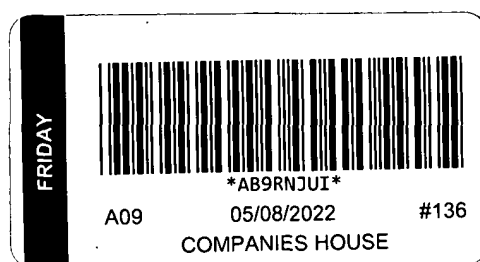


Registration number: 04691274

Connect M77/GSO Holdings Limited

Consolidated Financial Statements

for the Year Ended 31 March 2022



Connect M77/GSO 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 Balance Sheet	12
Balance Sheet	13
Consolidated Statement of Changes in Equity	14
Statement of Changes in Equity	15
Consolidated Statement of Cash Flows	16
Notes to the Financial Statements	17 to 29

Connect M77/GSO Holdings Limited

Strategic Report for the Year Ended 31 March 2022

The Directors present their strategic report for the year ended 31 March 2022.

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 (the "Group"), 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 (the "Client") (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 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 (the "Concession Agreement"). 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 11. The profit for the year before taxation was £683k (2021: £231k) and the net liabilities position as at 31 March 2022 was £28,856k (2021: £28,880k) for the Group.

The financial position at the year-end is in-line with the Directors' expectations and can be found on page 12.

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 KPIs. The relevant KPIs for this report are detailed below:

	2022	2021
	£ 000	£ 000
Turnover	3,258	3,637
Profit after taxation	24	177
Net liabilities	<u>(28,856)</u>	<u>(28,880)</u>

Connect M77/GSO Holdings Limited

Strategic Report for the Year Ended 31 March 2022 (continued)

Key performance indicators (continued)

The Group has a net liability position at the year end of £28,856,000 (2021: £28,880,000). This is primarily due to rolled up subordinated debt interest charges due to the shareholders as the Group has not been permitted to make any subordinated interest payments for an extended period. In order to manage the compounding impact of the subordinated debt interest roll up the shareholders have waived their rights to receive interest for the year to 31 March 2022.

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.

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 Private Finance Initiative ("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 and cash flow risk

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

Contractual relationships

The Group operates within a contractual relationship with its Client. 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.

Connect M77/GSO Holdings Limited

Strategic Report for the Year Ended 31 March 2022 (continued)

COVID-19

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

In making this assessment the Directors have reviewed the Group's cash flows for the period to September 2023 and considered the security of the cash flows in accordance with the provisions of the Project Agreement with the client, East Renfrewshire Council. Throughout the emergency the client 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. Whilst the contingency plans are not currently required due to the lifting of restrictions, the Directors consider, in taking account of reasonable possible counterparty performance, this will enable services to be maintained should it be required.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

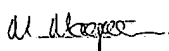
Economic Conditions

The Directors have considered the consequences to the Group of the current economic conditions, including the high rate of inflation, increasing energy costs and the impact of the war in Ukraine. As at the date of signing this report, this has not had a significant impact on the Group, and it is not currently anticipated that this will have a significant impact in the future. This is primarily due to the contractual nature of most of the Group's cash flows, including those which cover financing, which ensures that any inflationary changes to expenditure will be largely offset by equivalent changes to the Group's revenue.

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 28 July 2022 and signed on its behalf by:



Digitally signed by Mark Mageean
DN: cn=Mark Mageean, o=GB, ou=Connect
Roads, ou=Connect Roads,
email=mark.mageean@balfourbeatty.com
Reason: Approved
Date: 2022.07.28 16:58:39 +0100

.....
M P Mageean
Director

Connect M77/GSO Holdings Limited

Directors Report for the Year Ended 31 March 2022

The Directors present their report and the for the year ended 31 March 2022.

The following information has been disclosed in the 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 current economic conditions create some general uncertainty. 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 concession contract to the Company's subsidiary and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show Connect M77/GSO plc 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 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 financial statements.

Results and dividends

The audited financial statements for the year ended 31 March 2022 are set out on pages 11 to 29. The profit for the year after tax was £24k (2021: £177k).

The Directors declared and paid dividends of £Nil (2021: £Nil). 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:

M J Edwards

M P Mageean

A M Mughal

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 Company's Auditor is aware of that information.

Connect M77/GSO Holdings Limited

Directors Report for the Year Ended 31 March 2022 (continued)

Auditor

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 28 July 2022 and signed on its behalf by:



Digitally signed by Mark Mageean
DN: cn=Mark Mageean, c=GB, ou=Connect
Roads, ou=Connect Roads,
email=mark.mageean@balfourbeatty.com
Reason: Approved
Date: 2022.07.28 16:58:53 +0100

.....
M P Mageean
Director

Registered office Q14 Quorum Business Park
Benton Lane
Newcastle Upon Tyne
NE12 8BU

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 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 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 2022, 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 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting standard applicable in the UK and Republic of Ireland*; and
- the financial statements 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 their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are 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)

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, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and 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. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is a fixed mark up by way of an agreement with a single customer.

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 seldom used accounts, unusual accounts combinations and period end adjustments; and
- Assessing significant accounting estimates for bias.

Connect M77/GSO Holdings Limited

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

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.

Firstly, 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.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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.

Connect M77/GSO Holdings Limited

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

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.

Dan Gibson

.....
Dan Gibson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
110 Quayside House
Newcastle Upon Tyne
United Kingdom
NE1 3DX

Date: 29 July 2022

Connect M77/GSO Holdings Limited

Consolidated Profit and Loss Account for the Year Ended 31 March 2022

	Note	2022 £ 000	2021 £ 000
Turnover	6	3,258	3,637
Cost of sales		<u>(2,738)</u>	<u>(3,128)</u>
Gross profit		520	509
Administrative expenses		<u>(345)</u>	<u>(379)</u>
Operating profit		175	130
Interest receivable and similar income	7	8,882	9,128
Interest payable and similar expenses	8	<u>(8,374)</u>	<u>(9,027)</u>
Profit before tax		683	231
Taxation	9	<u>(659)</u>	<u>(54)</u>
Profit for the financial year		<u>24</u>	<u>177</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.

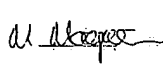
Connect M77/GSO Holdings Limited

(Registration number: 04691274)

Consolidated Balance Sheet as at 31 March 2022

	Note	2022 £ 000	2021 £ 000
Non current assets			
Financial asset	13	109,074	113,735
Current assets			
Debtors	14	193	292
Financial assets	13	4,686	3,119
Cash at bank and in hand	11	21,425	20,851
		26,304	24,262
Creditors: Amounts falling due within one year	15	(8,801)	(7,894)
Net current assets		17,503	16,368
Total assets less current liabilities		126,577	130,103
Creditors: Amounts falling due after more than one year	15	(153,430)	(157,413)
Deferred tax liabilities	10	(2,003)	(1,570)
Net liabilities		(28,856)	(28,880)
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account		(28,906)	(28,930)
Total equity		(28,856)	(28,880)

Approved and authorised by the Board on 28 July 2022 and signed on its behalf by:

 Digitally signed by Mark Mageean
DN: cn=Mark Mageean, o=GB, ou=Connect
Roads, ou=Connect Roads,
email=mark.mageean@bailourbesty.com
Reason: Approved
Date: 2022.07.28 18:52:16 +0100

M P Mageean
Director

The notes on pages 17 to 29 form an integral part of these financial statements.

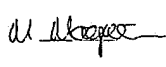
Connect M77/GSO Holdings Limited

(Registration number: 04691274)
Balance Sheet as at 31 March 2022

	Note	2022 £ 000	2021 £ 000
Non current assets			
Investments	12	50	50
Debtors: due after one year	14	46,510	44,817
		46,560	44,867
Creditors: Amounts falling due after more than one year	15	(46,510)	(44,817)
Net assets		50	50
Capital and reserves			
Called up share capital	18	50	50
Profit and loss account		-	-
Total equity		50	50

The company made a profit and loss after tax for the financial year of £Nil (2021 - loss of £Nil).

Approved and authorised by the Board on 28 July 2022 and signed on its behalf by:

 Digitally signed by Mark Mageean
DN: cn=Mark Mageean, c=GB, ou=Connect
Roads, ou=Connect Roads,
email=mark.mageean@tsttourteasy.com
Reason: Approved
Date: 2022.07.28 16:59:28 +01'00'

M P Mageean
Director

Connect M77/GSO Holdings Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2022 **Equity attributable to the parent company**

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 April 2020	50	(29,107)	(29,057)
Profit for the year	-	177	177
At 31 March 2021	<u>50</u>	<u>(28,930)</u>	<u>(28,880)</u>
	Share capital	Profit and loss	Total
	£ 000	account	£ 000
At 1 April 2021	50	(28,930)	(28,880)
Profit for the year	-	24	24
At 31 March 2022	<u>50</u>	<u>(28,906)</u>	<u>(28,856)</u>

Connect M77/GSO Holdings Limited

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 April 2020	50	-	50
Profit/(loss) for the year	-	-	-
At 31 March 2021	<u>50</u>	<u>-</u>	<u>50</u>
	Share capital	Profit and loss	Total
	£ 000	account	£ 000
	£ 000	£ 000	£ 000
At 1 April 2021	50	-	50
Profit/(loss) for the year	-	-	-
At 31 March 2022	<u>50</u>	<u>-</u>	<u>50</u>

Connect M77/GSO Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2022

	2022 £ 000	2021 £ 000
Cash flows from operating activities		
Profit for the year	24	177
Finance income	(8,882)	(9,128)
Finance costs	8,374	9,027
Corporate tax expense	659	54
	<u>175</u>	<u>130</u>
Working capital adjustments		
Decrease in financial asset	11,974	12,517
Decrease in trade debtors	99	1,395
Increase in trade creditors	372	42
	<u>12,620</u>	<u>14,084</u>
Cash generated from operations	12,620	14,084
Corporate taxes paid	(150)	(87)
Net cash flow from operating activities	<u>12,470</u>	<u>13,997</u>
Cash flows from investing activities		
Interest received	2	9
Interest paid	(6,592)	(7,049)
Net cash flows from investing activities	(6,590)	(7,040)
Cash flows from financing activities		
Repayment of borrowing	(5,306)	(4,808)
Net increase in cash and cash equivalents	574	2,149
Cash and cash equivalents at 1 April	<u>20,851</u>	<u>18,702</u>
Cash and cash equivalents at 31 March	<u><u>21,425</u></u>	<u><u>20,851</u></u>

The notes on pages 17 to 29 form an integral part of these financial statements.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022

1 Accounting policies

Connect M77/GSO Holdings Limited (the "Company") is a company limited by shares and incorporated, domiciled and registered in England and Wales in the UK. The registered number is 04698798 and the registered address is Q14 Quorum Business Park, Benton Lane, Newcastle Upon Tyne, NE12 8BU.

A summary of the principal accounting policies of the Company, 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 ("FRS 102") 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 consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March 2022.

Going concern

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

The Group's business activities, together with the factors likely to affect its future development 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 prepared cash flow forecasts for the period to September 2023 which indicate that, taking account of severe but plausible downside scenarios, the Group will have sufficient funds to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by The Cabinet Ministers.

In making this assessment the Directors have considered the potential impact of COVID-19.

The Group's operating cash inflows are largely dependent on unitary charge receipts receivable from East Renfrewshire Council and the Directors expect these amounts to be received even in severe but plausible downside scenarios. The Group's unitary receipts due since the start of the pandemic in March 2020 have been received on time in the normal fashion from East Renfrewshire Council.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

The contract is an availability-based project. The Group continues to provide the asset in accordance with the contract and the asset is available to be used. As a result, the Group does not believe there is any likelihood of a material impact to the unitary payment.

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 Directors have considered a severe but plausible downside scenario where costs that are not contractually fixed increase by an additional 10%. In such a scenario the cash flow forecasts indicate the at the Group would continue to hold sufficient funds to meet its liabilities as they fall due, due to the high cash balances held by the Group. Further, the forecasts continue to show that the Group would continue to meet the contractual covenants under the lending documents.

The Directors therefore believe the Group has sufficient funding in place and expects the Group to comply with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

Finance income and costs

Interest income and interest payable are recognised in the profit or loss account as they accrue, using the effective interest method. Dividend income is recognised in the profit or loss account on the date the Group's right to receive payments is established.

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.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

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.

Financial instruments

Classification

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

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

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

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.

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.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2 Critical accounting estimates and judgements

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. 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.

3 Auditors' remuneration

The audit fee for the Company and its subsidiary amounted to £44k (2021: £28k).

There were no non-audit fees (2021: £nil).

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

4 Directors' remuneration

The Directors received no salary, fees, or other benefits in the performance of their duties in respect of the Company in the current or preceeding year.

5 Staff costs

All staff costs are borne by Balfour Beatty Investments Limited, which second its employees to the Group and charges related service costs. The Group had no employees during the current or prior year.

6 Turnover

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

	Group	
	2022	2021
	£ 000	£ 000
UK	3,258	3,637

7 Interest receivable and similar income

	Group	
	2022	2021
	£ 000	£ 000
Interest income on financial assets	8,880	9,119
Interest on bank accounts and deposits	2	9
	8,882	9,128

8 Interest payable and similar expenses

	Group	
	2022	2021
	£ 000	£ 000
Secured bond interest	6,681	7,049
Secured loan stock interest	1,693	1,978
	8,374	9,027

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

9 Taxation

Tax charged/(credited) in the income statement

	Group	
	2022	2021
	£ 000	£ 000
Current taxation		
UK corporation tax	177	98
UK corporation tax adjustment to prior periods	48	-
	<u>225</u>	<u>98</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(47)	(54)
Arising from changes in tax rates and laws	481	-
Arising from adjustments to prior periods	-	10
Total deferred taxation	<u>434</u>	<u>(44)</u>
Tax expense in the income statement	<u><u>659</u></u>	<u><u>54</u></u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2021 - the same as the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	Group	
	2022	2021
	£ 000	£ 000
Profit before tax	<u>683</u>	<u>231</u>
Corporation tax at standard rate	130	44
Deferred tax expense relating to changes in tax rates or laws	481	-
Deferred tax expense from adjustment for prior periods	-	10
Increase in current tax from adjustment for prior periods	48	-
Total tax charge	<u><u>659</u></u>	<u><u>54</u></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% (2021: 19%).

For the year end 31 March 2022, 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.

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

10 Deferred tax liability

	<u>Group</u>	
	<u>2022</u>	<u>2021</u>
	<u>£ 000</u>	<u>£ 000</u>
At 1 April	(1,570)	(1,614)
(Charged)/credited to the profit and loss account	<u>(434)</u>	<u>44</u>
At 31 March	<u><u>(2,004)</u></u>	<u><u>(1,570)</u></u>

The deferred tax liability is a timing difference relating to capitalised interest for which a deduction was previously recognised. The timing difference is being released in line with the release of the capitalised interest element held within the financial asset.

The opening deferred tax balances in the financial statements were measured at 19%. For the year end 31 March 2022, a tax rate of 25% has been applied in line with rates enacted by the Finance Act 2021 which was enacted on 24 May 2021. This gives rise to a debit to the profit and loss account of £481k.

11 Cash and cash equivalents

Cash at bank and in hand includes £17,849k (2021: £17,699k) restricted from use in the business, being held in the Group's reserve accounts under the terms of its senior loan facility.

12 Investments

	<u>Company</u>	
	<u>2022</u>	<u>2021</u>
	<u>£ 000</u>	<u>£ 000</u>
Investment in subsidiary	<u>50</u>	<u>50</u>

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.

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2022	2021
Connect M77/GSO plc	Q14 Quorum Buisness Park, Benton Lane, Newcastle Tyne, NE12 8BU UK	Ordinary Upon shares	100%	100%

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

12 Investments (continued)

Subsidiary undertakings

Connect M77/GSO plc

The principal activity of Connect M77/GSO plc is a PFI Concession company.

13 Financial asset

	Group	
	2022	2021
	£ 000	£ 000
Balance brought forward	116,854	120,252
Service income received in the year	(15,527)	(16,005)
Operating revenues	3,076	2,891
Lifecycle replacement costs	477	597
Notional interest	8,880	9,119
Balance carried forward	<u>113,760</u>	<u>116,854</u>
Financial asset comprising:		
	2022	2021
	£ 000	£ 000
Amounts falling due within one year	4,686	3,119
Amounts falling due after more than one year	<u>109,074</u>	<u>113,735</u>
	<u>113,760</u>	<u>116,854</u>

14 Debtors

Amount falling due within one year

	Group	
	2022	2021
	£ 000	£ 000
Trade debtors	-	103
Prepayments and accrued income	<u>193</u>	<u>189</u>
	<u>193</u>	<u>292</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

14 Debtors (continued)

Amount falling due after one year

	Company	
	2022	2021
	£ 000	£ 000
Subordinated loan due from subsidiary undertaking	14,865	14,865
Secured loan stock interest	31,645	29,952
	<u>46,510</u>	<u>44,817</u>

15 Creditors

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Due within one year				
Fixed rate guaranteed senior secured bonds	5,766	5,306	-	-
Accruals and deferred income	2,720	2,337	-	-
VAT payable	220	231	-	-
Corporation tax payable	95	20	-	-
	<u>8,801</u>	<u>7,894</u>	<u>-</u>	<u>-</u>
Due after one year				
Fixed rate guaranteed senior secured bond	106,920	112,596	-	-
Secured loan stock	14,865	14,865	14,865	14,865
Senior loan stock interest	31,645	29,952	31,645	29,952
	<u>153,430</u>	<u>157,413</u>	<u>46,510</u>	<u>44,817</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

15 Creditors (continued)

Fixed rate guaranteed senior secured bonds due 2034 of £152,429k 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, with the final instalment due in 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 ended 31 March 2021 and 31 March 2022.

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 £1,532k (2021: £1,622k). The Group incurred total issue costs of £4,403k in respect of the fixed rate bonds. These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds. Interest is calculated using the effective interest rate method.

The Group has committed borrowing facilities available of £167,294k which have been fully drawn as at 31 March 2022 (2021: £167,294k).

16 Loans and borrowings

Loans not wholly repayable within five years:

	Group	
	2022	2021
	£ 000	£ 000
Fixed rate guaranteed senior secured bond	114,218	119,524
Secured loan stock	14,865	14,865
	<u>129,083</u>	<u>134,389</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

16 Loans and borrowings (continued)

Analysis of maturity of debt:

	Group		Company	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Within one year or on demand	5,766	5,306	-	-
Between one and two years	6,184	5,766	-	-
Between two and five years	22,206	20,410	-	-
After five years	94,927	102,907	14,865	14,865
	<u>129,083</u>	<u>134,389</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:

	2022	2021
	£ 000	£ 000
Due on demand or within one year	12,055	11,897
Due within one to two years	12,147	12,055
Due within two to five years	37,824	37,195
Due after more than five years	138,170	149,927
	<u>200,196</u>	<u>211,074</u>

18 Share capital

Allotted, called up and fully paid shares

	No.	2022	No.	2021
		£		£
Ordinary A shares of £1 each	42,500	42,500	42,500	42,500
Ordinary B 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>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

18 Share capital (continued)

The shareholders' percentage holdings in the Company at 31 March 2022 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. 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.

19 Related party transactions

Transactions during the year

	Group
	2022
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	2,913
Balfour Beatty Investments - staff secondment charges	246
	<u>3,159</u>
	2021
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	3,617
Balfour Beatty Investments - staff secondment charges	243
	<u>3,860</u>

Outstanding balances at the end of the year

	Group
	2022
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	229
Balfour Beatty Investments - staff secondment charges	1,524
Balfour Beatty Infrastructure Investments - subordinated debt and accrued interest	39,534
BIIF Bidco Limited - subordinated debt and accrued interest	6,977
	<u>48,264</u>
	2021
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	263
Balfour Beatty Investments - staff secondment charges	1,277
Balfour Beatty Infrastructure Investments - subordinated debt and accrued interest	38,094
BIIF Bidco Limited - subordinated debt and accrued interest	6,723
	<u>46,357</u>

Connect M77/GSO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

20 Parent and ultimate parent undertaking

The ultimate parents are Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd), incorporated in United Kingdom and registered in England and Wales.

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

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