

Registration number: 03059235

Connect M1-A1 Holdings Limited

Consolidated Financial Statements

for the Year Ended 31 March 2020



Connect M1-A1 Holdings Limited

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Connect M1-A1 Holdings Limited

Strategic Report for the Year Ended 31 March 2020

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 £2,526k (2019: £7,653k) and the net assets position as at 31 March 2020 is £45,341k (2019: £49,005k) 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

As part of the stewardship of the project the Directors regularly consider Board reports related to the performance of the Group and the information and key performance indicators ("KPI's") contained therein. These include, amongst other things, variance against budget in the financial statements and forward cash flow forecasting and other qualitative and quantitative indicators of performance that, as a whole, provide the basis for the management of the Group.

The Group has set specific business objectives, which are monitored using a number of KPI's. The relevant KPI's for this report are detailed below.

	2020 £ 000	2019 £ 000
Turnover	27,317	28,252
Profit after taxation	2,046	6,198
Net assets / (liabilities)	<u>45,341</u>	<u>49,005</u>

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.

Connect M1-A1 Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

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.

COVID-19

The Directors have considered the potential impacts on the Group of the COVID-19 emergency and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Group's ability to continue day-to-day operations.

The Company is an investment holding company whose sole business is the holding of investments in its wholly owned subsidiary Connect M1-A1 Limited.

In making this assessment the Directors have reviewed the cash flows of the Group for the period to September 2021. As a result of forecast potential impacts on future cash inflows of the Group the Directors consider there is a material uncertainty as to the Group and Company's going concern basis of preparation which is detailed below.

In making this assessment the Directors have reviewed the Group's cash flows for the period to September 2021 and considered the security of the cash flows in accordance with the provisions of the Project Agreement with the client, Highways England.

Under the provisions of the Project Agreement the cash flow revenues forecasted to March 2021 are unaffected by the current reduction in traffic volumes arising from the COVID-19 restrictions. Throughout the emergency Highways England have continued to adhere to their obligations under the Project Agreement and the Directors expect that they will continue to do so. The Directors therefore expect that the unitary charge payments will continue to be paid on time in the usual fashion.

The Directors have considered the contingency plans that the Group's supply chain has in place and consider that, in taking account of reasonably possible counterparty performance, this will enable services to be maintained.

The cash flow revenues of the Group for the year ended March 2022 will incorporate the current period traffic volume reductions. However, the Directors have considered the potential impact of this and taking account of severe but plausible possible downside scenarios, they consider that the Group has sufficient cash reserves to continue to meet its liabilities as they are currently scheduled to fall due.

The Directors however acknowledge that base forecast scenario the reduction in traffic volumes could lead to the Group breaching a contractual covenant in a future forecast period. Such a breach could result in the Group being in a default position under the financing documents which would give the Lenders certain rights under the contract. In extremis, one of the sanctions that the Lenders could consider would be calling for the repayment of the outstanding debt balance immediately.

The Directors are of the view that such material escalation by the Lenders is unlikely. The Group is currently holding high levels of retained cash which, based on the current downside scenario, will enable the Group to continue to meet all future cost and finance commitments as originally scheduled. The Directors are further considering potential options to mitigate this forecast breach, however they acknowledge that as at the date of approval of the financial statements this position is not contractual and so a material uncertainty to the going concern basis of preparation exists.

Connect M1-A1 Holdings Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

The Directors have reviewed the carrying amount of the tangible fixed asset and considered if there has been any impairment to its value. Following a review of the traffic volumes in light of the COVID-19 emergency, the Directors have assessed that an impairment of £5,181k has arisen. This has been incorporated into the results for the current financial year. For the details refer to note 13.

Having considered all of the above in particular the material uncertainty, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

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.

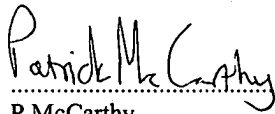
Liquidity risk

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.

Approved by the Board on 10 August 2020 and signed on its behalf by:



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 2020

The Director's present their annual report together with the audited financial statements for the year ended 31 March 2020.

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

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

Going concern

The Directors do not expect any significant change to the Group's activities to occur in the following financial year.

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 unitary 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, as further elaborated in the Strategic Report, the Directors continue to adopt the going concern basis in preparing the financial statements however Directors consider there is a material uncertainty as to the going concern basis of preparation.

Results and dividends

The audited financial statements for the year ended 31 March 2020 are set out on pages 9 to 31. The profit for the year after tax was £2,046k (2019: £6,198k).

The Directors declared and paid dividends of £6,241k (2019: £3,935k). 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 (until 21 July 2020)

R Driver (resigned 8 October 2019)

M J Edwards

S Favre (appointed 8 October 2019)

C D B Leverd

M P Mageean

A P Walker

Disclosure of information to the auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

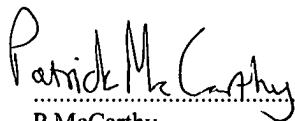
Connect M1-A1 Holdings Limited

Directors Report for the Year Ended 31 March 2020 (continued)

Reappointment of auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 10 August 2020 and signed on its behalf by:



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 the Group's profit or loss for that period. In preparing each of the Group and Parent Company 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 the 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.

Connect M1-A1 Holdings Limited

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 2020, 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 2020 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 Group 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that there is a material uncertainty relating to the Group's and Parent Company's ability to continue as a going concern. Due to the adverse impact of COVID-19 on the Group's forecasted revenue and cash flows, a potential breach of debt covenants in the next financial year may occur. Such a breach would give rise to an event of default under the loan agreements, which would give lenders the right to call for the repayment of the outstanding debt balance. The Group has not requested, and thus not received, a waiver in respect of the potential future breach of debt covenants. These events and conditions, as explained in note 1, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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.

Connect M1-A1 Holdings Limited

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

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 Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, 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

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.

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
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 11 August 2020.....

Connect M1-A1 Holdings Limited

Consolidated Profit and Loss Account for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	3	27,317	28,252
Cost of sales		<u>(21,720)</u>	<u>(14,870)</u>
Gross profit		5,597	13,382
Administrative expenses		<u>(14)</u>	<u>(1,591)</u>
Operating profit	4	5,583	11,791
Interest receivable and similar income	8	46	100
Interest payable and similar expenses	9	<u>(3,103)</u>	<u>(4,238)</u>
Profit before tax		2,526	7,653
Taxation	10	<u>(480)</u>	<u>(1,455)</u>
Profit for the financial year		<u><u>2,046</u></u>	<u><u>6,198</u></u>

The above results were derived from continuing operations.

The notes on pages 16 to 31 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2020

	2020 £ 000	2019 £ 000
Profit for the year	2,046	6,198
Fair value movement gain on derivatives	595	643
Deferred tax on fair value movements on financial instruments	(64)	(110)
	531	533
Total comprehensive income for the year	2,577	6,731

The notes on pages 16 to 31 form an integral part of these financial statements.

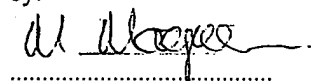
Connect M1-A1 Holdings Limited

(Registration number: 03059235)

Consolidated Balance Sheet as at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Non current assets			
Tangible assets	13	53,880	69,945
Debtors	15	16,768	16,768
		<u>70,648</u>	<u>86,713</u>
Current assets			
Debtors	16	3,304	3,686
Investments	17	1,207	6,143
Cash at bank and in hand		9,986	4,888
		<u>14,497</u>	<u>14,717</u>
Creditors: Amounts falling due within one year	18	<u>(8,725)</u>	<u>(15,442)</u>
Net current assets/(liabilities)		<u>5,772</u>	<u>(725)</u>
Total assets less current liabilities		76,420	85,988
Creditors: Amounts falling due after more than one year	18	(29,714)	(35,296)
Deferred tax liabilities	11	<u>(1,365)</u>	<u>(1,687)</u>
Net assets		<u>45,341</u>	<u>49,005</u>
Capital and reserves			
Called up share capital	21	3,000	3,000
Profit and loss account		43,844	48,039
Hedge reserve account		<u>(1,503)</u>	<u>(2,034)</u>
Total equity		<u>45,341</u>	<u>49,005</u>

Approved and authorised by the Board on 10 August 2020 and signed on its behalf
by:



M P Mageean
Director

The notes on pages 16 to 31 form an integral part of these financial statements.

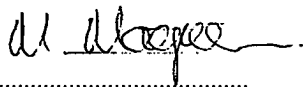
Connect M1-A1 Holdings Limited

(Registration number: 03059235)
Balance Sheet as at 31 March 2020

	Note	2020 £ 000	2019 £ 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 £6,241,000 (2019 - profit of £3,935,000).

Approved and authorised by the Board on 10 August 2020 and signed on its behalf
by:



M P Mageean
Director

The notes on pages 16 to 31 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 2020 **Equity attributable to the parent company**

	Share capital	Hedge reserve	Profit and loss	Total
	£ 000	£ 000	account	£ 000
	£ 000	£ 000	£ 000	£ 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	<u>3,000</u>	<u>(2,034)</u>	<u>48,039</u>	<u>49,005</u>

	Share capital	Hedge reserve	Profit and loss	Total
	£ 000	£ 000	account	£ 000
	£ 000	£ 000	£ 000	£ 000
At 1 April 2019	3,000	(2,034)	48,039	49,005
Total comprehensive income	-	531	2,046	2,577
Dividends	-	-	(6,241)	(6,241)
At 31 March 2020	<u>3,000</u>	<u>(1,503)</u>	<u>43,844</u>	<u>45,341</u>

The notes on pages 16 to 31 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Statement of Changes in Equity for the Year Ended 31 March 2020

	Share capital	Profit and loss	Total
	£ 000	account	£ 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	<u>3,000</u>	<u>-</u>	<u>3,000</u>
	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 April 2019	3,000	-	3,000
Total comprehensive income	-	6,241	6,241
Dividends	-	(6,241)	(6,241)
At 31 March 2020	<u>3,000</u>	<u>-</u>	<u>3,000</u>

The notes on pages 16 to 31 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2020

	2020 £ 000	2019 £ 000
Cash flows from operating activities		
Profit for the year	2,046	6,198
Adjustments to cash flows from non-cash items		
Depreciation and amortisation	10,884	10,664
Impairment loss (reversal)	5,181	-
Finance income	(46)	(100)
Finance costs	3,101	4,238
Income tax expense	480	1,455
	<u>21,646</u>	<u>22,455</u>
Working capital adjustments		
Decrease/(increase) in trade debtors	379	(598)
Decrease in trade creditors	(6)	(2,148)
	<u>22,019</u>	<u>19,709</u>
Cash generated from operations	22,019	19,709
Income taxes paid	(1,755)	(1,878)
Net cash flow from operating activities	<u>20,264</u>	<u>17,831</u>
Cash flows from investing activities		
Interest received	46	100
Transfer from investments	4,936	18
Net cash flows from investing activities	<u>4,982</u>	<u>118</u>
Cash flows from financing activities		
Interest paid	(2,948)	(3,893)
Repayment of borrowing	(10,959)	(11,378)
Dividends paid	(6,241)	(3,935)
Net cash flows from financing activities	<u>(20,148)</u>	<u>(19,206)</u>
Net increase/(decrease) in cash and cash equivalents	5,098	(1,257)
Cash and cash equivalents at 1 April	4,888	6,145
Cash and cash equivalents at 31 March	<u>9,986</u>	<u>4,888</u>

The notes on pages 16 to 31 form an integral part of these financial statements.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020

1 Accounting policies

Connect M1-A1 Holdings Limited (the 'Company') is a private company incorporated, domiciled and registered in England in the UK. The registered number is 03059235 and the registered address is, 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX.

A summary of the principal accounting policies of the Company and Group, all of which have been applied consistently throughout the current and preceding year, is set out below:

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, unless otherwise stated.

The financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through the profit or loss are stated at their fair value.

The judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year covered in note 2.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings drawn up to 31 March 2020. All inter-company balances, transactions and profits are eliminated on consolidation. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

Going concern

The Group's business activities, together with the factors likely to affect its future developments and position, are set out in the Strategic Report and Directors' Report.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have considered the potential impacts on the Company of the COVID-19 pandemic and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Group's ability to continue day-to-day operations. However, as a result of forecast potential impacts on future cash inflows the Directors consider there is a material uncertainty as to the going concern basis of preparation which is detailed below.

In making this assessment the Directors have reviewed the Group's cash flows for the period to September 2021 and considered the security of the cash flows in accordance with the provisions of the Project Agreement with the client, Highways England. The Group's operating cash inflows are largely dependent on traffic revenue payments receivable from Highways England and the Directors expect amounts due to be received even in severe but plausible possible downside scenarios. The Group's traffic revenue receipts due in the period March 2020 to date were received on time, in the usual fashion, from Highways England.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

1 Accounting policies (continued)

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Group, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

The Group continues to provide the necessary services in accordance with the requirements set out in the contract.

Under the provisions of the Project Agreement the cash flow forecasted to March 2021 are unaffected by the current reduction in traffic volumes arising from the COVID-19 restrictions. However due to a forecasted true up payment to the client in April 2021 it could impact the covenant calculations as at 31 March 2021.

The cash flow revenues for the year ended March 2022 will incorporate the current period traffic volume reductions. However, the Directors have considered the potential impact of this and taking account of severe but plausible possible downside scenarios, they consider that the company has sufficient cash reserves to continue to meet its liabilities as they are currently scheduled to fall due.

The Directors however acknowledge that in the base forecast scenario, the reduction in traffic volumes could lead to the Company breaching a contractual covenant by March 2021. Submitting the September 2020 forecast model to the bank that would indicate a breach of covenants in future period, would in itself, constitute an event of default which, under the financing documents would give the Lenders certain rights under the contract. In extremis, one of the sanctions that the Lenders could consider would be calling for the repayment of the outstanding debt balance immediately.

The Directors are of the view that such material escalation by the Lenders is unlikely as the Group is currently holding high levels of retained cash which, based on the current downside scenario, will enable the Group to continue to meet the future cost and finance commitments as originally scheduled. The Directors are further considering potential options to mitigate any forecast breach.

Based on the above indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

1 Accounting policies (continued)

Financial instruments

Classification

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, reduced by allowances for estimated irrecoverable amounts and expected credit losses in the case of trade debtors.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Term loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Investments realisable within one year held by the Group represent amounts held on deposit with a financial institution which are not available for withdrawal without penalty in under 24 hours. Investments realisable within one year are stated at amortised cost with the interest receivable being recognised at a constant rate over the life of the investment.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

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 by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

1 Accounting policies (continued)

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.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

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	
	2020	2019
	£ 000	£ 000
UK	27,317	28,252

4 Operating profit

Arrived at after charging/(crediting)

	Group	
	2020	2019
	£ 000	£ 000
Depreciation expense	10,884	10,664
Impairment loss	5,181	-

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

5 Directors' remuneration

The Directors received an insignificant amount of salary, fees or other benefits in the performance of their duties in respect of the Group in the current and prior year.

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 £15k (2019: £11k).

There were no non-audit fees (2019: £Nil).

8 Interest receivable and similar income

	Group	
	2020	2019
	£ 000	£ 000
Interest income on bank deposits	46	100

9 Interest payable and similar expenses

	Group	
	2020	2019
	£ 000	£ 000
Interest payable on senior bank loan	1,376	1,797
Interest payable on European Investment Bank loan	655	1,406
Interest payable on Subordinated loan stock 2020	899	860
Other finance costs	173	175
	3,103	4,238

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

10 Taxation

Tax charged/(credited) in the income statement

	<u>Group</u>	
	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Current taxation		
UK corporation tax	866	1,689
Deferred taxation		
Arising from origination and reversal of timing differences	<u>(386)</u>	<u>(234)</u>
Tax expense in the income statement	<u>480</u>	<u>1,455</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2019 - the same as the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	<u>Group</u>	
	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Profit before tax	<u>2,526</u>	<u>7,653</u>
Corporation tax at standard rate	<u>480</u>	<u>1,455</u>
Total tax charge	<u>480</u>	<u>1,455</u>

The Company earns its results primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the current UK corporation tax rate of 19% (2019: 19%).

For the year end 31 March 2020, 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 2016 and a further reduction to 17% from 1 April 2020. However, the Finance Bill 2020 substantively enacted on 17 March 2020 supersedes this, and states, that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021.

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

	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Deferred tax related to items recognised as items of other comprehensive income	<u>64</u>	<u>110</u>

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

11 Deferred tax asset/(liability)

	Group	
	2020	2019
	£ 000	£ 000
At 1 April	(1,687)	(1,811)
Credited to the profit and loss account	386	234
Other comprehensive income movement	(64)	(110)
	<u>(1,365)</u>	<u>(1,687)</u>

	Group		
	Fair value movement on financial instruments	Capitalised interest	FRS 102 effective interest rate adjustment
	£ 000	£ 000	£000
At 1 April	417	(1,978)	(126)
Movement	(64)	365	21
At 31 March	<u>353</u>	<u>(1,613)</u>	<u>(105)</u>

The deferred tax balances in the financial statements were measured at the future rate of 17% in the prior period, in line with the Finance Act 2016 which was substantively enacted on 6 September 2016. The Finance Bill 2020 which was substantively enacted on 17 March 2020 stated that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021. The prior year closing deferred tax balances were recognised at 17%. The deferred tax balances recognised in the accounts for the year ended 31 March 2020, have been recalculated and recognised at 19%. The impact of recalculating the deferred tax balances at 19% as at 31 March 2020, gives rise to a charge to the SOCIE of £198k.

12 Dividends

	2020	2019
	£ 000	£ 000
Dividends paid	<u>6,241</u>	<u>3,935</u>

3,000,000 dividends paid at £2.08 (2019: £1.31) per share.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

13 Tangible assets

Group

	Group		
	M1-A1 Link Road £ 000	Other equipment £ 000	Total £ 000
Cost or valuation			
At 1 April 2019	267,596	29,837	297,433
At 31 March 2020	267,596	29,837	297,433
Depreciation and impairment			
At 1 April 2019	197,651	29,837	227,488
Charge for the year	10,884	-	10,884
Impairment	5,181	-	5,181
At 31 March 2020	213,716	29,837	243,553
Carrying amount			
At 31 March 2020	53,880	-	53,880
At 31 March 2019	69,945	-	69,945

The cost of the M1-A1 Link Road includes capitalised interest of £42,507k (2019 - £42,507k). 100% of interest is capitalised during construction, and 0% during operations.

Other equipment comprises traffic management equipment and computers.

The UK government lockdown restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result the Directors have reviewed the carrying amount of the tangible fixed asset and considered if there has been any impairment to its value by using the value-in-use method. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 7.5%, calculated by reference to a weighted average cost of capital (WACC). Following a review of the actual and forecast traffic volumes in light of the COVID-19 emergency, the Directors have assessed the base case forecast traffic volumes with a downside of actual traffic to July 2020 and a gradual recovery to March 2021. Based on this assessment an impairment of £5,181k has arisen.

A 10% movement on traffic level and a 0.5% movement in the discount rate would have an approximate impact on the impairment amount of:

Traffic level sensitivity	£'000
+ 10% recovery	(116)
- 10% recovery	117
Change in Discount Rate	£'000
- 0.5%	(648)
+ 0.5%	635

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

13 Tangible assets (continued)

In considering a severe but plausible downside scenario, where a second wave of reductions to traffic volumes arises in the coming months and a slower recovery to September 2021, the Directors consider that this would give rise to a further impairment of £2,679k. However, this is not the Directors base case forecast and thus this potential further impairment, beyond the £5,181k described above, has not been recognised.

The depreciation and impairment charge are recognised in the Cost of Sales line in the Profit and Loss account.

14 Investments in subsidiaries, joint ventures and associates

	<u>Company</u>	
	2020	2019
	£ 000	£ 000
Investments in subsidiaries	<u>3,000</u>	<u>3,000</u>

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	
			2020	2019
Subsidiary undertakings				
Connect M1-A1 Limited	6th Floor, 350 Euston Road, Ordinary Regents Place, London, NW1 3AX		100%	100%

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

15 Debtors due after more than one year

	2020	2019
	£ 000	£ 000
Upstream loan	<u>16,768</u>	<u>16,768</u>

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.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

16 Debtors

	<u>Group</u>	
	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Trade debtors	3,012	2,714
Prepayments and accrued income	<u>292</u>	<u>972</u>
	<u><u>3,304</u></u>	<u><u>3,686</u></u>

17 Current asset investments

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

	<u>Group</u>	
	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Debt Service Reserve Account	<u>1,207</u>	<u>6,143</u>

The reduction in the debt service reserve account in the year is due to the final repayment of the European Investment Bank loan in March 2020 and a lower debt service reserving going forward as a result.

18 Creditors

	<u>Group</u>	
	<u>2020</u>	<u>2019</u>
	<u>£ 000</u>	<u>£ 000</u>
Due within one year		
European Investment Bank loan	-	9,243
Senior bank loan	5,078	1,716
Trade creditors	39	1
VAT payable	802	735
Corporation tax liability	377	1,185
Accruals	<u>2,429</u>	<u>2,562</u>
	<u><u>8,725</u></u>	<u><u>15,442</u></u>
Due after one year		
Deferred income	4,287	4,350
Subordinated loan stock 2020	5,709	5,709
Senior bank loan	18,482	23,560
Effective interest rate accounting adjustment	(619)	(772)
Swap liability	<u>1,855</u>	<u>2,449</u>
	<u><u>29,714</u></u>	<u><u>35,296</u></u>

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Loans and borrowings

Loans not wholly repayable within five years:

	Group	
	2020	2019
	£ 000	£ 000
Subordinated loan stock 2020	5,709	5,709
Senior bank loan	23,560	25,276
European investment bank loan	-	9,243
Less: effective interest rate accounting adjustment	(619)	(772)
	28,650	39,456
Analysis of maturity of debt:		
	Group	
	2020	2019
	£ 000	£ 000
Within one year or on demand	5,078	10,959
Between one and two years	7,240	5,078
Between two and five years	11,242	18,482
After five years	5,709	5,709
Less: effective interest rate accounting adjustment	(619)	(772)
	28,650	39,456

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 was fully repaid by final instalment in March 2020. The portion of the loan that is guaranteed by the European Investment Fund (£22,500k) has now been released as allowed per the loan agreement.

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 2020 was a liability of £1,854k (2019 - £2,449k).

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Loans and borrowings (continued)

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	
	2020	2019
	£ 000	£ 000
Trade debtors	3,012	2,714

Financial liabilities at fair value through profit or loss:

	Group	
	2020	2019
	£ 000	£ 000
Derivative financial instruments	1,854	2,449

Financial liabilities measured at amortised cost:

	Group	
	2020	2019
	£ 000	£ 000
Senior secured loans	22,977	33,762
Subordinated loans	5,677	5,673
Trade creditors	43	1
	<u>28,697</u>	<u>39,436</u>

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

21 Share capital

Allotted, called up and fully paid shares

	2020		2019	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>

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
	2020
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	6,975
Balfour Beatty Investments - staff secondment charges	344
Balfour Beatty plc - distributions	1,409
BIIF Bidco Limited - distributions	3,522
Infrastructure Investments Limited Partnership - distributions	<u>2,113</u>
	<u>14,363</u>
	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	<u>1,424</u>
	<u>11,952</u>

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

22 Related party transactions (continued)

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

	Group
	2020
	£ 000
Balfour Beatty plc - subordinated debt and accrued interest	1,227
BIIF Bidco Limited - subordinated debt and accrued interest	3,069
Infrastructure Investments Limited Partnership - subordinated debt and accrued interest	1,841
	<u>6,137</u>
	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
	<u>6,136</u>

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

	Group
	2020
	£ 000
Balfour Beatty plc - upstream loan	3,354
BIIF Bidco Limited - upstream loan	8,384
Infrastructure Investments Limited Partnership - upstream loan	5,030
	<u>16,768</u>
	2019
	£ 000
Balfour Beatty plc - upstream loan	3,354
BIIF Bidco Limited - upstream loan	8,384
Infrastructure Investments Limited Partnership - upstream loan	5,030
	<u>16,768</u>

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.

Connect M1-A1 Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

24 Subsequent events

As at the date of the approval of these accounts, there were no material post balance sheet events arising after the reporting date.