Connect Plus (M25) Limited

Report and financial statements for the year ended 31 March 2010

Registered Number: 6683845

Directors' Report

For the year ended 31 March 2010

The Directors present their report together with the audited financial statements of the Company for the year ended 31 March 2010 The comparative period was from 29 August 2008 to 31 March 2009

The Directors' Report has been prepared in accordance with the provisions relating to small companies

Principal Activity and Business Review

On 20 May 2009, the Company entered into a Private Finance Initiative contract with the Secretary of State for Transport to upgrade and maintain the M25 motorway for 30 years

The Directors expect the general level of activity to continue at current levels in the foreseeable future

Going Concern

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

Share Capital

The issued share capital at 31 March 2010 was £100 (2009 £100), which consisted of 100 ordinary shares of £1 each

Results and Dividends

The Company recorded a profit for the year after taxation of £1,493,000 (2009 loss £23,000) The Directors do not propose to declare a dividend in respect of the year ended 31 March 2010 (2009 £nil)

Principle Risks and Uncertainties

The Company 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 enable the business to improve performance and fulfil its contractual obligations

Financial instruments

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions Financial instruments are not used for speculative purposes Interest rate swaps are in place until 31 March 2036 to hedge 100% of interest expense

Credit and cash flow risks to the Company arise from its client, the Secretary of State for Transport The credit and cash flow risks are not considered significant as the client is the UK Government

The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings with an amortisation profile that matches the expected availability of funds from the Company's operating activities In addition the Company maintains reserve bank accounts to provide short term liquidity against future debt service and other expenditure requirements The Company continues to be profitable with strong reserves in the Balance Sheet and the Directors foresee this to continue in the future

Contractual relationships

The Company operates within a contractual relationship with its primary customer the Secretary of State for Transport A significant impairment of this relationship could have a direct and detrimental effect on the Company's results and could ultimately result in termination of the concession To manage this risk the Company has regular meetings with the Secretary of State for Transport's representatives including discussions on performance, project progress, future plans and customer requirements

Directors' Report (continued)
For the year ended 31 March 2010

Key Performance Indicators

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

	31 March 2010 £'000	31 March 2009 £'000
Profit / (loss) after taxation	1,493	(23)
Net assets / liabilities	1,470	(23)

The Directors consider that these KPIs are in line with expectations

Directors

The following persons were directors of the Company throughout the year, except where noted

P A Bannister	
C L Birdsong	
R Joosten	
I K Rylatt	(Resigned 25 March 2010)
T Jones	(Appointed 18 May 2009)
N Russell	(Appointed 18 May 2009)
D Steel	(Appointed 18 May 2009)
D James (Chairman)	(Appointed 18 May 2009)
A Campbell (Secretary)	(Appointed 18 May 2009)
B Walker	(Appointed 25 March 2010)

Financial risk management

The company is exposed to financial risk through its financial assets and liabilities The most important components of financial risk are interest rate risk, credit risk and liquidity risk Due to the nature of the Company's activities and the assets contained within the Company's balance sheet, the only financial risks the Directors consider relevant to the Company is liquidity risk Both the liquidity and credit risk are mitigated by the Company having financial reserves to cover its construction obligations

Payment to Suppliers

The Company agrees terms and conditions for its business transactions with suppliers Payment is then made to these terms, subject to the terms and conditions being met by the suppliers As at 31 March 2010 creditor days for the Company amounted to 23 days (2009 – nil days)

Directors' Report (continued)

For the year ended 31 March 2010

Auditors

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

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

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

In accordance with Section 487(2) of the Companies Act 2006 the Company has dispensed with the obligation to appoint auditors annually and accordingly Deloitte LLP shall be deemed to be reappointed as auditors for a further term

Connect Plus House
St Albans Road
South Mimms
Hertfordshire
EN6 3NP

By order of the Board

Alastair Campbell
Secretary
23 September 2010

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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 the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONNECT PLUS (M25) LIMITED

We have audited the financial statements of Connect Plus (M25) Limited for the year ended 31 March 2010 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' 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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONNECT PLUS (M25) LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime or take advantage of the small companies exemption in preparing the directors' report

Makhan Chahal

Makhan Chahal (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
23 September 2010

Profit and Loss Account

For the year ended 31 March 2010

	Notes	Year ended March 2010 £'000	Period ended March 2009 £'000
Turnover	2	39,419	-
Cost of sales		(31,468)	-
Gross profit		7,951	-
Administrative expenses		(6,162)	(23)
Operating profit/(loss)	3	1,789	(23)
Interest receivable and similar income	4	281	-
Profit/(loss) on ordinary activities before taxation		2,070	(23)
Tax on profit/(loss) on ordinary activities	5	(577)	-
Profit/(loss) on ordinary activities after taxation for the financial year	12	1,493	(23)

There were no recognised gains or losses in either year other than the reported profit shown above, consequently no separate statement of total recognised gains and losses is presented

All activities are from continuing operations in the United Kingdom

Balance Sheet

As at 31 March 2010

	Notes	2010 £'000	2009 £'000
Current assets			
Construction Work in Progress	6	414,257	22,416
Debtors	7	23,954	-
Investments due within one year	8	62,972	-
Cash at bank and in hand		5,214	-
		506,397	-
Creditors amounts falling due within one year	9	(35,253)	(22,439)
Net current assets		471,144	(23)
Creditors amounts falling due after more than one year	10	(469,674)	-
Net assets		1,470	(23)
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	1,470	(23)
Shareholders' funds	13	1,470	(23)

These financial statements for Connect Plus (M25) Limited, company registration number 6683845, were approved by the Board of Directors on 23 September 2010 and signed on its behalf by

A Campbell
Director

Notes to the accounts
For the year ended 31 March 2010

1 Accounting policies

A summary of the principal accounting policies of the Company, all of which have been applied consistently during the year and where relevant the preceding period, is set out below

a) *Basis of preparation*

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards They include the results of the activities described in the Directors' Report all of which are continuing

b) *Cash Flow Statement*

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary of Connect Plus (M25) Holdings Limited, which prepares consolidated financial statements that are publicly available

c) *Turnover*

Revenue is recognised as turnover as it is earned and represents amounts due, exclusive of value added tax, in respect of services provided to the Secretary of State for Transport

d) *Construction work in progress*

All construction costs including the capitalised interest on finance and incidental costs up to the date of completion of major works are recorded as construction work in progress

e) *FRS 5 Finance debtor*

The Company operates a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be an asset of the company under Financial Reporting Standard 5 Application Note F "Private Finance Initiative and Similar Contracts"

During the construction phase of the project, all attributable expenditure is included in construction work in progress Upon the asset becoming operational, the costs are transferred to the FRS 5 finance debtor During the operational phase, income is allocated between interest receivable and the finance debtor using a project specific rate The remainder of the PFI unitary charge income is included within turnover

f) *Taxation*

Corporation 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

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

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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

Notes to the accounts (continued)

For the year ended 31 March 2010

1 Accounting policies (continued)

g) Finance costs

Finance costs in relation to bank loans are recognised at a constant rate in accordance with the carrying value of these loans

g) Borrowings

Bank loans are initially stated at the amount of the net proceeds after deduction of 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

h) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument The Company does not hold or issue derivative financial instruments for speculative purposes

i) Going concern

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

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 Secretary of State for Transport to meet their payment obligations for the M25 PFI contract and do not consider this to be a material risk The company's forecasts and projections, taking account of reasonably possible counterparty performance, show the company expects to be able to continue to operate for the full term of the concession After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence

2 Turnover

Turnover by origin and destination

	Year ended March 2010 £'000	Period ended March 2009 £'000
United Kingdom	39,419	-

Notes to the accounts (continued)
For the year ended 31 March 2010

3 Operating profit / (loss)

	Year ended March 2010 £'000	Period ended March 2009 £'000
Operating profit / (loss) is stated after charging		
Fees payable to the company's auditors for the audit of the company's annual accounts	19	22
Fees payable to the company's auditors for the audit of the Connect Plus (M25) Intermediate Limited and Connect Plus (M25) Holdings Limited	1	1

Amounts payable to Deloitte LLP by the Company in respect of non audit services were £nil (2009 £nil)

The Directors received no salary, fees or other benefits in the performance of their duties in respect of their services to the Company in the year (2009 £nil) All staff costs are borne by the shareholders of Connect Plus (M25) Holdings Limited which seconds its employees to the Company and charges related service costs The Company had no employees during the year (2009 nil)

4 Interest receivable and similar income

	Year ended March 2010 £'000	Period ended March 2009 £'000
Bank interest receivable	281	-
	281	-

5 Tax on profit / (loss) on ordinary activities

	Year ended March 2010 £'000	Period ended March 2009 £'000
The tax charge is based on the profit / (loss) for the year and comprises		
Current tax		
UK corporation tax charge at 28% (2009 28%)	577	-
Total tax on profit / (loss) on ordinary activities	577	-

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	Year ended March 2010 £'000	Period ended March 2009 £'000
Profit / (loss) on ordinary activities before tax	2,070	(23)
Tax on profit / (loss) on ordinary activities at applicable UK corporation tax rate of 28% (2009 28%)	580	(7)
Effect of		
Tax losses (utilised)/not recognised	(7)	7
Expenditure not deductable for tax	4	-
Current tax charge for year	577	-

Notes to the accounts (continued)

For the year ended 31 March 2010

6 Construction Work in Progress

	2010 £'000	2009 £'000
Construction Work in Progress	414,257	22,416

7 Debtors

	2010 £'000	2009 £'000
Trade debtors	9,715	-
VAT receivable	3,630	-
Other debtors and prepayments	10,609	-
	23,954	-

8 Investments due within one year

Investments due within one year represents amounts held on deposit with financial institutions which are not available for withdrawal without penalty in under 24 hours and, in accordance with the Group's funding arrangements, are restricted and may not be useable to fund the ongoing operations of the Group

9 Creditors amounts falling due within one year

	2010 £'000	2009 £'000
Other creditors and accruals	6,541	23
Amounts due to associated undertakings	28,135	22,416
Corporation tax	577	-
	35,253	22,439

10 Creditors. amounts falling due after one year

	2010 £'000	2009 £'000
Amounts due from associated undertakings	75,671	-
Secured bank loans	394,003	-
	469,674	-

The bank loans represent amounts borrowed under facility agreements with a commercial bank syndicate and the European Investments Bank ("EIB") As of 31 March 2010 the company had committed undrawn banking facilities of £698m The bank loans bear interest at fixed rates and at variable rates a margin over the London Inter-Bank Offered Rate and are repayable in instalments between 2011 and 2030 The loans are secured over the Company's rights, title and interest in certain assets and/or revenues, and over the immediate parent company's shares in the Company and have certain covenants attached

Notes to the accounts (continued)

For the year ended 31 March 2010

10 Creditors. amounts falling due after one year (continued)

The commercial bank syndicate has guaranteed EIB repayment of £81 3m of the loans EIB has made to the company (2009 £nil) The commercial bank syndicate has provided the company a committed letter of credit facility of £247m for the sole purpose of providing this guarantee and as of 31 March none of the letters of credit had been utilised

In order to hedge against interest rate variations on the loans the Company has entered into an interest rate swap agreement whereby the Company has agreed to exchange at monthly intervals with its bankers sums reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount The fair value of the interest rate swaps at 31 March 2010 was a liability of £39 2m (2009 £nil) Market value has been used to determine the fair value

In order to hedge the value of future PFI contract receipts to be received from the Secretary of State for Transport until 31 March 2036, the Company entered into a series of RPI swap contracts The fair value of the RPI swaps at 31 March 2010 was a liability of £80 6m Market value has been used to determine the fair value

The borrowings are repayable as follows

	2010 £'000	2009 £'000
Repayable within one year	-	-
Repayable between one and two years	-	-
Repayable between two and five years	22,526	-
Repayable after five years	472,616	-
	495,142	-
Less unamortised issue costs	(25,468)	-
	469,674	-

11 Called Up Share Capital

	2010 £	2009 £
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100

12 Profit and loss account

	2010 £'000	2009 £'000
At 1 April	(23)	-
Profit / (loss) for the financial year	1,493	(23)
At 31 March	1470	(23)

Notes to the accounts (continued)

For the year ended 31 March 2010

13 Reconciliation of movements in shareholders' funds/(deficit)

	2010 £'000	2009 £'000
At 1 April	(23)	-
Profit / (loss) for the financial year	1,493	(23)
At 31 March	1,470	(23)

14 Related party transactions

As a subsidiary undertaking of Connect Plus (M25) Holdings Limited the Company has taken advantage of the exemption in FRS 8 "Related Party Disclosure" from disclosing transactions with other members of the group headed by Connect Plus (M25) Holdings Limited

15 Ultimate parent company and controlling party

The Company's immediate parent company is Connect Plus (M25) Holdings Limited, which is incorporated in Great Britain and registered in England and Wales Connect Plus (M25) Holdings Limited is the parent company of the largest and smallest group of which the Company is a member and for which group accounts are drawn up Copies of these financial statements can be obtained from Connect Plus House, St Albans Road, South Mimms, Hertfordshire, EN6 3NP

The ultimate parent company's controlling parties are Balfour Beatty plc, Skanska AB, WS Atkins plc and Egis Projects SA, in the ratio 40 40 10 10