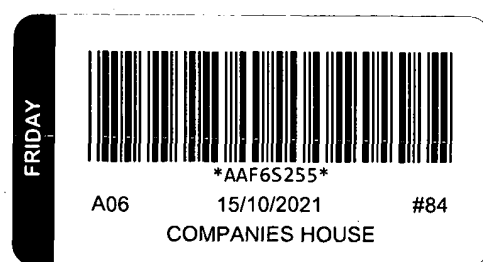


Registration number: 03059235

# Connect M1-A1 Holdings Limited

Consolidated Financial Statements

for the Year Ended 31 March 2021



## **Connect M1-A1 Holdings Limited**

### **Contents**

Strategic Report	1 to 3
Directors Report	4 to 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7 to 10
Consolidated Profit and Loss Account	11
Consolidated Statement of Comprehensive Income	12
Consolidated Balance Sheet	13
Balance Sheet	14
Consolidated Statement of Changes in Equity	15
Statement of Changes in Equity	16
Consolidated Statement of Cash Flows	17
Notes to the Financial Statements	18 to 33

## Connect M1-A1 Holdings Limited

### Strategic Report for the Year Ended 31 March 2021

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 "Group"). 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 "Client") to design, build, finance and operate the M1-A1 Link Road (Lofthouse to Bramham) (the "D.B.F.O. Contract") 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 11. The loss for the year before taxation was £4,120k (2020: profit of £2,526k) and the net assets position as at 31 March 2021 is £42,618k (2020: £45,341k) 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 13.

#### 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.

	2021	2020
	£ 000	£ 000
Turnover	15,871	27,317
Profit after taxation	(3,338)	2,046
Net assets / (liabilities)	<u>42,618</u>	<u>45,341</u>

The Group is showing net assets and recording a loss in the year. The loss mainly arises due to a reduction in turnover as a result of the COVID-19 pandemic. 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 2021 (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**

In making this assessment the Directors have reviewed the cash flows of the Group for the period to September 2022. As a result of forecast potential impacts on future cash inflows of the Group the Directors consider that 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 2022 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 of Connect M1-A1 Limited forecasted to March 2022 would have been affected by the reduction in traffic volumes that arose through 2020/21 from the COVID-19 restrictions, however as agreed with Highways England the revenues to March 2022 will be based on pre-COVID-19 traffic levels (2019/20 volumes) but applying a downward adjustment factor that was profiled over the year and took account of actual volumes as at the end of March 2021 and traffic recovery rates from the prior two lockdowns. 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 for the year ended March 2023 will incorporate the current period traffic volume, which at the date of signing, has not yet recovered to pre-COVID-19 levels. 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 fall due.

The Directors acknowledge that as a result of lower traffic volume throughout the year ended March 2021, the September 2020 Lender model forecast a ratio breach in a future forecast period, resulting in a breach of contractual covenant under the financing documents. On 8th December 2020 the Lenders submitted a letter to the Company reserving their rights under the contract. One of the ultimate outcomes could be the Lenders calling for the repayment of the debt balance.

The Directors are of the view that such material escalation by the Lenders is unlikely. The Group is currently holding high level of cash which, based on the current downside scenario will enable the Group to continue to meet all future repayment commitments as originally scheduled. The Directors have further put in place measures to mitigate future breaches, one such mitigation agreed with Highways England was that the cash flow revenues for the year ended March 2022 will be based on pre-COVID-19 traffic volume, and quarterly reconciliations have been agreed in addition to the annual reconciliation, allowing for recognition and recovery throughout the year of any under or over billings

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 fall due

## Connect M1-A1 Holdings Limited

### Strategic Report for the Year Ended 31 March 2021 (continued)

The Directors have reviewed the carrying amount of the tangible fixed asset and considered if there has been any impairment to its values. Following a review of the traffic volumes in light of the on-going COVID-19 emergency, the Directors have assessed that an impairment of £1,975K 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.

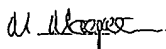
#### Liquidity risk

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 having exited the European Union and, as at the date of signing this report, do not anticipate that this will have a significant impact in the future. 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 30/07/21 and signed on its behalf by:



Digitally signed by Mark Mageean  
DN: cn=Mark Mageean, c=GB,  
o=Connect Roads, ou=Connect Roads,  
email=mark.mageean@ballourbeauty.com  
Reason: Approved  
Date: 2021.07.30 12:17:38 +01'00'

.....  
M P Mageean  
Director

**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 2021**

The Director's present their annual report together with the audited financial statements for the year ended 31 March 2021.

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

- Principal activities and business review
- Key performance indicators
- Principal risks and uncertainties
- 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 reasonable 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 2021 are set out on pages 11 to 33. The loss for the year after tax was £3,338k (2020: profit of £2,046k).

The Directors declared and paid dividends of £Nil (2020: £6,241k). 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)

M J Edwards

S Favre (until 4 January 2021)

C D B Leverd

M P Mageean

A V Thorne (appointed 18 January 2021)

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 2021 (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 30/07/21 and signed on its behalf by:



Digitally signed by Mark Mageean  
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ou=Connect Roads, ou=Connect Roads,  
email=mark.mageean@ballourbealty.com  
Reason: Approved  
Date: 2021.07.30 12:17:54 +01'00'

.....  
M P Mageean  
Director

**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 2021, 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 2021 and of its loss 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 Company's ability to continue as a going concern. Due to the adverse impact of COVID-19 on the Company's forecasted revenue and cash flows, one of the debt covenants was breached [the Forecast Annual Debt Service Cover Ratio]. The breach has given rise to an event of default under the loan agreements, which gives lenders the right to call for the repayment of the outstanding debt balance. The Company has received, a reservation of rights letter in respect of the breach of debt covenants which highlights lenders' rights or remedies under the facility agreement and that there has been no waiver of the event of default. These events and conditions, as explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

#### **Going concern basis of preparation**

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

## **Connect M1-A1 Holdings Limited**

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

#### **Fraud and breaches of laws and regulations - ability to detect**

##### ***Identifying and responding to risks of material misstatement due to fraud***

To identify risks of material misstatement due to fraud (fraud risks) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for whistleblowing, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board meeting minutes; and
- Using analytic procedures to identify unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as cash flow assumptions in the operating model.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included but not limited to entries posted to unusual account combinations/seldom used accounts and post-closing entries; and
- Assessing significant accounting estimates for bias.

##### ***Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

## **Connect M1-A1 Holdings Limited**

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

#### ***Context of the ability of the audit to detect fraud or breaches of law or regulation***

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **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 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.

## **Connect M1-A1 Holdings Limited**

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

#### **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](http://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: 30 July 2021 .....

# **Connect M1-A1 Holdings Limited**

## **Consolidated Profit and Loss Account for the Year Ended 31 March 2021**

	Note	2021 £ 000	2020 £ 000
Turnover	3	15,871	27,317
Cost of sales		<u>(17,213)</u>	<u>(21,720)</u>
Gross (loss)/profit		(1,342)	5,597
Administrative expenses		<u>(205)</u>	<u>(14)</u>
Operating (loss)/profit	4	(1,547)	5,583
Interest receivable and similar income	8	13	46
Interest payable and similar expenses	9	<u>(2,586)</u>	<u>(3,103)</u>
(Loss)/profit before tax		(4,120)	2,526
Taxation	10	<u>782</u>	<u>(480)</u>
(Loss)/profit for the financial year		<u><u>(3,338)</u></u>	<u><u>2,046</u></u>

The above results were derived from continuing operations.

The notes on pages 18 to 33 form an integral part of these financial statements.

## Connect M1-A1 Holdings Limited

### Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2021

	2021 £ 000	2020 £ 000
(Loss)/profit for the year	<u>(3,338)</u>	<u>2,046</u>
Fair value movement gain on derivatives	759	595
Deferred tax on fair value movements on financial instruments	<u>(144)</u>	<u>(64)</u>
	<u>615</u>	<u>531</u>
Total comprehensive income for the year	<u><u>(2,723)</u></u>	<u><u>2,577</u></u>

The notes on pages 18 to 33 form an integral part of these financial statements.

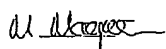
# Connect M1-A1 Holdings Limited

(Registration number: 03059235)

## Consolidated Balance Sheet as at 31 March 2021

	Note	2021 £ 000	2020 £ 000
<b>Non current assets</b>			
Tangible assets	13	42,925	53,880
Debtors	15	16,768	16,768
		<u>59,693</u>	<u>70,648</u>
<b>Current assets</b>			
Debtors	16	2,313	3,304
Investments	17	2,073	1,207
Cash at bank and in hand		16,373	9,986
		<u>20,759</u>	<u>14,497</u>
Creditors: Amounts falling due within one year	18	<u>(26,723)</u>	<u>(8,725)</u>
<b>Net current (liabilities)/assets</b>		<u>(5,964)</u>	<u>5,772</u>
<b>Total assets less current liabilities</b>		53,729	76,420
Creditors: Amounts falling due after more than one year	18	(10,846)	(29,714)
<b>Deferred tax liabilities</b>	11	<u>(265)</u>	<u>(1,365)</u>
<b>Net assets</b>		<u>42,618</u>	<u>45,341</u>
<b>Capital and reserves</b>			
Called up share capital	21	3,000	3,000
Hedge reserve account		(888)	(1,503)
Profit and loss account		40,506	43,844
<b>Total equity</b>		<u>42,618</u>	<u>45,341</u>

Approved and authorised by the Board on 30/07/21 and signed on its behalf by:



Digitally signed by Mark Mageean  
DN: cn=Mark Mageean, c=GB,  
o=Connect Roads, ou=Connect Roads,  
email=mark.mageean@balfourbeatty.com  
Reason: Approved  
Date: 2021.07.30 12:18:06 +01'00'

M P Mageean  
Director

The notes on pages 18 to 33 form an integral part of these financial statements.

# Connect M1-A1 Holdings Limited

(Registration number: 03059235)  
Balance Sheet as at 31 March 2021

	Note	2021 £ 000	2020 £ 000
<b>Fixed assets</b>			
Investments	14	<u>3,000</u>	<u>3,000</u>
<b>Capital and reserves</b>			
Called up share capital	21	3,000	3,000
Profit and loss account		<u>-</u>	<u>-</u>
<b>Total equity</b>		<u><u>3,000</u></u>	<u><u>3,000</u></u>

The company made a profit after tax for the financial year of £Nil (2020: profit of £6,241k).

Approved and authorised by the Board on 30/07/21 and signed on its behalf by:



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o=Connect Roads, ou=Connect Roads,  
email=mark.mageean@balfourbeatty.com  
Reason: Approved  
Date: 2021.07.30 12:18:21 +01'00'

.....  
M P Mageean  
Director

The notes on pages 18 to 33 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 2021**  
**Equity attributable to the parent company**

	Share capital £ 000	Hedge reserve £ 000	Profit and loss account £ 000	Total £ 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>

	Share capital £ 000	Hedge reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2020	3,000	(1,503)	43,844	45,341
Total comprehensive income	-	615	(3,338)	(2,723)
At 31 March 2021	<u>3,000</u>	<u>(888)</u>	<u>40,506</u>	<u>42,618</u>

The notes on pages 18 to 33 form an integral part of these financial statements.

# **Connect M1-A1 Holdings Limited**

## **Statement of Changes in Equity for the Year Ended 31 March 2021**

	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
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>
	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 April 2020	3,000	-	3,000
Total comprehensive income	-	-	-
Dividends	-	-	-
At 31 March 2021	<u>3,000</u>	<u>-</u>	<u>3,000</u>

The notes on pages 18 to 33 form an integral part of these financial statements.

## Connect M1-A1 Holdings Limited

### Consolidated Statement of Cash Flows for the Year Ended 31 March 2021

	2021 £ 000	2020 £ 000
<b>Cash flows from operating activities</b>		
(Loss)/profit for the year	(3,338)	2,046
Adjustments to cash flows from non-cash items		
Depreciation and amortisation	8,980	10,884
Impairment loss (reversal)	1,977	5,181
Finance income	(13)	(46)
Finance costs	2,586	3,101
Income tax expense	(782)	480
	<u>9,410</u>	<u>21,646</u>
Working capital adjustments		
Decrease in trade debtors	1,157	379
Increase/(decrease) in trade creditors	4,104	(6)
	<u>14,671</u>	<u>22,019</u>
Cash generated from operations	14,671	22,019
Income taxes paid	(1,045)	(1,755)
Net cash flow from operating activities	<u>13,626</u>	<u>20,264</u>
<b>Cash flows from investing activities</b>		
Interest received	13	46
Transfer from investments	(866)	4,936
Net cash flows from investing activities	<u>(853)</u>	<u>4,982</u>
<b>Cash flows from financing activities</b>		
Interest paid	(1,308)	(2,948)
Repayment of borrowing	(5,078)	(10,959)
Dividends paid	-	(6,241)
Net cash flows from financing activities	<u>(6,386)</u>	<u>(20,148)</u>
Net increase in cash and cash equivalents	6,387	5,098
Cash and cash equivalents at 1 April	9,986	4,888
Cash and cash equivalents at 31 March	<u>16,373</u>	<u>9,986</u>

The notes on pages 18 to 33 form an integral part of these financial statements.

## **Connect M1-A1 Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2021**

#### **1 Accounting policies**

Connect M1-A1 Holdings Limited (the 'Company') is a private company incorporated, domiciled and registered in England and Wales 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 are covered in note 2.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking drawn up to 31 March 2021. 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 forecast cash flows for the period to September 2022 and considered the security of the cash flows in accordance with the provision 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 2021 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 2021 (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 required services in accordance with the requirements set out in the contract.

The cash flow revenues for the Group for the year ended March 2022 will be based on a phased return to pre-COVID-19 traffic volume levels and will incorporate a quarterly reconciliation process to allow for any variances to forecasted traffic volume to be recovered / repaid within the financial year March 2022. 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 fall due.

The Directors however acknowledge that in the base forecast scenario, the reduction in traffic volumes for the year ended March 2021 has led to the subsidiary breaching a contractual covenant, with the September 2020 forecast model submitted to the bank indicating a breach of covenant in September 2021, which in itself constituted 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 financial statements reflect this position, with the outstanding debt balance all classified as a current liability.

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 have further options to potentially mitigate any forecast breach, through agreeing with the Authority, cash flows for the year ending 31 March 2022 will be based to an extent on pre-COVID-19 traffic volumes seen in 2019/20, as opposed to the contractual position of being based purely on 2020/21 traffic levels. In addition, this position is to be reviewed and reconciled quarterly, spreading any cash flow impact of significant traffic volume changes throughout 2022. As a consequence of these measures, the directors believe that the covenant breach can be rectified in the future.

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 D.B.F.O. Contract.

## **Connect M1-A1 Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)**

#### **1 Accounting policies (continued)**

##### **Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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.

##### **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 estimated Heavy Goods Vehicle usage over the course of the operating life of the concession. This is because the level of deterioration of the road due to High Goods Vehicles usage is considered to be significantly higher 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.

The Directors have reviewed the estimated Heavy Goods Vehicle usage over the remainder of the assets operating life and consider that a prudent estimate is that it will be consistent with current levels.

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 2021 (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.

Secured subordinated debt is 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 that period.

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.

##### **Finance income and costs**

Interest income and interest payable are recognised in the profit and loss account as they accrue, using the effective interest method.

##### **Derivative financial instruments**

The Company applies the provisions of IFRS 9 to measure and recognise financial instruments. Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

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.

##### **Investments**

Investment in the subsidiary undertaking is stated at cost less impairment. The carrying value of the investment is reviewed annually by the Directors to determine if there is any impairment.

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (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	
	2021	2020
	£ 000	£ 000
UK	15,871	27,317

#### 4 Operating (loss)/profit

Arrived at after charging/(crediting)

	Group	
	2021	2020
	£ 000	£ 000
Depreciation expense	8,980	10,884
Impairment loss	1,977	5,181



## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (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 or prior year.

#### 6 Staff costs

The Group had no employees in the current or prior 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 Group was £19k and £1k for the Company (2020: £15k). The fee was borne by Connect M1-A1 Limited.

There were no non-audit fees (2020: £Nil).

#### 8 Interest receivable and similar income

	Group	
	2021	2020
	£ 000	£ 000
Interest income on bank deposits	13	46

#### 9 Interest payable and similar expenses

	Group	
	2021	2020
	£ 000	£ 000
Interest payable on senior bank loan	1,437	1,376
Interest payable on European Investment Bank loan	-	655
Interest payable on Subordinated loan stock 2020	962	899
Other finance costs	187	173
	<u>2,586</u>	<u>3,103</u>

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 10 Taxation

Tax charged/(credited) in the income statement

	<u>Group</u>	
	<u>2021</u>	<u>2020</u>
	<u>£ 000</u>	<u>£ 000</u>
<b>Current taxation</b>		
UK corporation tax	462	866
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	<u>(1,244)</u>	<u>(386)</u>
Tax (receipt)/expense in the income statement	<u>(782)</u>	<u>480</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - the same as the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	<u>Group</u>	
	<u>2021</u>	<u>2020</u>
	<u>£ 000</u>	<u>£ 000</u>
(Loss)/profit before tax	<u>(4,120)</u>	<u>2,526</u>
Corporation tax at standard rate	(783)	480
Effect of expense not deductible in determining taxable profit (tax loss)	<u>1</u>	<u>-</u>
Total tax (credit)/charge	<u>(782)</u>	<u>480</u>

The Group 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% (2020: 19%).

For the year end 31 March 2021, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2020 which was enacted on 22 July 2020.

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

	<u>2021</u>	<u>2020</u>
	<u>£ 000</u>	<u>£ 000</u>
Deferred tax related to items recognised as items of other comprehensive income	<u>144</u>	<u>64</u>

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 11 Deferred tax asset/(liability)

	Group	
	2021	2020
	£ 000	£ 000
At 1 April	(1,365)	(1,687)
Credited to the profit and loss account	1,244	386
Other comprehensive income movement	(144)	(64)
At 31 March	<u>(265)</u>	<u>(1,365)</u>

	Group			
	Fair value movement on financial instruments £ 000	Capitalised interest £ 000	FRS 102 effective interest rate adjustment £000	Trading losses £ 000
At 1 April 2020	353	(1,613)	(105)	-
Movement	<u>(144)</u>	<u>441</u>	<u>21</u>	<u>782</u>
At 31 March 2021	<u>209</u>	<u>(1,172)</u>	<u>(84)</u>	<u>782</u>

On 4 March 2021 the UK Government announced an intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021 and hence the Group's deferred tax balances will be reassessed at that time. The impact of this rate change would have been an increase of around £84k to the Group's deferred tax liabilities as at 31 March 2021 if the tax increase had been substantively enacted by that date.

#### 12 Dividends

	2021	2020
	£ 000	£ 000
Dividends paid	<u>-</u>	<u>6,241</u>

During the prior year, 3,000,000 dividends were paid at £2.08 per share.

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 13 Tangible assets

##### Group

	Group		
	M1-A1 Link Road £ 000	Other equipment £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 April 2020	267,596	29,837	297,433
At 31 March 2021	267,596	29,837	297,433
<b>Depreciation and impairment</b>			
At 1 April 2020	213,714	29,837	243,551
Charge for the year	8,980	-	8,980
Impairment	1,977	-	1,977
At 31 March 2021	224,671	29,837	254,508
<b>Carrying amount</b>			
At 31 March 2021	42,925	-	42,925
At 31 March 2020	53,880	-	53,880

The cost of the M1-A1 Link Road includes capitalised interest of £42,507k (2020 - £42,507k). 100% of interest was capitalised during construction, and 0% during operations.

Other equipment comprises traffic management equipment and computers.

The effect of lockdown restrictions from the COVID-19 pandemic has continued. As a result for impairment purposes 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 cashflows are discounted to their present value using a pre-tax rate of 7.50%, calculated by reference to a weighted average cost of capital (WACC). Following a review of the actual traffic and forecast traffic volumes in light of the COVID-19 emergency, the Directors have assessed the base case forecast traffic volumes with a downside and gradual recovery to September 2021. Based on this assessment and the traffic in the year to March 2021 being lower than forecast an impairment of £1,977k 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:

<b>Traffic level sensitivity</b>	<b>£'000</b>
+ 10% recovery	(103)
- 10% recovery	114
<b>Change in Discount Rate</b>	<b>£'000</b>
- 0.5%	(433)
+ 0.5%	425

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 13 Tangible assets (continued)

In considering a severe but plausible downside scenario, where if there is a slower recovery to March 2022, the Directors consider that this would give rise to a further impairment of £2,650k. However this is not the Directors base case forecast and thus this potential further impairment, beyond £2,196k 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

	Company	
	2021	2020
	£ 000	£ 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	
			2021	2020
Connect M1-A1 Limited	6th Floor, 350 Euston Road, Regents Place, London, NW1 3AX	Ordinary	100%	100%

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

#### 15 Debtors due after more than one year

	Group	
	2021	2020
	£ 000	£ 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 the profit and loss reserves balance) - therefore to provide the Shareholder with access to additional cash flow an Upstream Loan is created. The upstream loan has an interest rate of 0%. The upstream loan is due to be repaid in full on or before the concession end date.

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 16 Debtors

	<b>Group</b>	
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Trade debtors	1,923	3,012
Corporation tax	166	-
Prepayments and accrued income	224	292
	<u>2,313</u>	<u>3,304</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.

	<b>Group</b>	
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Debt Service Reserve Account	<u>2,073</u>	<u>1,207</u>

#### 18 Creditors

	<b>Group</b>	
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Due within one year</b>		
Senior bank loan	18,196	5,078
Trade creditors	54	39
VAT payable	383	802
Corporation tax liability	-	377
Accruals	8,090	2,429
	<u>26,723</u>	<u>8,725</u>
<b>Due after one year</b>		
Senior bank loan	-	18,482
Subordinated loan stock 2020	5,693	5,709
Deferred income	4,057	4,287
Effective interest rate accounting adjustment	-	(619)
Swap liability	1,096	1,855
	<u>10,846</u>	<u>29,714</u>

# **Connect M1-A1 Holdings Limited**

## **Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)**

### **19 Loans and borrowings**

	<b>Group</b>	
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Senior bank loan	18,196	23,560
Subordinated loan stock 2020	5,693	5,709
Less: effective interest rate accounting adjustment	-	(619)
	<u>23,889</u>	<u>28,650</u>

### Analysis of maturity of debt:

	<b>Group</b>	
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Within one year or on demand	18,196	5,078
Between one and two years	-	7,240
Between two and five years	5,693	11,242
After five years	-	5,709
Less: effective interest rate accounting adjustment	-	(619)
	<u>23,889</u>	<u>28,650</u>

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 19 Loans and borrowings (continued)

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 senior bank loan bears interest at a margin over LIBOR and is repayable in instalments, with the final instalment due in 2024.

The September 2020 forecast Lender model indicated a breach of covenant in a future period - September 2021, caused by reduced traffic volumes. This constitutes an event of default which, under the financing documents, gives the Lenders certain rights. In extremis, one of the sanctions that the Lenders could consider would be calling for the repayment of the outstanding debt balance immediately. The financial statements reflect this position, with the outstanding debt balance all classified as a current liability.

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 2021 was a liability of £1,096k (2020: £1,855k).

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	
	2021	2020
	£ 000	£ 000
Trade debtors	1,923	3,012

Financial liabilities at fair value through profit or loss:

	Group	
	2021	2020
	£ 000	£ 000
Derivative financial instruments	1,096	1,855



## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 20 Financial instruments (continued)

Financial liabilities measured at amortised cost:

	<u>Group</u>	
	2021	2020
	£ 000	£ 000
Senior secured loans	18,196	22,977
Subordinated loans	5,693	5,677
Trade creditors	54	43
	<u>23,943</u>	<u>28,697</u>

#### 21 Share capital

Allotted, called up and fully paid shares

	2021		2020	
	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 Group's other reserves are as follows:

- 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

	<u>Group</u>
	2021
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	6,577
Balfour Beatty Investments - staff secondment charges	<u>333</u>
	<u>6,910</u>

## Connect M1-A1 Holdings Limited

### Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)

#### 22 Related party transactions (continued)

	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	2,113
	<u>14,363</u>

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

	Group 2021 £ 000
Balfour Beatty plc - subordinated debt and accrued interest	1,419
BIIF Bidco Limited - subordinated debt and accrued interest	3,547
Infrastructure Investments Limited Partnership - subordinated debt and accrued interest	2,128
	<u>7,094</u>

	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>

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

	Group 2021 £ 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>

	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>

## **Connect M1-A1 Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2021 (continued)**

#### **23 Parent and ultimate parent undertaking**

The Company's ultimate parent companies and controlling parties are Balfour Beatty plc, 3i Group plc and InfraRed Partners LLP, incorporated in the United Kingdom and registered in England and Wales.

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**

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