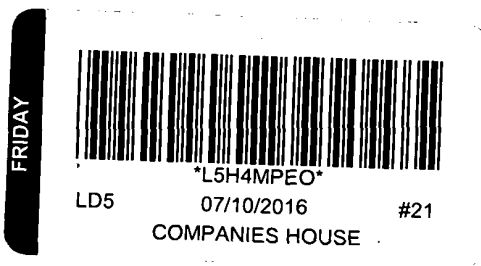


**Company Registration No. 06683845**

**Connect Plus (M25) Limited**

**Annual Report and Financial Statements**

**31 March 2016**



**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Annual Report and financial statements**  
**For the year ended 31 March 2016**

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**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Strategic report**

The directors, in preparing this Strategic Report, have complied with section 414c of the Companies Act 2006.

**Principal activity**

Connect Plus (M25) Limited is incorporated in the United Kingdom, registered in England and Wales and domiciled in the United Kingdom. The principal activity of the company is the operation of a 30 year PFI contract to develop and maintain the M25 motorway.

On 20 May 2009 Connect Plus (M25) Limited 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 construction of this initial upgrade was completed in July 2012. On 21 December 2012 Highways England commissioned a further 45km of road widening on the M25 under the existing agreement and construction was completed in March 2015.

No change in the company's activities is anticipated.

**Change to accounting framework**

The Financial Reporting Council ('FRC') developed a set of new Financial Reporting Standards ('FRS') applicable for periods beginning on or after 1 January 2015 that provide a number of options for all UK entities. These revised financial reporting standards fundamentally reform financial reporting and are implemented by FRS 100 'Application of Financial Reporting Requirements' ('FRS 100'). FRS 100 sets out rules and guidance on the appropriate accounting framework options for companies and groups within FRS 101 'Reduced Disclosure Framework' ('FRS 101'), FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' ('FRS 102') or EU-adopted IFRS.

**Transition to FRS 102**

The Company has chosen to adopt FRS 102. The Company assessed the options available and by deciding to adopt FRS 102, the existing accounting treatment in the concession is retained to a high degree. This is because this choice of treatment allows the existing concession accounting treatment for the financial asset to be retained by invoking Schedule 35.10 and the 'grandfathering' provisions that permit the retention and use of the existing financial standard, FRS 5: Reporting the Substance of Transactions.

Within the FRS 102 framework we adopted the provisions of IAS 39 to measure and recognise financial instruments. Financial instruments are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. In respect of derivatives IAS39 requires that the values associated with the swap agreements related to the senior loan financing be recorded on the balance sheet at their fair value.

An explanation of how the transition affected the previously reported financial position and financial performance of the Company has been disclosed in Note 22 to the financial statements. The transition date from the previous accounting standards is 1 April 2014.

**Review of the business**

Connect Plus (M25) Limited has performed well financially and costs have been in line with the base case projections prepared in 2009 after adjusting for inflation.

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Strategic report (continued)**

**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:


	2016 £'000	restated 2015 £'000
Profit after taxation	20,868	17,622
Net liabilities	(217,582)	(222,296)

The company is in a net liability position primarily because of the requirement under FRS 102 to recognise the swap liabilities; this does not affect operational performance. The directors consider that (allowing for the change in accounting policy) the KPIs are in line with expectations.

**Principal risks**

The principal risks have been considered in the Directors' report under Financial Risk Management.

This report was approved by the board on 22 September 2016 and signed on its behalf.



Alastair Campbell  
Company Secretary  
Connect Plus House  
St Albans Road  
South Mimms  
Hertfordshire  
EN6 3NP

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

## **Directors' report**

The directors present their report together with the audited financial statements of the company for the year ended 31 March 2016. The directors expect the general level of operating activity to continue at current levels. There have been no changes to the company's operating activities in the year under review and none are currently contemplated.

The following information has been disclosed in the Strategic Report:

- Principal Activities and Business Review
- Key Performance Indicators

### **Results and dividends**

The company recorded a profit for the year after taxation of £20,868,000 (2015: profit £17,622,000). The directors declared a dividend in respect of the year ended 31 March 2016 of £11,121,000 (2015: £21,534,000).

### **Going concern**

The company operates a long term operations and maintenance contract for the M25 motorway. 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. The net liability position arises as a result of the changes to the accounting framework and the requirement under FRS 102 to recognise the current market valuation of interest rate swaps and RPI swaps. The company is meeting the key operational requirements of the PFI contract and Highways England and also operating within the required parameters of lenders. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

### **Share capital**

The issued share capital at 31 March 2016 was £100 (2015: £100), which consisted of 100 ordinary shares of £1 each.

### **Principal risks and uncertainties**

Meeting the commitments to the Secretary of State for Transport and delivering a safe and efficient service are critical to the company's success. Identifying, anticipating and managing operational risks is key to meeting these objectives.

### **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. Interest rate risk is managed via interest swaps held to hedge the interest cost of the company's loans. Due to the nature of the company's activities and the assets contained within the company's balance sheet, the only financial risk the directors consider relevant to the company is liquidity risk. This is mitigated by the company having financial reserves to cover its obligations.

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Directors' report (continued)**

**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 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' indemnities**

The company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

**Directors**

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

P A Bannister  
N Thomas  
T Jones  
A Campbell (Company Secretary)  
B Walker  
A Benhatta  
J Guyett  
D Hughes  
C Richardson

None of the directors held any interest in the company's shares during the year.

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Directors' report (continued)**

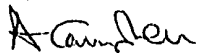
**Provision of information to auditor**

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 auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

This report was approved by the board on 22 September 2016 and signed on its behalf



Alastair Campbell  
Company Secretary  
Connect Plus House  
St Albans Road  
South Mimms  
Hertfordshire  
EN6 3NP

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**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 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 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 to 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 auditor's report to the members of Connect Plus (M25) Limited**

**Company Registration No. 06683845**

We have audited the financial statements of Connect Plus (M25) Limited for the year ended 31 March 2016 which comprise Statement of Comprehensive Income, the Company Statement of Financial Position, the Company Statement of Changes in Equity, and the related notes 1 to 22. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2016 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.

# **Independent auditor's report to the members of Connect Plus (M25) Limited (continued)**

Company Registration No. 06683845

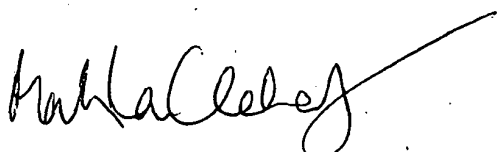
## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **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 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.



Makhan Chahal, FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

30th September 2016

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Statement of Comprehensive Income**  
**For the year ended 31 March 2016**

		2016	restated 2015
	Notes	£'000	£'000
Turnover	3	119,018	172,316
Cost of sales		(97,940)	(151,829)
Gross profit		21,078	20,487
Administrative expenses		(13,893)	(14,398)
Operating profit	4	7,185	6,089
Interest receivable and similar income	5	123,199	123,987
Interest payable and similar charges	6	(104,278)	(107,667)
Profit on ordinary activities before taxation		26,106	22,409
Tax on profit on ordinary activities	7	(5,238)	(4,787)
Profit on ordinary activities after taxation for the financial year		20,868	17,622
Other comprehensive income for the year			
Fair value movement gain /(loss) on derivatives		2,053	(99,854)
Deferred tax on fair value movements on financial instruments		(7,086)	19,971
Total comprehensive income / (loss)		15,835	(62,261)

All activities are from continuing operations in the United Kingdom.

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Company Statement of Financial Position**  
**For the year ended 31 March 2016**

		2016 £'000	restated 2015 £'000
<b>Current assets</b>			
Debtors	8	47,312	45,751
Debtors – amounts falling due after one year	9	1,208,041	1,228,366
Investments due within one year	10	148,984	63,336
Cash at bank and in hand		29,202	116,431
		<u>1,433,539</u>	<u>1,453,884</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(59,574)</u>	<u>(83,452)</u>
<b>Net current assets</b>		<u>1,373,965</u>	<u>1,370,432</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(1,591,547)</u>	<u>(1,592,728)</u>
<b>Net liabilities</b>		<u>(217,582)</u>	<u>(222,296)</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss account		56,135	46,388
Hedge reserve		<u>(273,717)</u>	<u>(268,684)</u>
<b>Shareholder's deficit</b>		<u>(217,582)</u>	<u>(222,296)</u>

The financial statements of Connect Plus (M25) Limited, company registration number 06683845 were approved by the Board of Directors on 22 September 2016 and signed on its behalf by:



A Campbell  
 Company Secretary and Director

**Connect Plus (M25) Limited**  
**Company Registration No. 06683845**

**Company Statement of Changes in Equity**  
**For the year ended 31 March 2016**

	<b>Called up share capital £'000</b>	<b>Hedging Reserve £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
At 31 March 2014 as previously stated	-	-	49,774	49,774
Changes on transition to FRS102 (see note 22)	-	(188,801)	526	(188,275)
At 31 March 2014 restated		(188,801)	50,300	(138,501)
Profit for the year	-	-	17,622	17,622
Fair value movement (loss) on derivatives	-	(99,854)	-	(99,854)
Deferred tax on fair value movements on financial instruments	-	19,971	-	19,971
Total comprehensive loss for the year	-	(79,883)	17,622	(62,261)
Dividends paid on equity shares	-	-	(21,534)	(21,534)
At 31 March 2015	-	(268,684)	46,388	(222,296)
Profit for the year	-	-	20,868	20,868
Fair value movement gain on derivatives	-	2,053	-	2,053
Deferred tax on fair value movements on financial instruments	-	(7,086)	-	(7,086)
Total comprehensive income for the year	-	(5,033)	20,868	15,835
Dividends paid on equity shares	-	-	(11,121)	(11,121)
At 31 March 2016	-	(273,717)	56,135	(217,582)

**Notes to the financial statements**  
**For the year ended 31 March 2016**

**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 in the preceding period, is set out below:

**a) General information and basis of accounting**

Connect Plus (M25) Limited is a company incorporated in the Great Britain under the Companies Act. The address of the registered office is given on page 2. The nature of the company's operations and its principal activities are set out in the Strategic Report pages 1 to 2 and the Directors' report on pages 3 to 5.

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £'000.

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 Strategic Report all of which are continuing.

These financial statements for the year ended 31 March 2016 are the first financial statements of Connect Plus (M25) Limited prepared in accordance with FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 April 2014.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, mainly in relation to the presentation of a cash flow statement and financial instruments.

The Company's parent undertaking Connect Plus (M25) Holdings Limited has been notified of and did not object to the use of these disclosure exemptions.

**b) Cash flow statement**

The company has taken advantage of the disclosure exemptions set out in Para 1.12(b) of FRS 102 and has not prepared 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) Financial liabilities – Debt instruments**

As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard which has resulted in the recognition and additional disclosures of financial instruments held by the Company. Within the FRS 102 framework we adopted the provisions of IAS 39 to measure and recognise financial instruments. Financial instruments are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**1 Accounting policies (continued)**

**e) Basic financial assets**

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

**f) Loans and receivables**

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

**g) Service Concession**

The Company has been established to provide services under certain private finance agreements with Highways England. Under the terms of these Agreements, Highways England (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

The Company has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10 (i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 April 2014). The nature of the asset has therefore not changed.

Under the terms of the arrangement, the Company has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (the Council), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

**h) Impairment of financial assets**

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

**i) Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**1 Accounting policies (continued)**

**j) Classification of financial liabilities**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

**k) Other financial liabilities - Derivatives**

As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard which has resulted in the recognition and additional disclosures of financial instruments held by the Company. Within the FRS 102 framework we adopted the provisions of IAS 39 to measure and recognise financial instruments.

The company uses derivative financial instruments to reduce exposure to interest rate movements. Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement. 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.

**l) Hedge accounting**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the fair value of the derivative financial instrument is recognised directly in the statement of comprehensive income as other comprehensive income or expense. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Where hedge accounting recognises a liability then an associated deferred tax asset is also recognised.

**m) Derecognition of financial liabilities**

Financial liabilities are derecognised when, and only when, the obligation specified in the contract is discharged, cancelled, or expires.



**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**1 Accounting policies (continued)**

**n) 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.

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

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

**o) 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 Strategic report on pages 1 to 2 and the Directors' report on pages 3 to 5.

The current economic conditions create some general uncertainty particularly because of the recent UK referendum result. The directors have reviewed the company'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. The disclosure of the current swap valuations has resulted in a financial position of net liabilities however this should not affect the operational performance of the company. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence.

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

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

The directors consider there to be no critical judgements, apart from those involving estimations which are dealt with separately below.

**Critical judgements**

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

**Key sources of estimation uncertainty**

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

***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 Company 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 £278,142,000 for interest rate swaps and £55,660,000 for RPI swaps. The directors do not consider the impact of this credit risk to be material.

***Service concession arrangement***

As disclosed in note 1, the Company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin 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 Company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of lifecycle spend.

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**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**3. Turnover**

Turnover by origin and destination:

	2016 £'000	2015 £'000
United Kingdom	<u>119,018</u>	<u>172,316</u>

**4. Operating profit**

	2016 £'000	2015 £'000
Operating profit is stated after charging:		
Fees payable to the company's auditor for the audit of the company's annual financial statements	25	20
Fees payable to the company's auditor for the audit of the Connect Plus (M25) Intermediate Limited and Connect Plus (M25) Holdings Limited	<u>1</u>	<u>1</u>

Amounts payable to Deloitte LLP by the company in respect of non audit services were £nil (2015: £52,000).

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 (2015: £nil). All staff costs are borne by the shareholders of the company's immediate parent undertaking Connect Plus (M25) Holdings Limited which second its employees to the company and charges related service costs.

**5. Interest receivable and similar income**

	2016 £'000	2015 £'000
Bank interest receivable	545	510
Interest imputed on contract debtor receivable	<u>122,654</u>	<u>123,477</u>
	<u>123,199</u>	<u>123,987</u>

**6. Interest payable and similar charges**

	2016 £'000	restated 2015 £'000
Bank interest payable	79,800	83,396
Interest payable to shareholders	<u>24,478</u>	<u>24,271</u>
	<u>104,278</u>	<u>107,667</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**7. Tax**

**a) Tax on profit on ordinary activities**

	2016 £'000	restated 2015 £'000
The tax charge is based on the profit for the year and comprises:		
UK corporation tax charge	5,104	6,257
Deferred tax expense resulting from origination and reversal of temporary timing differences	134	(1,470)
<b>Total tax on profit on ordinary activities</b>	<b>5,238</b>	<b>4,787</b>

**b) Tax included in the other comprehensive income for the year**

	2016 £'000	2015 £'000
<i>Deferred tax:</i>		
Deferred tax on fair value movements on financial instruments	(7,086)	19,971
<b>Total tax (credit) / charge</b>	<b>(7,086)</b>	<b>19,971</b>

**c) Factors affecting the total tax charge**

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:

	2016 £'000	restated 2015 £'000
Profit on ordinary activities before tax	26,106	22,409
Tax on profit on ordinary activities at applicable UK corporation tax rate of 20% (2015: 21%)	5,221	4,706
Effect of:		
Expenditure not deductible for tax	17	8
Change of tax rate on FRS 102 adjustment	-	73
<b>Total tax expense</b>	<b>5,238</b>	<b>4,787</b>

**d) Factors that may affect future tax charges**

The Finance Act 2015 was enacted on 26 October 2015 and provides for further rate reductions to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. These rates were substantively enacted at the statement of financial position date and have been reflected in the calculation.

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**7. Tax (continued)**

**e) Deferred Tax**

The deferred tax included in the balance sheet is included in the balance sheet as follows:

	2016 £'000	2015 £'000
Included in debtors amounts falling due after one year (Note 9)	61,288	68,507
	<u>61,288</u>	<u>68,507</u>

The deferred tax asset comprises:

FRS 102 Swap liability	60,084	67,170
FRS 102 Amortisation of issue costs	1,204	1,337
	<u>61,288</u>	<u>68,507</u>

	2016 £'000	2015 £'000
Deferred tax at 1 April	68,508	47,067
Other comprehensive (expense) / income movement	(7,086)	19,971
Profit and loss movement	(134)	1,470
Deferred tax asset at 31 March	<u>61,288</u>	<u>68,508</u>

**8. Debtors**

	2016 £'000	2015 £'000
Contract debtor receivable	13,136	11,556
Trade debtors	60	8,512
Amounts due from associate undertakings	123	852
Other debtors and prepayments	33,993	24,831
	<u>47,312</u>	<u>45,751</u>

**Connect Plus (M25) Limited**  
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**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**9. Debtors amounts falling due after one year**

	2016 £'000	restated 2015 £'000
Contract debtor receivable	1,146,753	1,159,858
Deferred tax asset	61,288	68,508
	<u>1,208,041</u>	<u>1,228,366</u>

**10. 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 company's funding arrangements, are restricted and may not be useable to fund the ongoing operations of the company.

**11. Creditors: amounts falling due within one year**

	2016 £'000	2015 £'000
Trade creditors	4,525	1,312
Other creditors and accruals	16,796	23,590
Amounts due to associated undertakings	23,287	37,119
Corporation tax	1,370	2,872
Other taxes and social security costs	4,653	5,664
Loans from associated undertaking (note 13)	3,157	2,167
Secured bank loans (note 13)	5,786	10,728
	<u>59,574</u>	<u>83,452</u>

**12. Creditors: amounts falling due after one year**

	2016 £'000	restated 2015 £'000
Loans from associated undertaking (note 13)	202,846	205,489
Secured bank loans (note 13)	1,054,899	1,051,385
Swap liability (note 14)	333,802	335,854
	<u>1,591,547</u>	<u>1,592,728</u>

**Connect Plus (M25) Limited**  
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**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**13. Financial Liabilities - Debt Instruments**

	2016 £'000	restated 2015 £'000
Loans from associated undertaking	206,003	207,656
Secured bank loans	1,060,685	1,062,113
	<u>1,266,688</u>	<u>1,269,769</u>

The bank loans represent amounts borrowed under facility agreements with a commercial bank syndicate and the European Investments Bank ("EIB"). 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 up to 2036.

During the year £nil (2015: £nil) of interest was capitalised.

*Loan Guarantees*

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.

The borrowings are repayable as follows:

	2016 £'000	restated 2015 £'000
Repayable within one year	8,942	12,896
Repayable between one and two years	9,821	7,456
Repayable between two and five years	48,440	33,941
Repayable after five years	1,205,895	1,230,214
	<u>1,273,098</u>	<u>1,284,507</u>
Less: Unamortised issue costs	(6,410)	(14,738)
	<u>1,266,688</u>	<u>1,269,769</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**14. Financial Liabilities - Derivatives**

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 2016 was a liability of £278m (2015: £266m). 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 2016 was a liability of £56m (2015: £69m). Market value has been used to determine the fair value.

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

	Current		Non-current	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Interest rate swaps	-	-	278,142	266,359
RPI swaps	-	-	55,660	69,495
	-	-	333,802	335,854

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Company'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 4.6792% and the floating rate on the interest rate swaps is six months' LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis. The RPI swaps settle on a six-monthly basis and they are hedged at an RPI rate of 2.498%.

**15. Called up share capital**

	2016	2015
	£	£
Allotted, called up and fully paid 100 Ordinary shares of £1 each	100	100

**19. Capital commitments**

	2016	2015
	£'000	£'000
Contracted but not provided for	-	-

**20. Related party transactions**

The company has taken advantage of the disclosure exemptions set out in Para 1.12(e) of FRS 102 and has not disclosed transaction with other members of the group headed by Connect Plus (M25) Holdings Limited as it is a wholly owned subsidiary of Connect Plus, which prepares consolidated financial statements that are publicly available.



**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**21. Ultimate parent company and controlling party**

The company's immediate parent company is Connect Plus (M25) Holdings Limited, which is incorporated in the United Kingdom 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.

**22. Explanation of transition to FRS 102**

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard which has resulted in the recognition and additional disclosures of financial instruments held by the Company. Within the FRS 102 framework we adopted the provisions of IAS 39 to measure and recognise financial instruments. Listed below are the notes to the reconciliation of equity at 31 March 2014 and 31 March 2015 and reconciliation of profit for the year ended 31 March 2015.

	At 1 April 2014 £'000	At 31 March 2015 £'000
<b>Reconciliation of equity</b>		
Equity reported under previous UK GAAP	49,774	51,740
Adjustment to equity on transition to FRS102		
FRS 102 Adjustments to senior loans (Note 1)	11,242	3,326
FRS 102 Adjustments to shareholder loans (Note 1)	(10,584)	(10,016)
To bring fair value of derivative financial instruments (Note 2)	(236,000)	(335,854)
Deferred tax on fair value of swap liability (Note 3)	47,199	67,170
Deferred tax on treatment of issue costs (Note 3)	(132)	1,338
	<u>(138,501)</u>	<u>(222,296)</u>
<b>Reconciliation of profit for 2015</b>		£'000
<b>Profit for the financial year under previous UK GAAP</b>		23,500
FRS 102 Adjustments to senior loans (Note 1)		(7,916)
FRS 102 Adjustments to shareholder loans (Note 1)		568
Deferred tax on FRS 102 treatment of issue costs		1,470
<b>Profit for the financial year under FRS102</b>		<u>17,622</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2016**

**22. Explanation of transition to FRS 102 (continued)**

**Note 1 – Interest on loans using effective interest rate**

FRS 102 requires that the amortised cost of a financial instrument be calculated using the “effective interest method”. This method allocates interest income / expense over the relevant period by applying the “effective interest rate” to the carrying amount of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Implementation of FRS 102 changes the profile of the amortisation of the loan values. This has also changed the profile of amortisation of issue costs.

**Note 2 – Fair value of interest rate swap**

Under previous UK GAAP the fair value of the interest rate swap was disclosed in the notes to the financial statements. Under FRS 102, the Company is required to recognise the fair value of derivative financial instruments on the balance sheet. In the table above recognition of the fair value of the interest rate swap reflects an asset on the balance sheet at 1 April 2014 and 31 March 2015. The fair value movement on the interest rate swap, which is in an effective hedging relationship, is recognised through the hedging reserve.

**Note 3 – Deferred Tax**

Under previous UK GAAP there was no requirement to recognise or disclose deferred tax relating to financial instruments. Under FRS 102, the Company is required to recognise deferred tax on all fair value movements. Consequently, a deferred tax liability arises on recognition of the fair value of the interest rate swap on 1 April 2014 and 31 March 2015. The deferred tax on the fair value movement in 2014 is recognised through the hedging reserve.