

Registration number: 05533286

# Connect Roads South Tyneside Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020



# **Connect Roads South Tyneside Holdings Limited**

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# **Connect Roads South Tyneside Holdings Limited**

## **Strategic Report for the Year Ended 31 December 2020**

The Directors present their strategic report for the year ended 31 December 2020.

### **Principal activity**

Connect Roads South Tyneside Holdings Limited ("the Company") was incorporated in England & Wales on 10 August 2005. Its sole business is the holding of an investment in its wholly owned subsidiary Connect Roads South Tyneside Limited, together the "Group". It holds 1,000 ordinary shares in Connect Roads South Tyneside Limited.

On 9 December 2005 Connect Roads South Tyneside Limited entered into a Private Finance Initiative ("PFI") concession contract (the "Concession Agreement") with South Tyneside Council (the "Client") to design build, renew, finance and maintain the Client's street lighting and illuminate highway signage over a 25 year period. The contract end date is February 2031.

The construction program started in March 2006 and was completed in February 2011 as scheduled.

### **Review of the Business**

The results of the Group for the year are set out on page 11. The profit for the year after taxation was £202k (2019: £184k). The net liabilities position as at 31 December 2020 was £1,233k (2019: net liabilities £1,419k).

The profits and net liabilities remain comparable year on year.

The Directors expect the Group to continue its operations for the foreseeable future.

### **Key Performance Indicators**

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

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

#### Net cash flow

As at 31 December 2020, the net cash flow was in line with forecast. For the year ended 31 December 2020 the net cash outflow was £4k (2019: inflow of £426k). The year on year movement in cash flows is attributable to an increased borrowings repayment.

#### Financial performance

The Directors have modelled the anticipated financial outcome of the project across its full term and monitor actual performance against this anticipated performance. As at 31 December 2020 the Group's performance against this measure was satisfactory.

### **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.

## **Connect Roads South Tyneside Holdings Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### Credit & cash flow risks

The relevant financial risks to the Group are credit and cash flow risks, which arise from its Client, South Tyneside Council. The credit and cash flow risks are not considered significant as the Client is a quasi governmental organisation.

#### Contractual relationships

The Group operates within a contractual relationship with the Client. Impairment of this relationship could have an impact upon the Group and lead to a breach of contract. Consequently, to manage this risk, the Group has regular meetings with the Client, including discussions on performance, project processes, future plans and customer requirements. In accordance with the Concession Agreement, the Group is responsible for installing and providing services in relation to the streetlighting, which, if not provided, could have a detrimental impact upon the Group.

#### 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 (in particular by the use of Interest Rate Swaps) where they cannot be addressed by means of contractual provisions. 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.

#### Financial risk management

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 Client, 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 consequences to the Group of the United Kingdom having exited the European union and, as at the date of signing the report, this has not had a significant impact on the Group and it is not anticipated that this will have a significant impact in the future. This is primarily because the Group's contractual agreements, including those which cover its financing, are unlikely to be affected.

## Connect Roads South Tyneside Holdings Limited

### Strategic Report for the Year Ended 31 December 2020 (continued)

#### COVID-19

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

The purpose of the Company is for the raising of finance and onward loan of the proceeds, with identical terms for payments of interest and principal, to a fellow group subsidiary, Connect Roads South Tyneside Limited, which operates an availability-based contract.

In making this assessment the Directors have considered the Government Guidance, as issued on 2 April 2020: "Supporting vital service provision in PFI/PF2 (and related) contracts during the COVID-19 emergency", and the subsequent guidance issued by the Cabinet Office on 24 June 2020 "PPN 04\_20- Recovery and Transition from COVID-19". Particularly the likely impact that this will have on Connect Roads South Tyneside Limited.

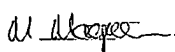
The Directors expect that the Contracting Authority will adhere to the guidance as issued, and therefore the unitary charge payments will be maintained, and the cash flows of Connect Roads South Tyneside Limited are unlikely to be affected. In turn the Company considers its cash-flows due from Connect Roads South Tyneside Limited are unlikely to be affected. The receipt from the Contracting Authority between April 2020 to May 2021 were received in the normal fashion. Additionally, the Directors have considered the contingency plans that the Group's supply chain has in place and considers that, in conjunction with the government guidance and taking account of reasonably possible counterparty performance, this will enable services to be maintained.

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

#### Ownership

The Company is owned by its ultimate controlling parties Equitix Fund IV LP and Balfour Beatty plc (in the ratio 80:20), both of which are incorporated in the United Kingdom and registered in England and Wales. Voting rights are equally split between the two controlling parties.

Approved by the Board on 30 June 2021 and signed on its behalf by:



Digitally signed by Mark Mageean  
DN: cn=Mark Mageean, c=GB,  
o=Connect Roads, ou=Connect Roads,  
email=mark.mageean@balfourbeatty.com  
Reason: Approved  
Date: 2021.06.30 10:09:01 +01'00'

.....  
M P Mageean  
Director

#### **Registered office**

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

## **Connect Roads South Tyneside Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2020**

The Directors have pleasure in presenting their Annual Report together with the Consolidated Financial Statements and auditor's report for the year ended 31 December 2020.

The following information has been disclosed in the Strategic Report.

- Principal risks and uncertainties
- Indication of likely future developments in the business.
- Key performance indicators.

#### **Going Concern**

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

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.

The Directors have also considered the ability of the Client to continue to pay unitary fees due to a subsidiary of the Group and, having made enquiries, consider it is not unreasonable to conclude that the Client and UK Government will continue to meet their obligations in this respect. 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.

#### **Share capital**

The issued share capital at 31 December 2020 was £1,000 (2019: £1,000).

#### **Results and Dividends**

The audited financial statements for the year ended 31 December 2020 are set out on pages 11 to 33. The profit for the year after taxation was £202k (2019: profit £184k). The Directors paid a dividend in respect of the year ended 31 December 2020 of £Nil (2019: £Nil).

#### **Directors of the Group**

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

P Bent

T S Cunningham

M P Mageean

K Rahuf (ceased 17 February 2021)

The following director was appointed after the year end:

J A Scott (appointed 17 March 2021)

#### **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.

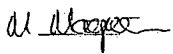
## **Connect Roads South Tyneside Holdings Limited**

### **Directors' Report for the Year Ended 31 December 2020 (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 30 June 2021 and signed on its behalf by:



Digitally signed by Mark Mageean  
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ou=Connect Roads, ou=Connect Roads,  
email=mark.mageean@balfourbeatty.com  
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.....  
M P Mageean  
Director

## **Connect Roads South Tyneside Holdings Limited**

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group and 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 Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Parent Company and to prevent and detect fraud and other irregularities.



## **Connect Roads South Tyneside Holdings Limited**

### **Independent Auditor's Report to the Members of Connect Roads South Tyneside Holdings Limited**

#### **Opinion**

We have audited the financial statements of Connect Roads South Tyneside Holdings Limited (the 'Company') for the year ended 31 December 2020, which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows 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 the Parent Company's affairs as at 31 December 2020 and of the Group and Parent Company'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
- 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 Roads South Tyneside Holdings Limited**

### **Independent Auditor's Report to the Members of Connect Roads South Tyneside 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 inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytic procedures to identify unusual or unexpected relationships.

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

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is fixed by way of a unitary charge agreement with the local authority.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

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

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

## **Connect Roads South Tyneside Holdings Limited**

### **Independent Auditor's Report to the Members of Connect Roads South Tyneside Holdings Limited (continued)**

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, anti-bribery, and certain aspects of Group legislation recognising the regulated nature of the Group's activities. 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.

#### **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.

## **Connect Roads South Tyneside Holdings Limited**

### **Independent Auditor's Report to the Members of Connect Roads South Tyneside Holdings Limited (continued)**

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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



.....  
Tom Eve (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London  
United Kingdom  
E14 5GL

Date:..... 30 June 2021.....

# **Connect Roads South Tyneside Holdings Limited**

## **Consolidated Profit and Loss Account for the Year Ended 31 December 2020**

	<b>Note</b>	<b>2020 £ 000</b>	<b>2019 £ 000</b>
Turnover	3	2,324	1,796
Cost of sales		<u>(2,179)</u>	<u>(1,631)</u>
Gross profit		145	165
Administrative expenses		<u>(84)</u>	<u>(103)</u>
Operating profit		61	62
Interest receivable and similar income	7	1,310	1,406
Interest payable and similar expenses	8	<u>(1,121)</u>	<u>(1,239)</u>
Profit before tax		250	229
Taxation	9	<u>(48)</u>	<u>(45)</u>
Profit for the financial year		<u><u>202</u></u>	<u><u>184</u></u>

All activities are from continuing operations in the United Kingdom.

## **Connect Roads South Tyneside Holdings Limited**

### **Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020**

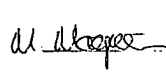
	<b>2020</b> <b>£ 000</b>	<b>2019</b> <b>£ 000</b>
Profit for the year	<u>202</u>	<u>184</u>
Unrealised gain/(loss) on cash flow hedges before tax	(113)	46
Income tax effect	<u>97</u>	<u>(8)</u>
	<u>(16)</u>	<u>38</u>
Total comprehensive income for the year	<u><u>186</u></u>	<u><u>222</u></u>

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

**Connect Roads South Tyneside Holdings Limited**  
**(Registration number: 05533286)**  
**Consolidated Balance Sheet as at 31 December 2020**

	Note	2020 £ 000	2019 £ 000
<b>Non current assets</b>			
Finance debtor	12	17,792	19,081
Deferred tax	10	734	636
		<u>18,526</u>	<u>19,717</u>
<b>Current assets</b>			
Debtors	13	469	447
Finance debtor	12	1,290	1,287
Cash at bank and in hand		2,065	2,069
		<u>3,824</u>	<u>3,803</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(2,157)</u>	<u>(2,156)</u>
<b>Net current assets</b>		<u>1,667</u>	<u>1,647</u>
<b>Total assets less current liabilities</b>		20,193	21,364
<b>Creditors: Amounts falling due after more than one year</b>	14	<u>(21,426)</u>	<u>(22,783)</u>
<b>Net liabilities</b>		<u>(1,233)</u>	<u>(1,419)</u>
<b>Capital and reserves</b>			
Called up share capital	17	1	1
Cash flow hedge reserve		(3,161)	(3,145)
Profit and loss account		1,927	1,725
<b>Total equity</b>		<u>(1,233)</u>	<u>(1,419)</u>

Approved and authorised by the Board on 30 June 2021 and signed on its behalf by:

 Digitally signed by Mark Mageean  
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o=Connect Roads, ou=Connect Roads,  
email=mark.mageean@ballourbeatty.com  
Reason: Approved  
Date: 2021.06.30 10:09:24 +01'00'

M P Mageean  
Director

# Connect Roads South Tyneside Holdings Limited

(Registration number: 05533286)

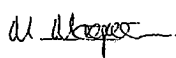
## Balance Sheet as at 31 December 2020

	Note	2020 £ 000	2019 £ 000
<b>Fixed assets</b>			
Investments	11	1	1
Debtors	13	1,803	1,917
		<u>1,804</u>	<u>1,918</u>
<b>Current assets</b>			
Debtors	13	165	201
<b>Creditors: Amounts falling due within one year</b>	14	<u>(165)</u>	<u>(201)</u>
<b>Net current assets/(liabilities)</b>		<u>-</u>	<u>-</u>
<b>Total assets less current liabilities</b>		1,804	1,918
<b>Creditors: Amounts falling due after more than one year</b>	14	<u>(1,803)</u>	<u>(1,917)</u>
<b>Net assets</b>		<u>1</u>	<u>1</u>
<b>Capital and reserves</b>			
Called up share capital	17	1	1
Profit and loss account		<u>-</u>	<u>-</u>
<b>Total equity</b>		<u>1</u>	<u>1</u>

These financial statements consolidate the accounts of Connect Roads South Tyneside Holdings Limited and its subsidiary undertaking. Intra-group sales and profits are eliminated fully on consolidation. No individual profit and loss account is prepared for Connect Roads South Tyneside Holdings Limited, as provided for by s.408 of the Companies Act 2006.

The Company made a loss after tax for the financial year of £Nil (2019: loss of £Nil). The Company incurred interest payable and interest receivable in the last two financial years which netted to £Nil.

Approved and authorised by the Board on 30 June 2021 and signed on its behalf by:

 Digitally signed by Mark Mageean  
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 o=Connect Roads, ou=Connect Roads,  
 email=mark.mageean@balfourbeatty.com  
 Reason: Approved  
 Date: 2021.06.30 10:09:32 +0100

.....  
 M P Mageean  
 Director

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



# **Connect Roads South Tyneside Holdings Limited**

## **Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020** **Equity attributable to the parent company**

	<b>Share capital</b>	<b>Cash flow</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>hedge</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 January 2019	1	(3,183)	1,541	(1,641)
Profit for the year	-	-	184	184
Other comprehensive income	-	38	-	38
At 31 December 2019	<u>1</u>	<u>(3,145)</u>	<u>1,725</u>	<u>(1,419)</u>
	<b>Share capital</b>	<b>Cash flow</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>hedge</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 January 2020	1	(3,145)	1,725	(1,419)
Profit for the year	-	-	202	202
Other comprehensive income	-	(16)	-	(16)
At 31 December 2020	<u>1</u>	<u>(3,161)</u>	<u>1,927</u>	<u>(1,233)</u>

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

# **Connect Roads South Tyneside Holdings Limited**

## **Statement of Changes in Equity for the Year Ended 31 December 2020**

	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 January 2019	<u>1</u>	<u>-</u>	<u>1</u>
At 31 December 2019	<u>1</u>	<u>-</u>	<u>1</u>
	<b>Share capital</b>	<b>Profit and loss</b>	<b>Total</b>
	<b>£ 000</b>	<b>account</b>	<b>£ 000</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 January 2020	<u>1</u>	<u>-</u>	<u>1</u>
At 31 December 2020	<u>1</u>	<u>-</u>	<u>1</u>

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

# Connect Roads South Tyneside Holdings Limited

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

	2020 £ 000	2019 £ 000
<b>Cash flows from operating activities</b>		
Profit for the year	202	184
Adjustments to cash flows from non-cash items		
Finance income	(1,310)	(1,406)
Finance costs	1,121	1,239
Corporate tax expense	48	45
	<u>61</u>	<u>62</u>
Working capital adjustments		
(Increase)/decrease in trade debtors	(22)	375
Decrease in trade creditors	(8)	(361)
Increase in financial asset	2,596	2,500
	<u>2,627</u>	<u>2,576</u>
Cash generated from operations	2,627	2,576
Corporate taxes paid	(70)	(53)
Net cash flow from operating activities	<u>2,557</u>	<u>2,523</u>
<b>Cash flows from financing activities</b>		
Interest paid	(1,152)	(1,214)
Repayment of borrowings	(1,409)	(883)
Net cash flows from financing activities	<u>(2,561)</u>	<u>(2,097)</u>
Net (decrease)/increase in cash and cash equivalents	(4)	426
Cash and cash equivalents at 1 January	<u>2,069</u>	<u>1,643</u>
Cash and cash equivalents at 31 December	<u><u>2,065</u></u>	<u><u>2,069</u></u>

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

# **Connect Roads South Tyneside Holdings Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2020**

### **1 Accounting policies**

Connect Roads South Tyneside Holdings Limited (the 'Company') is a private company incorporated, domiciled and registered in England in the UK. The registered number is 05533286 and the registered address is, 350 Euston Road, Regent's Place, London, NW1 3AX.

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

#### **Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("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 December 2020.

#### **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 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 covering a period of 15 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible possible downsides, the Group will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Group is dependent on Connect Roads South Tyneside Limited, a fellow group company with common Directors, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Group raised. Those forecasts are dependent on Connect Roads South Tyneside Limited's underlying Client continuing to meet its obligations under the Project Agreement.

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

## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

Connect Roads South Tyneside Limited's operating cash inflows are largely dependent on unitary charge receipts receivable from South Tyneside Council and the Directors expect these amounts to be received even in severe but plausible possible downside scenarios. The unitary charge receipts due between April 2020 to May 2021 were received on time in the normal fashion from South Tyneside Council.

Connect Roads South Tyneside Limited's contract is an availability-based project. Connect Roads South Tyneside Limited continues to provide the asset in accordance with the contract and 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 Connect Roads South Tyneside Limited's main sub-contractors and reviewed the contingency plans of the sub-contractor and are satisfied in their ability to provide the services in line with the contract without significant additional costs to Connect Roads South Tyneside Limited, 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-contractor arising from COVID-19. However, in the unlikely event of a subcontractor failure, Connect Roads South Tyneside Limited has its own business continuity plans to ensure that service provision will continue.

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

Consequently, the Directors are confident that the Group and the Company 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.

#### **Investments**

Investments in the subsidiary undertaking are stated at cost less impairment. The carrying value of investments is reviewed annually by the Directors to determine whether there has been any impairment.

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

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

#### **Turnover**

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided in the period. These amounts are separately identifiable services from the contract discussed below.

The income streams from the Client contain separable elements for property and the provision of services. It has been determined that the balance of risks and rewards derived from the underlying asset is not borne by the Group and therefore the asset created under the contract has been accounted for as a finance debtor.

Revenues received from the Client are apportioned between capital repayments and operating revenue. The "finance income" element of the capital repayment is shown within interest receivable.

Income is deferred where payment is received from the Client in advance of the performance of the related services.

## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

##### **Finance Debtor**

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Group under FRS102 section 34.1C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Client.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

##### **Tax**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

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

## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

##### **Financial instruments**

###### ***Classification***

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

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

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

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.

###### ***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 Company 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.

## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

##### **Classification of financial instruments issued by the Group**

In accordance with FRS 102 section 22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions

- (i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

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

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

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

##### **Other financial liabilities**

Other financial liabilities, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.



## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **2 Critical accounting judgements and key sources of estimation uncertainty**

##### **Judgements**

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

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

##### Hedge accounting

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

##### **Key sources of estimation uncertainty**

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

##### Service concession arrangement

The Group accounts for the project as a service concession arrangement. The Directors use their judgement in selecting the appropriate financial debtor rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial debtor; and also the service margin 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.

##### Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Group uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets.

The fair value of derivative financial instruments at the balance sheet date was a liability of £3,901k (2019 - £3,788k). The Directors do not consider the impact of own credit risk to be material.

## Connect Roads South Tyneside Holdings Limited

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

#### 3 Analysis of turnover

The analysis of the Group's turnover for the year by market is as follows:

	2020	Group 2019
	£ 000	£ 000
UK	<u>2,324</u>	<u>1,796</u>

Turnover includes the fair value of the services provided for the installation of street lighting and illuminated highway signs.

#### 4 Auditor's remuneration

The total audit fee for the Group was £13k (2019: £13k). The fee was borne by Connect Roads South Tyneside Limited.

The audit fee for the Company was £820 (2019: £800). The fee was borne by Connect Roads South Tyneside Limited.

#### 5 Directors' remuneration

The Directors are employees of the shareholders and received no material remuneration for their services towards the management of the Group or Company in the current or prior year.

#### 6 Staff costs

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

#### 7 Interest receivable and similar income

	2020	Group 2019
	£ 000	£ 000
Interest receivable on financial asset	<u>1,310</u>	<u>1,406</u>

#### 8 Interest payable and similar expenses

	2020	Group 2019
	£ 000	£ 000
Interest payable on term loan	955	1,051
Subordinated debt interest payable	<u>166</u>	<u>188</u>
	<u>1,121</u>	<u>1,239</u>

## Connect Roads South Tyneside Holdings Limited

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

#### 9 Taxation

Tax charged/(credited) in the profit and loss

	2020 £ 000	Group 2019 £ 000
<b>Current taxation</b>		
UK corporation tax	49	43
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	(2)	2
Arising from changes in tax rates and laws	1	-
Total deferred taxation	(1)	2
Tax expense in the income statement	48	45

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

The differences are reconciled below:

	2020 £ 000	Group 2019 £ 000
Profit before tax	250	229
Corporation tax at standard rate	48	43
Effect of expense not deductible in determining taxable profit (tax loss)	(1)	2
Deferred tax expense from unrecognised tax loss or credit	1	-
Total tax charge	48	45

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

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

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

	2020 £ 000	Group 2019 £ 000
Deferred tax related to items recognised in other comprehensive income	(97)	8

## Connect Roads South Tyneside Holdings Limited

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

#### 10 Deferred tax and other provisions

	2020 £ 000	Group 2019 £ 000
At 1 January	636	642
Profit and loss movement	1	2
Movement through other comprehensive income	97	(8)
At 31 December	<u>734</u>	<u>636</u>

	Fair value movement on financial instruments £ 000	Group FRS102 transitional adjustment £ 000
At 1 January 2020	644	(8)
Movement in the year	97	1
At 31 December 2020	<u>741</u>	<u>(7)</u>

A deferred tax asset has been recognised and is considered recoverable as sufficient taxable profits are expected to arise in the foreseeable future.

The opening deferred tax balances in the financial statements were measured at 17%. For the year end 31 December 2020, a tax rate of 19% has been applied in line with rates enacted by the Finance Act 2020 which was enacted on 22 July 2020. This gives rise to a debit to the profit and loss account of £1k and a credit to the SOCIE of £76k.

On 4 March 2021 the UK Government announced an intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021 and hence the Group's deferred tax balances will be reassessed at that time. The impact of this rate change would have been an increase of around £232k to the Group's deferred tax assets as at 31 December 2020 if the tax increase had been substantively enacted by that date.

#### 11 Investments

	2020 £ 000	Company 2019 £ 000
Investment in subsidiary	<u>1</u>	<u>1</u>

## Connect Roads South Tyneside Holdings Limited

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

#### 11 Investments (continued)

##### Details of undertakings

The Parent Company has investments in the following subsidiary undertakings incorporated in the UK:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2020	2019
Connect Roads South Tyneside Limited	6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX	Ordinary	100%	100%

##### Subsidiary undertakings

###### *Connect Roads South Tyneside Limited*

The principal activity of Connect Roads South Tyneside Limited is a PFI concession company.

#### 12 Finance debtor

	2020 £ 000	Group 2019 £ 000
At 1 January	20,368	21,461
Installation and related costs	532	519
Accrued interest	1,310	1,406
Client income received in the year	(3,128)	(3,018)
	<u>19,082</u>	<u>20,368</u>

Finance debtor comprising:

	2020 £ 000	Group 2019 £ 000
Due within one year	1,290	1,287
Due after more than one year	17,792	19,081
	<u>19,082</u>	<u>20,368</u>

## Connect Roads South Tyneside Holdings Limited

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

#### 13 Debtors

	2020 £ 000	Group 2019 £ 000	2020 £ 000	Company 2019 £ 000
<b>Due within one year</b>				
Trade debtors	466	446	-	-
Prepayments	3	1	-	-
Secured loan notes	-	-	114	139
Accrued loan note interest receivable	-	-	51	62
	<u>469</u>	<u>447</u>	<u>165</u>	<u>201</u>
<b>Due after one year</b>				
Secured loan notes	-	-	1,803	1,917

#### 14 Creditors

	2020 £ 000	Group 2019 £ 000	2020 £ 000	Company 2019 £ 000
<b>Due within one year</b>				
Secured bank loan - term loan	1,655	1,587	-	-
Secured loan notes	114	139	114	139
Accrued secured loan interest payable	51	62	51	62
Trade creditors	180	185	-	-
VAT payable	135	120	-	-
Corporate tax liability	3	26	-	-
Accruals	19	37	-	-
	<u>2,157</u>	<u>2,156</u>	<u>165</u>	<u>201</u>
<b>Due after one year</b>				
Secured bank loan - term loan	15,722	17,078	-	-
Secured loan notes	1,803	1,917	1,803	1,917
Swap liability	3,901	3,788	-	-
	<u>21,426</u>	<u>22,783</u>	<u>1,803</u>	<u>1,917</u>

## Connect Roads South Tyneside Holdings Limited

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

#### 14 Creditors (continued)

The bank loans represent amounts borrowed under a facility agreement with a bank. The bank loans bear interest at a margin over the London Inter-Bank Offered Rate and are repayable in semi-annual instalments, with the final instalment due in 2030. The subordinated debt bears interest at 8% above RPIx and is payable to the shareholders in semi-annual instalments, with the final instalment due in 2030. The loans are secured over the Group's rights, title and interest in certain assets and/or revenues and over the Company's shares in its subsidiary and have certain covenants attached.

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

The subordinated loan stock is issued by the Company to Connect Roads South Tyneside Limited.

#### 15 Loans and borrowings

Analysis of maturity of debt:

	2020 £ 000	Group 2019 £ 000
Within one year or on demand	1,820	1,788
Between one and two years	1,455	1,455
Between two and five years	4,961	4,868
After five years	11,109	12,672
	<u>19,345</u>	<u>20,783</u>
		<b>Company</b>
	2020 £ 000	2019 £ 000
Within one year on demand	165	201
Between one and two years	129	114
Between two and five years	495	439
After five years	1,179	1,364
	<u>1,968</u>	<u>2,118</u>

## Connect Roads South Tyneside Holdings Limited

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

#### 16 Financial liabilities and instruments

##### Financial liabilities

Derivatives that are designated and effective as hedging instruments are carried at fair value.

	2020	Group Non-current 2019
	£ 000	£ 000
Interest rate swaps	3,901	3,788

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

The interest rate swaps settle on a six-monthly basis. The fixed interest rate on the interest rate swaps is 4.565% and the floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

##### Financial instruments

The carrying value of financial assets:

	2020	Group 2019
	£ 000	£ 000
Held at amortised cost	19,551	20,815
Held at cost, less impairment	2,065	2,069
At 31 December	21,616	22,884

The carrying value of financial liabilities:

	2020	Group 2019
	£ 000	£ 000
Held at amortised cost	19,682	21,151
Held at cost, less impairment	3,901	3,788
At 31 December	23,583	24,939



# Connect Roads South Tyneside Holdings Limited

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

### 16 Financial liabilities and instruments (continued)

#### Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102 section 12.29(a) for the cash flow hedge accounting models.

	2020 Carrying amount £ 000	Group 2019 Carrying amount £ 000
Liabilities	3,901	3,788
	2020 Expected cash flows £ 000	Group 2019 Expected cash flows £ 000
Less than 1 year	726	643
1 to 2 years	653	602
2 to 5 years	1,512	1,495
More than 5 years	1,044	1,340
At 31 December	3,935	4,080

### 17 Share capital

#### Allotted, called up and fully paid shares

	No.	2020 £	No.	2019 £
A ordinary shares of £1 each	800	800	800	800
B ordinary shares of £1 each	200	200	200	200
	1,000	1,000	1,000	1,000

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

The Group's other reserves are as follows:

- The profit and loss reserve represents cumulative profits or losses, net of dividends paid.
- The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

## Connect Roads South Tyneside Holdings Limited

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

#### 18 Related party transactions

##### Group

##### Transactions during the year

	2020 £ 000
Balfour Beatty Living Places - installation and maintenance	2,707
Balfour Beatty Investments - secondment	76
Balfour Beatty Infrastructure Investments - subordinated debt interest	35
Balfour Beatty Infrastructure Investments - subordinated debt principal	28
Equitix Infrastructure 4 Limited - subordinated debt interest	142
Equitix Infrastructure 4 Limited - subordinated debt principal	112
	<u>3,100</u>
	2019 £ 000
Balfour Beatty Living Places - installation and maintenance	2,355
Balfour Beatty Investments - secondment	69
Balfour Beatty Infrastructure Investments - subordinated debt interest	38
Balfour Beatty Infrastructure Investments - subordinated debt principal	10
Equitix Infrastructure 4 Limited - subordinated debt interest	152
Equitix Infrastructure 4 Limited - subordinated debt principal	41
	<u>2,665</u>

##### Outstanding balances at the end of the year

	2020 £ 000
Balfour Beatty Living Places - installation and maintenance	147
Balfour Beatty Investments - secondment	5
Balfour Beatty Infrastructure Investments - subordinated debt	392
Equitix Infrastructure 4 Limited - subordinated debt	1,576
	<u>2,120</u>
	2019 £ 000
Balfour Beatty Living Places - installation and maintenance	143
Balfour Beatty Investments - secondment	5
Balfour Beatty Infrastructure Investments - subordinated debt	423
Equitix Infrastructure 4 Limited - subordinated debt	1,694
	<u>2,265</u>

## **Connect Roads South Tyneside Holdings Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **19 Parent and ultimate parent undertaking**

The ultimate parent entities are Balfour Beatty plc and Equitix Fund IV LP, incorporated in the United Kingdom and registered in England and Wales. The Company is jointly controlled by Balfour Beatty plc and Equitix Fund IV LP.

Connect Roads South Tyneside Holdings Limited is the smallest and largest group in which these financial statements are consolidated in.

#### **20 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.