

Registration number: 04691274

Connect M77/GSO Holdings Limited

Consolidated Financial Statements

for the Year Ended 31 March 2019



Connect M77/GSO Holdings Limited

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Connect M77/GSO Holdings Limited

Strategic Report for the Year Ended 31 March 2019

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

Principal activity

The Company is an investment holding company whose sole business is the holding of an investment in its wholly owned subsidiary Connect M77/GSO plc, as such the activities of the Group are those of Connect M77/GSO plc. The Company is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

On 7 May 2003 Connect M77/GSO plc signed a contract with East Renfrewshire Council (on behalf of the Scottish Government for the M77 and South Lanarkshire Council and East Renfrewshire Council for the Glasgow Southern Orbital (GSO)) to design, build, finance and operate (DBFO) the M77 from Fenwick to Malletsheugh and the GSO from Malletsheugh to Philipshall, East Kilbride and sections of the A726 and to maintain these roads under a licence over a 32 year period as well as modify certain sections of the A77. In accordance with the concession agreement the Group is responsible for operating the roads together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

The new road sections were opened to the public in April 2005 and the final completion certificate was issued in September 2005.

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 10. The loss for the year before taxation was £14,000 (2018: £33,000) and the net liabilities position as at 31 March 2019 is £29,139,000 (2018: £29,127,000) for the Group.

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

Key performance indicators

The Group has set specific business objectives, which are monitored using a number of key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

	2019	2018
	£ 000	£ 000
Turnover	2,926	2,380
Loss after taxation	(12)	(32)
Net liabilities	<u>(29,139)</u>	<u>(29,127)</u>

Despite the Group showing net liabilities, 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 M77/GSO Holdings Limited

Strategic Report for the Year Ended 31 March 2019 (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.

Credit & cash flow risks

The relevant financial risks to the Group are credit and cash flow risks, which arise from its primary client, East Renfrewshire Council. The credit and cash flow risks are not considered significant as the client is a government 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. There are no derivatives, risk is mitigated through a fixed rate loan instrument. Financial instruments are not used for speculative purposes.

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 Company's subsidiary maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

The Group has a net liability position which is caused by the rolled up subordinated debt interest and principal amounts due to the shareholders. This does not cause an issue for going concern since the shareholders have waived their rights to receive interest for the year to 31 March 2020. As such the Group has the required funds to meet debt obligations as they fall due for the following year.

Contractual relationships

The Group operates within a contractual relationship with its primary customer, East Renfrewshire Council. A significant impairment of this relationship could have a direct and detrimental effect on the Group's results and could ultimately result in termination of the concession.

To manage this risk the Group has regular meetings with East Renfrewshire Council including discussions on performance, project progress, future plans and customer requirements.

The Directors do not believe that the Group is exposed to any significant Financial Risk. The Group's principal activity as detailed above is low risk as all relationships with the customer, funders and sub-contractors within the group in which it sits are determined by the terms of the respective contracts.

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 the 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.

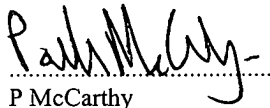
Connect M77/GSO Holdings Limited

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

Future developments

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

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



P McCarthy
Company secretary

Connect M77/GSO Holdings Limited

Directors Report for the Year Ended 31 March 2019

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

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

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

Results and dividends

The audited financial statements for the year ended 31 March 2019 are set out on pages 10 to 28 . The loss for the year after tax was £12,000 (2018: loss of £32,000).

The Directors declared and paid dividends of £- (2018: £-). 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 G Blanchard

D W Bowler

M J Edwards

M P Mageean

Going concern

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements. Further information is provided in note 1 to the financial statements.

Disclosure of information to the auditors

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

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

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

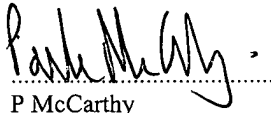
Connect M77/GSO Holdings Limited

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

Reappointment of auditors

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

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


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P McCarthy
Company secretary

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

Connect M77/GSO 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 Group and Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing 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 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 M77/GSO Holdings Limited

Independent Auditor's Report to the Members of Connect M77/GSO Holdings Limited

Opinion

We have audited the financial statements of Connect M77/GSO Holdings Limited (the 'Company') for the year ended 31 March 2019, which comprises the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's 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 and 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.

Going Concern

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

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

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

Connect M77/GSO Holdings Limited

Independent Auditor's Report to the Members of Connect M77/GSO Holdings Limited (continued)

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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 Parents 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.

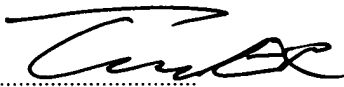
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Connect M77/GSO Holdings Limited

**Independent Auditor's Report to the Members of Connect M77/GSO Holdings Limited
(continued)**

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

This report is made solely to the Group'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 Group'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 Group and the Group's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

15 Canada Square
London
E14 5GL

Date: 29 July 2019

Connect M77/GSO Holdings Limited

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

	Note	2019 £ 000	2018 £ 000
Turnover	3	2,926	2,380
Cost of sales		<u>(2,448)</u>	<u>(1,992)</u>
Gross profit		478	388
Administrative expenses		<u>(346)</u>	<u>(281)</u>
Operating profit		132	107
Interest receivable and similar income	7	9,532	9,610
Interest payable and similar expenses	8	<u>(9,678)</u>	<u>(9,750)</u>
Loss before tax		(14)	(33)
Taxation	9	<u>2</u>	<u>1</u>
Loss for the financial year		<u><u>(12)</u></u>	<u><u>(32)</u></u>

The above results were derived from continuing operations.

The Group has no recognised gains or losses for the year other than those shown above. Accordingly no statement of comprehensive income is presented.

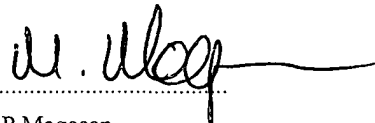
Connect M77/GSO Holdings Limited

(Registration number: 04691274)

Consolidated Balance Sheet as at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Financial assets	12	120,695	122,820
Current assets			
Debtors	13	1,676	148
Investments	14	16,688	16,867
Other financial assets	12	1,759	1,073
Cash at bank and in hand		1,908	3,009
		<u>22,031</u>	<u>21,097</u>
Creditors: Amounts falling due within one year	15	<u>(7,196)</u>	<u>(6,366)</u>
Net current assets		<u>14,835</u>	<u>14,731</u>
Total assets less current liabilities		135,530	137,551
Creditors: Amounts falling due after more than one year	15	(163,119)	(165,126)
Deferred tax liability	10	<u>(1,550)</u>	<u>(1,552)</u>
Net liabilities		<u>(29,139)</u>	<u>(29,127)</u>
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account		<u>(29,189)</u>	<u>(29,177)</u>
Total equity		<u>(29,139)</u>	<u>(29,127)</u>

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


 M P Mageean
 Director

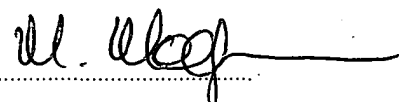
Connect M77/GSO Holdings Limited

(Registration number: 04691274)
Balance Sheet as at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Investments	11	50	50
Debtors: due after one year	13	40,777	38,622
		40,827	38,672
Creditors: Amounts falling due after more than one year	15	(40,777)	(38,622)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account		-	-
Total equity		<u>50</u>	<u>50</u>

The company made a profit and loss after tax for the financial year of £- (2018 - loss of £-).

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


M P Mageean
Director

Connect M77/GSO Holdings Limited

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

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 April 2017	50	(29,145)	(29,095)
Loss for the year	-	(32)	(32)
At 31 March 2018	<u>50</u>	<u>(29,177)</u>	<u>(29,127)</u>
	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 April 2018	50	(29,177)	(29,127)
Loss for the year	-	(12)	(12)
At 31 March 2019	<u>50</u>	<u>(29,189)</u>	<u>(29,139)</u>

The notes on pages 16 to 28 form an integral part of these financial statements.

Connect M77/GSO Holdings Limited

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

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 April 2017	50	-	50
Profit/(loss) for the year	-	-	-
At 31 March 2018	50	-	50
	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 April 2018	50	-	50
Profit/(loss) for the year	-	-	-
At 31 March 2019	50	-	50

The notes on pages 16 to 28 form an integral part of these financial statements.

Connect M77/GSO Holdings Limited

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

	2019 £ 000	2018 £ 000
Cash flows from operating activities		
Loss for the year	(12)	(32)
Adjustments to cash flows from non-cash items		
Finance income	(9,532)	(9,610)
Finance costs	9,677	9,750
Corporate tax expense	(2)	(1)
	<u>131</u>	<u>107</u>
Working capital adjustments		
Decrease in financial asset	10,932	10,971
Increase in trade debtors	(1,528)	(31)
Increase in trade creditors	579	87
	<u>10,114</u>	<u>11,134</u>
Cash generated from operations	10,114	11,134
Corporate taxes received	-	541
Net cash flow from operating activities	<u>10,114</u>	<u>11,675</u>
Cash flows from investing activities		
Interest received	39	13
Interest paid	(7,089)	(7,529)
Transfer to investment	179	(923)
	<u>(6,871)</u>	<u>(8,439)</u>
Net cash flows from investing activities	(6,871)	(8,439)
Cash flows from financing activities		
Repayment of borrowing	(4,344)	(3,257)
	<u>(4,344)</u>	<u>(3,257)</u>
Net decrease in cash and cash equivalents	(1,101)	(21)
Cash and cash equivalents at 1 April	3,009	3,030
Cash and cash equivalents at 31 March	<u>1,908</u>	<u>3,009</u>

The notes on pages 16 to 28 form an integral part of these financial statements.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Statement of compliance

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

Basis of preparation

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

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

Summary of disclosure exemptions

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

- No separate Parent Company Cash Flow Statement with related notes is included.

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

Group financial statements basis of consolidation

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 2 and the Directors' Report on pages 3 and 4.

The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the client to continue to pay unitary fees due under the D.B.F.O Contract to the Group and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Turnover

In the operational phase, revenue is recognised by allocating a proportion of total unitary income receivable over the life of the project to service costs by means of a deemed constant rate of return on these costs. Revenue is recognised by applying a 5% mark-up on the operational costs, representing the fair value of operational services.

Financial asset

Classification

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 as per IAS39 to all of its financial instruments. Financial assets are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets have been classified as 'loans and receivables', which includes cash and cash equivalents. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Recognition and measurement

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Other financial assets classified as fair value through profit or loss are measured at fair value.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate except for short term receivables where the recognition of interest would be immaterial.

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

Impairment

Financial assets are impaired where there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. The carrying amount of a financial asset is reduced by the impairment directly with the exception of trade receivables which would be reduced through the use of an allowance account, unless it is considered that it is uncollectible.

The Group derecognises a financial asset only when the contractual rights to receive the cash flows from the asset expire, or it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another entity.

Fixed rate senior secured bonds

Senior secured bonds 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 that period.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Other financial assets and financial liabilities

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

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

Finance costs

Finance costs in relation to the fixed rate senior secured bonds and the secured loan stock are recognised using the effective interest rate method under FRS 102 whereby expected interest over the life of the project is spread and recognised in each period.

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in full in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that results in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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

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

Investments

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

Cash and cash equivalents

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

Investments due within one year represent amounts held on deposit > 1 month with a financial institution which are available for withdrawal within that time.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Trade and other debtors/creditors

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

2 Critical accounting estimates and judgements

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

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.

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.

Service concession arrangement

The Group accounts for the project as a service concession arrangement. The Directors have used their judgement in selecting the appropriate accounting basis for the concession. As the payment mechanism is now based on a fixed usage, the Directors deemed it suitable for the accounting basis to be changed from a fixed asset to a financial asset as at 31st March 2016. The Directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin currently 5% that is used to recognise service revenue. The Directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the Group's forecasts. The Directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

3 Turnover

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

	Group	
	2019	2018
	£ 000	£ 000
UK	2,926	2,380

4 Directors' remuneration

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

5 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.

6 Auditors' remuneration

The audit fee for the Company and its subsidiaries amounted to £19k (2018: £19k).

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

7 Interest receivable and similar income

	Group	
	2019	2018
	£ 000	£ 000
Interest income on financial assets	9,493	9,598
Interest on bank accounts and deposits	39	12
	9,532	9,610

8 Interest payable and similar expenses

	Group	
	2019	2018
	£ 000	£ 000
Secured bond interest	7,522	7,708
Secured loan stock interest	2,156	2,042
	9,678	9,750

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

9 Taxation

Tax charged/(credited) in the income statement

	Group	
	2019	2018
	£ 000	£ 000
Current taxation		
UK corporation tax adjustment to prior periods	-	4
Deferred taxation		
Arising from origination and reversal of timing differences	(2)	(6)
Arising from changes in tax rates and laws	-	1
Total deferred taxation	<u>(2)</u>	<u>(5)</u>
Tax receipt in the income statement	<u>(2)</u>	<u>(1)</u>

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

The differences are reconciled below:

	Group	
	2019	2018
	£ 000	£ 000
Loss before tax	<u>(14)</u>	<u>(33)</u>
Corporation tax at standard rate	(3)	(6)
Effect of expense not deductible in determining taxable profit (tax loss)	1	-
Deferred tax expense relating to changes in tax rates or laws	-	1
Increase in UK and foreign current tax from adjustment for prior periods	-	4
Total tax credit	<u>(2)</u>	<u>(1)</u>

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

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

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

10 Deferred tax asset/(liability)

	Group	
	2019	2018
	£ 000	£ 000
At 1 April	(1,552)	(1,557)
Credited to the profit and loss account	2	6
Effect of change in tax rate	-	(1)
At 31 March	<u>(1,550)</u>	<u>(1,552)</u>

	Group	
	Trading losses	Capitalised interest
	£ 000	£ 000
At 1 April	15	(1,567)
Movement	2	-
At 31 March	<u>17</u>	<u>(1,567)</u>

11 Investments

	Company	
	2019	2018
	£ 000	£ 000
Investments in subsidiaries	<u>50</u>	<u>50</u>

The Company has an investment of 50,000 ordinary shares of £1 each in Connect M77/GSO plc, its 100% owned subsidiary undertaking.

Connect M77/GSO plc is incorporated in Great Britain and registered in England and Wales. The registered office address is 6th Floor, 350 Euston Road, Regents Place, London, NW1 3AX.

In the opinion of the Directors the value of the investment in the subsidiary undertaking is not less than the amount stated in the balance sheet; therefore the investment is deemed to be recoverable.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

12 Financial asset

	Group	
	2019	2018
	£ 000	£ 000
Balance brought forward	123,893	125,268
Service income received in the year	(14,557)	(14,078)
Operating revenues	2,786	2,259
Lifecycle replacement costs	839	846
Notional interest	9,493	9,598
Balance carried forward	<u>122,454</u>	<u>123,893</u>
Financial asset comprising:		
	2019	2018
	£ 000	£ 000
Amounts falling due within one year	1,759	1,073
Amounts falling due after more than one year	<u>120,695</u>	<u>122,820</u>
	<u>122,454</u>	<u>123,893</u>

13 Debtors

Amount falling due within one year

	Group	
	2019	2018
	£ 000	£ 000
Trade debtors	1,461	-
Prepayments and accrued income	<u>215</u>	<u>148</u>
	<u>1,676</u>	<u>148</u>

Amount falling due after one year

	Company	
	2019	2018
	£ 000	£ 000
Secured loan stock interest	25,912	23,757
Subordinated loan due from subsidiary undertaking	<u>14,865</u>	<u>14,865</u>
	<u>40,777</u>	<u>38,622</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

14 Current asset investments

The following investments are made up of restricted cash and therefore cannot be used to fund the on-going operations of the Group:

	Group	
	2019	2018
	£ 000	£ 000
Debt service reserve account	8,679	8,509
Tax reserve account	8,009	8,358
	<u>16,688</u>	<u>16,867</u>

15 Creditors

	Group		Company	
	2019	2018	2019	2018
	£ 000	£ 000	£ 000	£ 000
Due within one year				
Trade creditors	479	190	-	-
Accruals and deferred income	1,994	1,705	-	-
VAT payable	202	205	-	-
Fixed rate guaranteed senior secured bonds	4,344	3,911	-	-
Corporation tax payable	177	355	-	-
	<u>7,196</u>	<u>6,366</u>	<u>-</u>	<u>-</u>
Due after one year				
Fixed rate guaranteed senior secured bond	122,342	126,504	-	-
Secured loan stock	14,865	14,865	14,865	14,865
Senior loan stock interest	25,912	23,757	25,912	23,757
	<u>163,119</u>	<u>165,126</u>	<u>40,777</u>	<u>38,622</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

15 Creditors (continued)

Fixed rate guaranteed senior secured bonds due 2034 of £152,429,000 were issued on 7 May 2003. The bonds have been unconditionally and irrevocably guaranteed by Syncora Guarantee (UK) Limited (formerly XL Capital Assurance (UK) Limited) for payment of principal and interest.

Interest on the bonds is payable semi-annually in arrears on 31 March and 30 September in each year at a fixed rate of 5.404% per annum commencing on 30 September 2003.

Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2034 and are subject to redemption in part from, and including, 30 September 2006 in accordance with the amortisation schedule set out in the bonds offering circular.

The secured loan stock bears interest at 12.1% per annum and accrues from the date of final completion. It is redeemable in instalments between 2015 and 2035, or as the Group elects, but subject to certain restrictions in the collateral deed. The secured loan stock issued by the Group is held by the Group's immediate parent companies. The Group's immediate parent companies have waived their rights to receive interest within 12 months for the years ending 31 March 2018 and 31 March 2019.

All borrowings contain either a fixed or varying security interest over the assets of the Group, as defined by an intercreditor agreement. The bonds have certain covenants attached.

Fixed rate guaranteed senior secured bonds are stated net of unamortised issue costs of £1,989,000 (2018: £2,172,000). The Group incurred total issue costs of £4,403,000 in respect of the fixed rate bonds. These costs, together with the interest expense, are allocated to the profit and loss amount over the term of the bonds. Interest is calculated using the effective interest rate method.

The Group has committed borrowing facilities available of £167,294,000 which have been fully drawn as at 31 March 2019 (2018 - £167,294,000)

16 Loans and borrowings

Loans not wholly repayable within five years:

	Group	
	2019	2018
	£ 000	£ 000
Fixed rate guaranteed senior secured bond	128,676	132,587
Secured loan stock	14,865	14,865
	<u>143,541</u>	<u>147,452</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

16 Loans and borrowings (continued)

Analysis of maturity of debt:

	Group		Company	
	2019	2018	2019	2018
	£ 000	£ 000	£ 000	£ 000
Within one year or on demand	4,344	3,911	-	-
Between one and two years	4,808	4,344	-	-
Between two and five years	17,256	15,880	-	-
After five years	117,133	123,317	14,865	14,865
	<u>143,541</u>	<u>147,452</u>	<u>14,865</u>	<u>14,865</u>

17 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern, to meet the requirements of its collateral deed and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group comprises equity attributable to equity holders consisting of ordinary share capital and profit and loss account. The Group has complied with capital requirements imposed by the collateral deed throughout the year. There have been no changes in the Group's management of capital from previous years.

The principal risks and uncertainties faced are highlighted in the strategic report on page 2.

The Group has the following financial instruments:

	2019	2018
	£ 000	£ 000
Due on demand or within one year	11,459	11,251
Due within one to two years	11,674	11,459
Due within two to five years	36,098	35,625
Due after more than five years	178,044	190,892
	<u>237,275</u>	<u>249,227</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

18 Share capital

Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
A Ordinary shares of £1 each	42,500	42,500	42,500	42,500
B Ordinary shares of £1 each	7,500	7,500	7,500	7,500
	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

The shareholders' percentage holdings in the Company at 31 March 2019 are as follows:

Balfour Beatty Infrastructure Investments Limited	Class A ordinary shares 100%
Cricketdrift Limited	Class B ordinary shares 100%

Both classes of equity rank 'pari passu' in respect of voting, dividends and other rights.

19 Related party transactions

Transaction during the year

	<u>Group</u>
	2019 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	3,759
Receipt of services	234
	<u>3,993</u>
	2018 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	2,765
Balfour Beatty Investments - staff secondment charges	162
	<u>2,927</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

19 Related party transactions (continued)

Outstanding balances at the end of the year

	<u>Group</u>
	2019
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	202
Balfour Beatty Investments - staff secondment charges	1,047
Balfour Beatty Infrastructure Investments - subordinated debt and accrued interest	34,661
BIIF Bidco Limited - subordinated debt and accrued interest	6,117
	<u>42,027</u>
	2018
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	139
Balfour Beatty Investments - staff secondment charges	926
Balfour Beatty Infrastructure Investments - subordinated debt and accrued interest	32,829
BIIF Bidco Limited - subordinated debt and accrued interest	5,793
	<u>39,687</u>

20 Parent and ultimate parent undertaking

The ultimate parent is Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd), 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 and 16 Palace Street, London, SW1E 5JD respectively.

Connect M77/GSO Holdings Limited is the parent Company of the largest and smallest group of which the Company is a member.

21 Subsequent events

There have been no material post balance sheet events.