Registration number: 03059235

Connect M1-A1 Holdings Limited

Consolidated Financial Statements

for the Year Ended 31 March 2019

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Connect M1-A1 Holdings Limited

Contents

Connect M1-A1 Holdings Limited

Strategic Report for the Year Ended 31 March 2019

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activity
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 Highways England (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 ('PFI').

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 or Group's activities in the year under review and none are currently contemplated.

Review of business
The results for the year are set out on page 9. The profit for the year before taxation was £7,653,000 (2018: £5,706,000) and the net assets position as at 31 March 2019 is £49,005,000 (2018: £46,209,000) for the Group. The Directors expect the Group to continue its operations for the foreseeable future.

The financial position at the year-end is in-line with the Directors' expectations and can be found on page 11.

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:

	2019 £ 000	2018 £ 000
Turnover	28,252	27,915
Profit after taxation	6,198	4,626
Net assets / (liabilities)	49,005	46,209

The Group is showing net assets and recording a profit in the year. The Group's projections, taking account of reasonably possible counterparty performance, show that the Group expects to be able to continue to operate for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 PFI 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.

Credit & cash flow risks

The relevant financial risks to the Group are credit and cash flow risks, which arise 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's subsidiary by means of long-term borrowings, with an amortisation profile that matches the expected availability of funds from the Company's subsidiary's operating activities. In addition, the Group's subsidiary maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

Brexit

The Directors have considered the potential consequences to the Group of the United Kingdom leaving the European Union and as at the date of signing this report do not anticipate that this will have a significant impact on the Group. This is primarily because the Group's contractual agreements, including those which cover its financing, are unlikely to be affected.

Future developments

The Directors expect the general level of activity to remain stable in the forthcoming year. There have been no other changes to the Group's activities in the year under review and no others are currently contemplated.

Approved by the Board on 29 July 2019 and signed on its behalf by:

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P McCarthy
Company secretary

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

Connect M1-A1 Holdings Limited

Directors Report for the Year Ended 31 March 2019

The Director's present their annual report together with the audited financial statements for the year ended 31 March 2019.

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

- Key performance indicators
- Principal risk management
- Indication of likely future developments in the business
- Principal activities and business review

Results and dividends
The audited financial statements for the year ended 31 March 2019 are set out on pages 9 to 30. The profit for the year after tax was £6,198,000 (2018: profit of £4,626,000).

The Directors declared and paid dividends of £3,935,000 (2018: £5,348,000). The Directors expect the Group to continue its operations for the foreseeable future.

Directors of the Company
The directors who held office during the year were as follows:

D W Bowler

R Driver

M J Edwards

C D B Leverd

M P Mageean

A P Walker

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.

Disclosure of information to the auditors
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- 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 Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Connect M1-A1 Holdings Limited

Directors Report for the Year Ended 31 March 2019 (continued)

Reappointment of auditors
The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 29 July 2019 and signed on its behalf by:

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P McCarthy
Company secretary

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

Connect M1-A1 Holdings Limited

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 Parent Company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and 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;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Connect M1-A1 Holdings Limited (the 'Company') for the year ended 31 March 2019, which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Group and Company Balance Sheet, Group and Company Statement of Changes in Equity, Consolidated Cash Flow, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK & Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

Independent Auditor's Report to the Members of Connect M1-A1 Holdings Limited (continued)

Strategic Report and Directors' report
The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 3, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of Connect M1-A1 Holdings Limited (continued)

The purpose of our audit work and to whom we owe our responsibilities

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.

....

Tom Eve (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square
London
E14 5GL

Date: 29 July 2019

Connect M1-A1 Holdings Limited

Consolidated Profit and Loss Account for the Year Ended 31 March 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	28,252	27,915
Cost of sales		(14,870)	(14,929)
Gross profit		13,382	12,986
Administrative expenses		(1,591)	(1,986)
Operating profit	4	11,791	11,000
Interest receivable and similar income	8	100	61
Interest payable and similar expenses	9	(4,238)	(5,355)
Profit before tax		7,653	5,706
Taxation	10	(1,455)	(1,080)
Profit for the financial year		6,198	4,626

The above results were derived from continuing operations.

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2019

	2019 £ 000	2018 £ 000
Profit for the year	6,198	4,626
Fair value movement gain on derivatives	643	1,350
Deferred tax on fair value movements on financial instruments	(110)	(229)
	533	1,121
Total comprehensive income for the year	6,731	5,747

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

(Registration number: 03059235)
Consolidated Balance Sheet as at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Non current assets			
Tangible assets	13	69,945	80,609
Debtors	15	16,768	16,768
		86,713	97,377
Current assets			
Debtors	16	3,686	3,086
Investments	17	6,143	6,161
Cash at bank and in hand		4,888	6,145
		14,717	15,392
Creditors: Amounts falling due within one year	18	(15,442)	(18,233)
Net current liabilities		(725)	(2,841)
Total assets less current liabilities		85,988	94,536
Creditors: Amounts falling due after more than one year	18	(35,296)	(46,516)
Deferred tax liabilities	11	(1,687)	(1,811)
Net assets		49,005	46,209
Capital and reserves			
Called up share capital	21	3,000	3,000
Profit and loss account		48,039	45,776
Hedge reserve account		(2,034)	(2,567)
Total equity		49,005	46,209

Approved and authorised by the Board on 29 July 2019 and signed on its behalf by:

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M P Mageean
Director

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

(Registration number: 03059235)
Balance Sheet as at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Investments	14	3,000	3,000
Capital and reserves			
Called up share capital	21	3,000	3,000
Total equity		3,000	3,000

The company made a profit after tax for the financial year of £3,935,000 (2018 - profit of £5,348,000).

Approved and authorised by the Board on 29 July 2019 and signed on its behalf by:

M P Mageean
Director

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2019
Equity attributable to the parent company

	Share capital £ 000	Hedge reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2017	3,000	(3,688)	46,498	45,810
Total comprehensive income	-	1,121	4,626	5,747
Dividends	-	-	(5,348)	(5,348)
At 31 March 2018	3,000	(2,567)	45,776	46,209

	Share capital £ 000	Hedge reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2018	3,000	(2,567)	45,776	46,209
Total comprehensive income	-	533	6,198	6,731
Dividends	-	-	(3,935)	(3,935)
At 31 March 2019	3,000	(2,034)	48,039	49,005

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Statement of Changes in Equity for the Year Ended 31 March 2019

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2017	3,000	-	3,000
Total comprehensive income	-	5,348	5,348
Dividends	-	(5,348)	(5,348)
At 31 March 2018	3,000	-	3,000

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2018	3,000	-	3,000
Total comprehensive income	-	3,935	3,935
Dividends	-	(3,935)	(3,935)
At 31 March 2019	3,000	-	3,000

The notes on pages 16 to 30 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2019

	2019 £ 000	2018 £ 000
Cash flows from operating activities		
Profit for the year	6,198	4,626
Adjustments to cash flows from non-cash items		
Depreciation and amortisation	10,664	11,085
Finance income	(100)	(61)
Finance costs	4,238	5,355
Income tax expense	1,455	1,080
	22,455	22,085
Working capital adjustments		
(Increase)/decrease in trade debtors	(598)	18
Decrease in trade creditors	(2,148)	(923)
Cash generated from operations	19,709	21,180
Income taxes paid	(1,878)	(1,176)
Net cash flow from operating activities	17,831	20,004
Cash flows from investing activities		
Interest received	100	61
Transfer from investments	18	2,574
Net cash flows from investing activities	118	2,635
Cash flows from financing activities		
Interest paid	(3,893)	(4,853)
Repayment of borrowing	(11,378)	(10,916)
Dividends paid	(3,935)	(5,348)
Net cash flows from financing activities	(19,206)	(21,117)
Net (decrease)/increase in cash and cash equivalents	(1,257)	1,522
Cash and cash equivalents at 1 April	6,145	4,623
Cash and cash equivalents at 31 March	4,888	6,145

The notes on pages 16 to 30 form an integral part of these financial statements.

1 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation
These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Summary of disclosure exemptions
The Parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- No separate parent company Cash Flow Statement with related notes in included.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Group financial statements basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date the control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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 Strategic Report on pages 1 to 2 and the Directors' Report on pages 3 and 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 to continue to pay unitray fees due under the D.B.F.O Contract to the subsidiary 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 financial statements.

1 Accounting policies (continued)

Turnover
Revenue is recognised as turnover as it is earned and represents amounts due, exclusive of value added tax, in respect of services provided under the DBFO Contract.

Trade and other debtors/creditors
Trade and other debtors are recognised initially at the transaction price less attributable transaction costs. Trade and other creditors are recognised initially at the transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if the payment is deferred beyond normal business terms, then it is measured at the present value of the future payments discounted at a market rate of instrument for a similar debt instrument.

Loans and receivables - applicable before 1 April 2018
Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial instrument at amortised cost - applicable after 1 April 2018
Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'amortised cost'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

1 Accounting policies (continued)

Tax

Current 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 Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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.

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.

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).

Derivative financial instruments

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in Other Comprehensive Income and any ineffective portion is recognised immediately in the Profit and Loss account. Amounts deferred in Other Comprehensive Income in respect of cash flow hedges are subsequently recognised in the Profit and Loss account in the same period in which the hedged item affects net profit or loss.

Tangible 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 Heavy Goods Vehicle usage over the course of the operating life of the concession. This is because the level of deterioration of the road performed by High Goods Vehicles is significantly more than that caused by other vehicles, and as such Heavy Goods Vehicle usage best reflects the consumption of economic benefit over the 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.

1 Accounting policies (continued)

Other financial assets and financial liabilities
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

IFRS 9 Financial Instruments
The Group has adopted IFRS 9 with a date of initial application of 1 April 2018. The requirements of IFRS 9 represent a significant change from what was adopted under FRS102 in regards to Financial Instruments: Recognition and Measurement.

Transition
The Group has assessed that comparative periods do not require restatement as described below.

- An assessment has been performed of the differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 and this assessment concluded that there was an immaterial difference.
- Impact to classification of financial instrument:
  (i) IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income ("FVOCI") and Fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous FRS 102 categories of held to maturity, loans and receivables and available for sale.
  (ii) IFRS 9 largely retains the existing requirements in FRS 102 for the classification and measurement of financial liabilities.

The following table and the accompanying notes below explain the original measurement categories under FRS 102 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 April 2018.

Financial Assets	Original Classification	New Classification	Original carrying amount	New carrying amount under IFRS 9
Trade and other receivables	Loans and receivables	Amortised cost	3,086	3,086
Cash and cash equivalents	Loans and receivables	Amortised cost	6,145	6,145

2 Critical accounting estimates and judgements

Critical judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Hedge accounting

The directors consider the Group to have met the criteria for hedge accounting and the Group has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

Key sources of estimation uncertainty

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 Group 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.

3 Turnover

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

	Group	
	2019	**2018**
	£ 000	**£ 000**
UK	28,252	27,915

4 Operating profit

Arrived at after charging/(crediting)

	Group	
	2019	**2018**
	£ 000	**£ 000**
Depreciation expense	10,664	11,085

5 Directors' remuneration

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

6 Staff costs

The Group had no employees in the current or preceding year. All costs of staff are borne by the shareholders of the ultimate parent companies, who second their employees to the Group.

7 Auditors' remuneration

The audit fee for the Company and its subsidiaries amounted to £11k (2018: £11k).

There were no non-audit fees (2018: £nil).

8 Interest receivable and similar income

	Group	
	2019	**2018**
	£ 000	**£ 000**
Interest income on bank deposits	100	61

9 Interest payable and similar expenses

	Group	
	2019	**2018**
	£ 000	**£ 000**
Interest payable on senior bank loan	1,797	2,081
European Investment Bank loan	1,406	2,212
Subordinated loan stock 2020	860	860
Other finance costs	175	202
	4,238	5,355

10 Taxation

Tax charged/(credited) in the income statement

	Group 2019 £ 000	Group 2018 £ 000
Current taxation		
UK corporation tax	1,689	1,388
UK corporation tax adjustment to prior periods	-	(52)
	1,689	1,336
Deferred taxation		
Arising from origination and reversal of timing differences	(234)	(256)
Tax expense in the income statement	1,455	1,080

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	Group 2019 £ 000	Group 2018 £ 000
Profit before tax	7,653	5,706
Corporation tax at standard rate	1,455	1,084
Effect of expense not deductible in determining taxable profit (tax loss)	-	48
Decrease in UK and foreign current tax from adjustment for prior periods	-	(52)
Total tax charge	1,455	1,080

The Company earns its results in the UK, therefore the tax rate used for tax on profit on ordinary activities is the current UK corporation tax rate of 19% (2018: 19%).

For the year ended 31 March 2019, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2016. The Finance Act 2016, which was substantively enacted on 6 September 2016, provided for a reduction in the main rate of UK corporation tax to 19% effective from 1 April 2017 and a further reduction to 17% from 1 April 2020.

Tax relating to items recognised in other comprehensive income or equity - group

	2019 £ 000	2018 £ 000
Deferred tax related to items recognised as items of other comprehensive income	110	229

11 Deferred tax asset/(liability)

	Group 2019 £ 000	Group 2018 £ 000
At 1 April	1,811	1,838
Credited to the profit and loss account	(234)	(256)
Other comprehensive income movement	110	229
	1,687	1,811

Group	Fair value movement on financial instruments £ 000	Capitalised interest £ 000	FRS 102 effective interest rate adjustment £000
At 1 April	527	(2,193)	(145)
Movement	(110)	215	19
At 31 March	417	(1,978)	(126)

12 Dividends

	2019 £ 000	2018 £ 000
Dividends paid	3,935	5,348

	2019 £	2018 £
Dividend per share (No. of shares: 3,000,000)	1	2

13 Tangible assets

Group

	Group		
	M1-A1 Link Road £ 000	Other equipment £ 000	Total £ 000
Cost or valuation			
At 1 April 2018	267,596	29,837	297,433
At 31 March 2019	267,596	29,837	297,433
Depreciation			
At 1 April 2018	188,163	28,661	216,824
Charge for the year	9,488	1,176	10,664
At 31 March 2019	197,651	29,837	227,488
Carrying amount			
At 31 March 2019	69,945	-	69,945
At 31 March 2018	79,433	1,176	80,609

The cost of the M1-A1 Link Road includes capitalised interest of £42,507,000 (2018 - £42,507,000). 100% of interest is capitalised during construction, and 0% during operations.

Other equipment comprises traffic management equipment and computers.

14 Investments in subsidiaries, joint ventures and associates

	Company	
	2019 £ 000	2018 £ 000
Investments in subsidiaries	3,000	3,000

Details of undertakings

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

Undertaking	Registered office	Holding	Proportion of voting rights and shares held 2019	2018
Subsidiary undertakings				
Connect M1-A1 Limited	6th Floor, 350 Euston Road, Regents Place, London, NW1 3AX	Ordinary	100%	100%

14 Investments in subsidiaries, joint ventures and associates (continued)

The principal activity of Connect M1-A1 Limited is a PFI concession company.

15 Debtors due after more than one year

	2019 £ 000	2018 £ 000
Upstream loan	16,768	16,768

There has been no movement in the Upstream Loan for the year.

Upstream loans are created to release excess cash to Shareholders in the form of a loan when the Group is reserve constrained (the total maximum dividend paid to Shareholders throughout the year cannot exceed that of the revenue reserves balance) - therefore to provide the Shareholder with access to additional cash flow an Upstream Loan is created. The Group considers the loan amounts to be fully recoverable.

16 Debtors

	Group	
	2019 £ 000	2018 £ 000
Trade debtors	2,714	2,919
Prepayments and accrued income	972	167
	3,686	3,086

17 Current asset investments

The current asset investments include restricted cash which cannot be used to fund the on-going operations of the Group.

	Group	
	2019 £ 000	2018 £ 000
Debt Service Reserve Account	6,143	6,161

18 Creditors

	Group 2019 £ 000	Group 2018 £ 000
Due within one year		
European Investment Bank loan	9,243	8,415
Senior bank loan	1,716	2,963
Trade creditors	1	337
VAT payable	735	884
Corporation tax liability	1,185	892
Accruals	2,562	4,742
	15,442	18,233
Due after one year		
Deferred income	4,350	4,311
Subordinated loan stock 2020	5,709	5,709
European Investment Bank loan	-	9,243
Senior bank loan	23,560	25,276
Effective interest rate accounting adjustment	(772)	(1,117)
Swap liability	2,449	3,094
	35,296	46,516

19 Loans and borrowings

Loans not wholly repayable within five years:

	Group 2019 £ 000	Group 2018 £ 000
Subordinated loan stock 2020	5,709	5,709
Senior bank loan	25,276	28,239
European investment bank loan	9,243	17,658
Less: effective interest rate accounting adjustment	(772)	(1,117)
	39,456	50,489

19 Loans and borrowings (continued)

Analysis of maturity of debt:

	Group	
	2019	**2018**
	£ 000	**£ 000**
Within one year or on demand	10,959	11,378
Between one and two years	5,078	10,959
Between two and five years	18,482	18,716
After five years	5,709	10,553
Less: effective interest rate accounting adjustment	(772)	(1,117)
	39,456	50,489

The subordinated loan stock 2020 bears interest at 15% per annum which, if not paid, is compounded each March and September. The loan is repayable in two instalments in September 2024 and March 2025.

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's subsidiary, Connect M1-A1 Limited has entered into interest rate swaps to manage its exposure to interest rate fluctuations. Under interest rate swaps, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cashflow exposure on the issued variable rate debt held. The fair value of interest rate swaps at the reported date is determined by discounting the future cash flows using market data available at the reporting date. The average interest rate is based on the outstanding balance at the end of the period.

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 Group will settle the difference between the fixed and floating interest rate on a net basis.

The fair value of the interest rate swaps at 31 March 2019 was a liability of £2,511,000 (2018 - £3,094,000).

All of the Group's borrowings contain either a fixed or varying security interest over the assets of the Group, as defined by an inter-creditor 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.

20 Financial instruments

The Group has the following financial instruments:

Financial assets that are debt instruments measured at amortised cost:

	Group	
	2019 £ 000	2018 £ 000
Trade debtors	2,714	2,919

Financial liabilities at fair value through profit or loss:

	Group	
	2019 £ 000	2018 £ 000
Derivative financial instruments	2,511	3,094

Financial liabilities measured at amortised cost:

	Group	
	2019 £ 000	2018 £ 000
Senior secured loans	33,762	44,820
Subordinated loans	5,673	5,669
Trade creditors	1	337
	39,436	50,826

21 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	3,000,000	3,000,000	3,000,000	3,000,000

The Company has one class of ordinary shares which carry no rights to fixed income.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

- The profit and loss reserve represents cumulative profits or losses, net of dividends paid.
- The hedging 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.

22 Related party transactions

Transactions during the year

	Group
	2019
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	6,829
Balfour Beatty Investments - staff secondment charges	375
Balfour Beatty plc - distributions	950
BIIF Bidco Limited - distributions	2,374
Infrastructure Investments Limited Partnership - distributions	1,424
	11,952

	2018
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	8,222
Balfour Beatty Investments - staff secondment charges	349
Balfour Beatty plc - distributions	1,241
BIIF Bidco Limited - distributions	3,102
Infrastructure Investments Limited Partnership - distributions	1,861
	14,775

Outstanding balances owed by the Group at the end of the year

	Group
	2019
	£ 000
Balfour Beatty plc - subordinated debt and accrued interest	1,227
BIIF Bidco Limited - subordinated debt and accrued interest	3,068
Infrastructure Investments Limited Partnership - subordinated debt and accrued interest	1,841
	6,136

	2018
	£ 000
Balfour Beatty plc - subordinated debt and accrued interest	1,227
BIIF Bidco Limited - subordinated debt and accrued interest	3,068
Infrastructure Investments Limited Partnership - subordinated debt and accrued interest	1,841
	6,136

22 Related party transactions (continued)

Outstanding balances owed to the Group at the end of the year

	Group
	2019
	£ 000
Balfour Beatty plc - upstream loan	3,354
BIIF Bidco Limited - upstream loan	8,384
Infrastructure Investments Trafalgar Limited - upstream loan	5,030
	16,768

	2018
	£ 000
Balfour Beatty plc - upstream loan	3,354
BIIF Bidco Limited - upstream loan	8,384
Infrastructure Investments Trafalgar Limited - upstream loan	5,030
	16,768

23 Parent and ultimate parent undertaking

The company's ultimate parent companies and controlling parties are Balfour Beatty plc, M1-A1 Yorkshire Limited and Infrastructure Investments Holdings Limited, incorporated in United Kingdom and registered in England and Wales. The registered offices of the controlling parties are; 5 Churchill Place, Canary Wharf, London, E14 5HU; Cannon Place, 78 Cannon Street, London, EC4N 6AF and 12 Charles II Street, London, SW1Y 4QU respectively.

Connect M1-A1 Holdings Limited is the parent company of the largest and smallest group of which the company is a member.

24 Subsequent events

The have been no material post balance sheet events.