)	-	-
		<u>42,761</u>	<u>80,046</u>	<u>3,000</u>	<u>3,000</u>
Shareholders' funds					
		42,761	80,046	3,000	3,000

The Financial Statements of Connect M1-A1 Holdings Limited were approved by the board of Directors and authorised for issue on 29 July 2016. They were signed on its behalf by:

A. Dean
Director

Connect M1-A1 Holdings Limited
Consolidated Statement of Changes in Equity
as at 31 March 2016

	Called up share capital £'000	Hedge reserve account £'000	Profit and loss account £'000	Total £'000
At 31 March 2014 as previously stated	3,000	-	89,461	92,461
Changes on transition to FRS 102 (see note 22)	-	(4,313)	1,325	(2,988)
At 1 April 2015 as restated	<u>3,000</u>	<u>(4,313)</u>	<u>90,786</u>	<u>89,473</u>
Loss for the year	-	-	(3,746)	(3,746)
Fair value movement loss on derivatives	-	(538)	-	(538)
Deferred tax on fair value movements on financial instruments	-	107	-	107
Total comprehensive loss	-	(431)	(3,746)	(4,177)
Dividends paid on equity shares	-	-	(5,250)	(5,250)
At 31 March 2015	<u>3,000</u>	<u>(4,744)</u>	<u>81,790</u>	<u>80,046</u>
Profit for the year	-	-	7,727	7,727
Fair value movement gain on derivatives	-	615	-	615
Deferred tax on fair value movements on financial instruments	-	(229)	-	(229)
Deferred tax rate change on opening balances	-	(118)	-	(118)
Total comprehensive income	-	268	7,727	7,995
Dividends paid on equity shares	-	-	(45,280)	(45,280)
At 31 March 2016	<u>3,000</u>	<u>(4,476)</u>	<u>44,237</u>	<u>42,761</u>

Connect M1-A1 Holdings Limited
Company Statement of Changes in Equity
as at 31 March 2016

	Called up share capital £'000	Hedge reserve account £'000	Profit and loss account £'000	Total £'000
At 31 March 2014 as previously stated	3,000	-	-	3,000
Changes on transition to FRS 102 (see note 22)	-	-	-	-
At 1 April 2015 as restated	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Profit for the year	-	-	5,250	5,250
Total comprehensive income	-	-	5,250	5,250
Dividends paid on equity shares	-	-	(5,250)	(5,250)
At 31 March 2015	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Profit for the year	-	-	45,280	45,280
Total comprehensive income	-	-	45,280	45,280
Dividends paid on equity shares	-	-	(45,280)	(45,280)
At 31 March 2016	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>

Connect M1-A1 Holdings Limited
Group Cash Flow Statement
for the year ended 31 March 2016

	Notes	2016 £000's	2015 £000's
Cash flows from operating activities			
Operating profit		16,697	3,648
Adjustments for:			
Depreciation		10,772	17,067
		<u>27,469</u>	<u>20,715</u>
Decrease/(increase) in debtors		448	(2,611)
Increase/(decrease) in creditors		4,492	(3,468)
Corporation tax paid		<u>(1,162)</u>	<u>(2,774)</u>
Net cash flows from operating activities		31,247	11,862
Cash flows from investing activities			
Interest received		185	131
Interest paid		<u>(6,860)</u>	<u>(7,917)</u>
Net cash flows from investing activities		(6,675)	(7,786)
Cash flows from financing activities			
Equity dividends paid		(11,280)	(5,250)
Repayment of loans		<u>(11,600)</u>	<u>(10,313)</u>
Net cash flows from investing activities		(22,880)	(15,563)
Net cash generated		1,692	(11,487)
Cash and cash equivalents at 1 April 2015 / 2014		<u>2,126</u>	<u>13,613</u>
Cash and cash equivalents at 31 March 2016 / 2015		<u>3,818</u>	<u>2,126</u>
Cash and cash equivalents comprise:			
Cash at bank		<u>3,818</u>	<u>2,126</u>

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

1 Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 March 2016 are the first financial statements of Connect M1-A1 Holdings Limited prepared in accordance with FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 April 2014.

The Group meets the definition of a qualifying entity under FRS102 and has therefore taken the advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in relation to financial instruments.

The Group's shareholders were notified of and did not object to the use of EU-adopted FRS102 disclosure exemptions.

Group financial statements basis of consolidation

The Group Financial Statements include Financial Statements of the Company and of its Subsidiary undertaking for the year ended 31 March 2016. All intercompany balances, transactions and profits are eliminated on consolidation.

Turnover

Revenue is recognised as turnover as it is earned and represents amounts received and receivable from the Highways England, exclusive of value added tax, in respect of vehicle shadow tolls as specified in the concession agreement with the Secretary of State for Transport.

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 costs commenced at Permit to Use.

The carrying amount 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 balance of the road construction cost is on the basis of usage over the course of the 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.

Investments

The investments in the subsidiary undertaking is stated at cost less provision for impairment. The carrying value of this investment is reviewed annually by the Directors to determine whether there has been any impairment to its value.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

1 Summary of significant accounting policies (continued)

Borrowings

Borrowings are initially stated at the amount of the net proceeds after the 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.

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.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 and 3 and the Directors' Report on page 4.

The Directors have reviewed the Company'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 England) to continue to pay shadow tolls due under the D.B.F.O Contract to the Company and do not consider this to be a material risk. The Company's forecasts and projections, taking account of reasonably possible counterparty performance, show the Company 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 Company 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 financial statements. The carrying of this tangible fixed asset is reviewed annually by the Directors to determine whether there has been any impairment to its value.

Creditors

Short term creditors are measured at transaction price (which is usually the invoice price).

Loans and other financial liabilities are initially recognised at transaction price net of any transaction costs and subsequently measured at amortised cost determined using the effective interest method.

Taxation

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

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 results 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.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

1 Summary of significant accounting policies (continued)

Taxation (continued)

Per the Change of Accounting Practice (COAP) Regulations (SI 2004/3271) all transitional FRS 102 tax adjustments are spread over 10 years (through deferred tax).

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to changes in interest rates. The Group does not hold or issue derivative financial instruments for speculative purposes.

In order to hedge against interest rate variations on the loans the Group has entered into interest rate swap agreements, and has agreed to exchange at agreed intervals with its bankers sums reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount.

2 Critical accounting estimates and judgements

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Company uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets.

The fair value of the interest rate swaps at 31 March 2016 was a liability of £5,314,000 (2015 - £5,930,000). Market value has been used to determine the fair value. The directors do not consider the impact of own credit risk to be material.

3 Analysis of turnover

Turnover by origin and destination from the Company's principal activity:

United Kingdom

Group	
2016	2015
£000's	£000's
28,550	27,597

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

4 Operating profit

This is stated after charging:

Depreciation of owned fixed assets
Auditor's remuneration for audit services

Group	
2016	2015
£000's	£000's
10,772	17,068
18	14

The Directors received no salary in the performance of their duties during the current or preceding year. The Group had no employees in the current or preceding year. All costs of the Directors and other staff are borne by the shareholders of the ultimate parent companies, who second their employees to the Group.

5 Interest payable

Senior bank loan
European Investment Bank loan
Subordinated loan stock 2020
Subordinated loans
Financing fees
Other

Group	
2016	2015
£000's	£000's
1,923	2,128
3,639	4,226
856	856
186	318
672	813
161	139
7,437	8,480

6 Taxation

The tax charge is based on the profit for the year at an effective tax rate of 20.0% (2014: 21.0%).

Analysis of charge in year

Current tax:

UK corporation tax on profits of the year

Deferred tax:

Origination and reversal of timing differences

Effect of reduced tax rate on opening liability

Group	
2016	2015
£000's	£000's
2,595	(308)
(533)	(647)
(344)	-
(877)	(647)
1,718	(955)

Tax on profit/(loss) on ordinary activities

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

6 Taxation (continued)

Factors affecting tax charge for year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	Group	
	2016	2015
	£000's	£000's
Profit/(loss) on ordinary activities before tax	9,445	(4,701)
Standard rate of corporation tax in the UK	20%	21%
	£000's	£000's
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax	1,889	(987)
Effects of:		
Expenses not deductible for tax purposes	706	679
Effect of reduced tax rate on opening liability	(344)	-
Origination and reversal of timing differences	(533)	(647)
Total tax charge for year	1,718	(955)

Factors that may affect future tax charges

A reduction in the mainstream UK tax rate of 21% to 20%, effective from 1 April 2015, was substantively enacted in the Finance Act 2013.

In the Summer Finance Bill 2015, which was substantively enacted on 26 October 2015, it was announced that the main rate of corporation tax for UK companies would reduce to 19% from 1 April 2017, and then reduce further to 18% from 1 April 2020. The reduced rate of 18% has therefore been reflected in the calculation of deferred tax at the balance sheet date.

7 Dividends

	Group	
	2016	2015
	£000's	£000's
Dividends paid	45,280	5,250
	45,280	5,250
Dividend per share	2016	2015
No. of shares	£'s	£'s
3,000,000	15	2

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

8 Tangible fixed assets

	Group		
	M1-A1 Link Road At cost £000's	Other equipment At cost £000's	Total £000's
Cost or valuation			
At 1 April 2015	267,596	29,837	297,433
At 31 March 2016	267,596	29,837	297,433
Depreciation			
At 1 April 2015	160,052	23,822	183,874
Charge for the year	10,753	19	10,772
At 31 March 2016	170,805	23,841	194,646
Carrying amount			
At 31 March 2016	96,791	5,996	102,787
At 31 March 2015	107,544	6,015	113,559

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2015 – £42,507,000). 100% of interest is capitalised during construction, and 0% during operations. Other equipment comprises traffic management equipment and computers.

	Group		Company	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's
9 Investments				
Shares in subsidiary undertakings	-	-	3,000	3,000
Shares in subordinated loan stock in subsidiary undertaking	-	-	-	-

The parent company has investments in the following subsidiary undertakings incorporated in the UK:

Name:	Connect M1-A1 Limited
Activity:	PFI concession company
Shareholding:	100%
Number of shares:	3,000,000
Type of share:	Ordinary
Book value (£000's):	40,424

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

10 Debtors

Amounts falling due within one year:

Trade debtors

Amounts owed by group undertakings and undertakings in which the company has a participating interest

Other debtors

Prepayments and accrued income

Group	
2016	2015
£000's	£000's
668	268
-	235
-	152
2,990	3,445
3,658	4,100

11 Creditors: amounts falling due within one year

Trade creditors

VAT Payable

Corporation tax

Subordinated Debt Interest

Accruals and deferred income

Group	
2016	2015
£000's	£000's
42	63
656	398
1,319	-
-	897
6,760	2,771
8,777	4,129

12 Creditors: amounts falling due after one year

Accruals

Deferred income

Group	
2016	2015
£000's	£000's
1,608	1,206
4,751	4,283
6,359	5,489

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

	Group	
	2016	2015
	£000's	£000's
13 Borrowings		
Loans not wholly repayable within five years:		
Subordinated loan stock 2020	5,709	5,709
Subordinated loans	1,400	2,600
European Investment Bank Loan	32,382	38,808
Senior bank loan	35,528	39,501
	<u>75,019</u>	<u>86,618</u>
Less: effective interest rate accounting adjustment	(1,650)	(2,189)
Less: unamortised arrangement fees	<u>(481)</u>	<u>(614)</u>
	<u>72,888</u>	<u>83,815</u>
Analysis of maturity of debt:		
Within one year or on demand	12,497	12,300
Between one and two years	10,916	11,797
Between two and five years	34,657	33,252
After five years	16,949	29,269
	<u>75,019</u>	<u>86,618</u>
Less: effective interest rate accounting adjustment	(1,650)	(2,189)
Less: unamortised arrangement fees	<u>(481)</u>	<u>(614)</u>
	<u>72,888</u>	<u>83,815</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 Company 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 2016 was a liability of £5,314,000 (2015 - £5,930,000). Market value has been used to determine the fair value.

All of the Company's borrowings contain either a fixed or varying security interest over the assets of the Company, as defined by an inter-creditor agreement. All borrowings would be repaid in advance of other general creditors in the event of the Company becoming insolvent, except as prohibited by any legal restriction.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

14 Financial Instruments

The Group has the following financial instruments:

	Group	
	2016	2015
	£000's	£000's
Financial assets at fair value through profit or loss		
Financial assets that are debt instruments measured at amortised cost:		
- Trade debtors	668	268
- Amounts owed by group undertakings and undertakings in which the company has a participating interest	-	235
	<u>668</u>	<u>503</u>
Financial liabilities at fair value through profit or loss:		
- Derivative financial instruments	5,314	5,930
Financial liabilities measure at amortised cost:		
- Senior secured loans	66,283	76,195
- Subordinated loans	7,085	8,234
- Trade creditors	42	63
	<u>78,724</u>	<u>90,422</u>

15 Swap liability

Derivatives that are designated and effective as hedging instruments carried at fair value.

	Current		Non-Current	
	2016	2015	2016	2015
	£000's	£000's	£000's	£000's
Interest rate swaps	<u>-</u>	<u>-</u>	<u>(5,314)</u>	<u>(5,930)</u>
	-	-	(5,314)	(5,930)

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Company's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

The interest rate swaps settle on a six-monthly basis. The fixed interest rate on the interest rate swaps is 5.68% and the floating rate on the interest rate swaps is six months' LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

16 Deferred taxation	Group	
	2016 £000's	2015 £000's
Capitalised interest and other timing differences	2,026	2,555
	2016 £000's	2015 £000's
At 1 April 2015 / 2014	2,555	3,310
Credited to the profit and loss account	(529)	(755)
At 31 March 2016 / 2015	2,026	2,555

17 Called up share capital	Nominal value	2016 Number	Group	
			2016 £000's	2015 £000's
Allotted, called up and fully paid: Ordinary shares	£1 each	3,000,000	3,000	3,000

18 Profit and loss account	Group	
	2016 £000's	2015 £000's
At 1 April 2015 / 2014	81,790	90,786
Profit/(loss) for the financial year	7,727	(3,746)
Dividends	(45,280)	(5,250)
At 31 March 2016 / 2015	44,237	81,790

Other Reserves

The Group's other reserves, details of which can be found on the Statement of Changes in Equity, are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

19 Subsequent events

On 15 April 2016, Balfour Beatty plc reduced its shareholding in the Company from 50% to 20%. The new immediate parent company is Infrastructure Investments Holdings Limited.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

20 Related party transactions

During the year to 31 March 2016 Balfour Beatty Investments Limited was employed under a contract with the Group for the provision of management services. The value of the contract in the year was £485,110 (2015 - £423,107). As at 31 March 2016 creditors include £134,879 (2015 - £58,038) due to Balfour Beatty Investments Limited.

During the year to 31 March 2016 Balfour Beatty Civil Engineering Limited, a subsidiary of Balfour Beatty plc, was employed under a contract with the Group for the maintenance of the DBFO road. The value of the contract in the year was £12,340,454 (2015 - £6,316,152). As at 31 March 2016 creditors include £1,567,977 (2015 - £1,521,885) due to Balfour Beatty Civil Engineering Limited.

The Company 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 13 to the financial statements respectively.

As at 31 March 2016 an amount of £1,611,000 (2015 - £1,593,000) relating to a repayment supplement of 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. During the year a repayment of £34,000,000 of loan principal was received (2015 - £nil).

21 Ultimate parent companies and controlling parties

The Company's immediate parent companies are Balfour Beatty plc and M1-A1 Yorkshire Limited which are incorporated in Great Britain and registered in England and Wales.

The ultimate parent companies and controlling parties are Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd). 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 financial statements are drawn up.

22 Explanation of transition to FRS102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition.

The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard which has resulted in the recognition and additional disclosures of derivative financial instruments held by the Company. Within the FRS 102 framework we adopted the provisions of IAS 39 to measure and recognise financial instruments. Listed below are the notes to the reconciliation of equity at 1 April 2014 and 31 March 2015.

Connect M1-A1 Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2016

22 Explanation of transition to FRS102 (continued)

	At 1 April 2014 £000's	At 31 March 2015 £000's
Equity reported under previous UKGAAP	92,461	83,915
Adjustment to equity on transition to FRS102		
Interest on senior loan using effective interest rate (Note 1)	1,656	1,207
To bring fair value of derivative financial instruments (Note 2)	(5,391)	(5,930)
Deferred tax on fair value of swap liability (Note 3)	1,078	1,186
Deferred tax on the effective interest rate (Note 4)	(331)	(219)
	<u>89,473</u>	<u>80,159</u>
Reconciliation of profit for 2015		£000's
Loss for the financial year under previous UK GAAP		<u>(3,296)</u>
Interest on senior loan using effective interest rate (Note 1)		(450)
Profit for the financial year under FRS102		<u><u>(3,746)</u></u>

Note 1 - Interest on senior loan using effective interest rate

Under previous UK GAAP the amortisation of cost relating to arrangement fees was spread evenly over the relevant loan life. Under FRS 102 an effective interest rate method is required.

Note 2 - Fair value of interest rate swap

Under previous UK GAAP the fair value of the interest rate swap was disclosed in the notes to the financial statements. Under FRS 102 the Company is required to recognise the fair value of derivative financial instruments on the balance sheet. In the table above recognition of the fair value of the interest rate swap reflects an asset on the balance sheet at 1 April 2014 and 31 March 2015. The fair value movement in the year on the interest rate swap, which is in an effective hedging relationship, is recognised through the hedge reserve.

Note 3 - Deferred tax on swap liability

Under previous UK GAAP there was no requirement to recognise or disclose deferred tax relating to financial instruments. Under FRS 102, the Company is required to recognise deferred tax on all fair value movements. Consequently, a deferred tax asset arises on recognition of the fair value of the interest rate swap on 1 April 2014 and 31 March 2015. The deferred tax on the fair value movement in the year is recognised through the hedge reserve.

Note 4 - Deferred tax on the effective interest rate

The change in recognition of cost associated with loans (see Note 1) results in a change to the reported profit. The resulting difference to the tax that would have been charged is recognised through the deferred tax asset/liability.