

**Company Registration No. 06683845**

**Connect Plus (M25) Limited**

**Annual Report and Financial Statements**

**31 March 2017**



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

**Annual Report and financial statements**  
**For the year ended 31 March 2017**

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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 Highways England 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.

### **Review of the business**

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

### **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:

	2017 £'000	2016 £'000
Profit after taxation	18,657	20,868
Net liabilities	(236,995)	(217,582)

The net liability position arises as a result of the requirement under FRS 102 to recognise the current market valuation of interest rate swaps and RPI swaps; this does not affect operational performance. The directors consider that the KPIs are in line with expectations.

### **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 are key to meeting these objectives.

This report was approved by the board on 28 September 2017 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 2017. 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
- Principal Risks and Uncertainties

### **Results and dividends**

The company recorded a profit for the year after taxation of £18,657,000 (2016: profit £20,868,000). The directors declared and paid on the 10<sup>th</sup> June 2016 an interim dividend in respect of the year ended 31 March 2017 of £5,493,000 (2016: £11,121,000).

### **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 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 2017 was £100 (2016: £100), which consisted of 100 ordinary shares of £1 each.

### **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**  
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**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, Highways England. 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 Highways England. 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 Highways England'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	(resigned 24 January 2017)
A Benhatta	
A Campbell	
A Dean	(appointed 3 April 2017)
J Guyett	
D Hughes	
T Jones	(resigned 3 April 2017)
R Knight	(appointed 24 January 2017)
D McDonagh	(appointed 24 January 2017)
C Richardson	
N Thomas	(resigned 24 January 2017)
B Walker	

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

**Connect Plus (M25) Limited**  
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**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.

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.

This report was approved by the board on 28 September 2017 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**

**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 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 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S 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 2017 set out on pages 8 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 set out on page 5, 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**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:


- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

**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.



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

*2 October 2017*

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

**Company Statement of Comprehensive Income**  
**For the year ended 31 March 2017**

	Notes	2017 £'000	2016 £'000
<b>Turnover</b>	3	129,074	119,018
Cost of sales		(108,290)	(97,940)
<b>Gross profit</b>		20,784	21,078
Administrative expenses		(14,514)	(13,893)
<b>Operating profit</b>	4	6,270	7,185
Interest receivable and similar income	5	121,627	123,199
Interest payable and similar expenses	6	(104,359)	(104,278)
<b>Profit before taxation</b>		23,538	26,106
Tax on profit	7	(4,881)	(5,238)
<b>Profit after taxation for the financial year</b>		<u>18,657</u>	<u>20,868</u>
<b>Other comprehensive income for the year</b>			
Fair value movement (loss) / gain on derivatives	14	(35,347)	2,053
Deferred tax on fair value movements on financial instruments	7	2,770	(7,086)
<b>Total comprehensive income</b>		<u>(13,920)</u>	<u>15,835</u>

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 2017**

	Notes	2017 £'000	2016 £'000
<b>Current assets</b>			
Debtors	8	90,940	47,312
Debtors – amounts falling due after one year	9	1,199,694	1,208,041
Investments due within one year	10	132,591	148,984
Cash at bank and in hand		30,851	29,202
		<u>1,454,076</u>	<u>1,433,539</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(85,839)</u>	<u>(59,574)</u>
<b>Net current assets (including £1,199,694k (2016: £1,208,041k) due after one year)</b>		<u>1,368,237</u>	<u>1,373,965</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(1,605,232)</u>	<u>(1,591,547)</u>
<b>Net liabilities</b>		<u>(236,995)</u>	<u>(217,582)</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss account		69,299	56,135
Hedging reserve		<u>(306,294)</u>	<u>(273,717)</u>
<b>Shareholder's deficit</b>		<u>(236,995)</u>	<u>(217,582)</u>

The financial statements of Connect Plus (M25) Limited, company registration number 06683845 were approved by the Board of Directors on 28 September 2017 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 2017**

	<b>Called up share capital £'000</b>	<b>Hedging Reserve £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>At 31 March 2015</b>	-	(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 (loss)/income for the year	-	(5,033)	20,868	15,835
Dividends paid on equity shares	-	-	(11,121)	(11,121)
<b>At 31 March 2016</b>	-	(273,717)	56,135	(217,582)
Profit for the year	-	-	18,657	18,657
Fair value movement (loss) on derivatives	-	(35,347)	-	(35,347)
Deferred tax on fair value movements on financial instruments	-	2,770	-	2,770
Total comprehensive income for the year	-	(32,577)	18,657	(13,920)
Dividends paid on equity shares	-	-	(5,493)	(5,493)
<b>At 31 March 2017</b>	-	(306,294)	69,299	(236,995)

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

**Notes to the financial statements**  
**For the year ended 31 March 2017**

**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 1. The nature of the company's operations and its principal activities are set out in the Strategic Report page 1 and the Directors' report on pages 2 to 4.

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 amendments to FRS 102 issued in July 2015 have been applied.

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, except for derivative financial instruments held at Fair Value, 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.

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 Highways England.

**d) Financial Instruments**

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 2017**

#### **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 (Highways England), 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.

## **Connect Plus (M25) Limited**

Company Registration No. 06683845

### **Notes to the financial statements (continued)**

**For the year ended 31 March 2017**

#### **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 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 2017**

#### **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 page 1 and the Directors' report on pages 2 to 4.

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 Highways England 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 recognition of the current swap valuations has resulted in a financial position of net liabilities however this does 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.

##### **p) Cash restrictions**

The company has secured loans which place restrictions on distribution of cash to shareholders and require the company to hold various minimum cash balances at all times.

## **Notes to the financial statements (continued)**

### **For the year ended 31 March 2017**

#### **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 on-going 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 £281m for interest rate swaps and £89m for RPI swaps. The directors do not consider the impact of this credit risk to be material due to the nature of the client.

##### ***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 regular reviews of lifecycle spend.

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2017**

**3. Turnover**

Turnover by origin and destination:

	2017 £'000	2016 £'000
United Kingdom	129,074	119,018

**4. Operating profit**

	2017 £'000	2016 £'000
Operating profit is stated after charging:		
Fees payable to the company's auditor for the audit of the company's annual financial statements	15	25
Fees payable to the company's auditor for the audit of the Connect Plus (M25) Intermediate Limited and Connect Plus (M25) Holdings Limited	1	1

Amounts payable to KPMG LLP by the company in respect of non-audit services were £nil (2016: £nil).

All staff costs are borne by the shareholders of the company's immediate parent undertaking Connect Plus (M25) Holdings Limited which second their employees to the company and charge related service costs. The aggregate remuneration paid to the directors was £835k (2016: £798k). The remuneration of the highest paid director was £254k (2016 £242k).

**5. Interest receivable and similar income**

	2017 £'000	2016 £'000
Bank interest receivable	552	545
Interest imputed on contract debtor receivable	121,075	122,654
	121,627	123,199

**6. Interest payable and similar expenses**

	2017 £'000	2016 £'000
Bank interest payable	80,221	79,800
Interest payable to shareholders	24,138	24,478
	104,359	104,278

## Connect Plus (M25) Limited

Company Registration No. 06683845

### Notes to the financial statements (continued)

For the year ended 31 March 2017

#### 7. Tax

##### a) Tax on profit

	2017 £'000	2016 £'000
The tax charge is based on the profit for the year and comprises:		
UK corporation tax charge	4,694	5,104
Deferred tax expense resulting from origination and reversal of temporary timing differences	187	134
Total tax on profit	<u>4,881</u>	<u>5,238</u>

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

	2017 £'000	2016 £'000
<i>Deferred tax:</i>		
Deferred tax on fair value movements on financial instruments	(2,770)	7,086
Total tax (credit)/charge	<u>(2,770)</u>	<u>7,086</u>

##### 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:

	2017 £'000	2016 £'000
Profit before tax	23,538	26,106
Tax on profit at applicable UK corporation tax rate of 20% (2016: 20%)	4,707	5,221
Effect of:		
Expenditure not deductible for tax	120	17
Change of tax rate on FRS 102 adjustment	54	-
Total tax expense	<u>4,881</u>	<u>5,238</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2017**

**7. Tax (continued)**

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

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 March 2017 has been calculated based on these rates.

**e) Deferred Tax**

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

	2017 £'000	2016 £'000
Included in debtors amounts falling due after one year (Note 9)	63,871	61,288
	<u>63,871</u>	<u>61,288</u>
The deferred tax asset comprises:		
FRS 102 Swap	62,854	60,084
FRS 102 Amortisation of issue costs	1,017	1,204
	<u>63,871</u>	<u>61,288</u>
	2017 £'000	2016 £'000
Deferred tax at 1 April	61,288	68,508
Other comprehensive expense	2,770	(7,086)
Profit and loss movement	(187)	(134)
Deferred tax asset at 31 March	<u>63,871</u>	<u>61,288</u>

**Notes to the financial statements (continued)**  
**For the year ended 31 March 2017**

**8. Debtors**

	2017 £'000	2016 £'000
Contract debtor receivable	14,551	13,136
Trade debtors	29,729	60
Amounts due from associate undertakings	63	123
Other debtors and prepayments	46,597	33,993
	<u>90,940</u>	<u>47,312</u>

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

	2017 £'000	2016 £'000
Contract debtor receivable	1,135,823	1,146,753
Deferred tax asset	63,871	61,288
	<u>1,199,694</u>	<u>1,208,041</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 on-going operations of the company.

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

	2017 £'000	2016 £'000
Trade creditors	5,267	4,525
Other creditors and accruals	27,368	16,796
Amounts due to associated undertakings	28,848	23,287
Corporation tax	1,364	1,370
Other taxes and social security costs	5,083	4,653
Loans from associated undertaking (note 13)	-	3,157
Secured bank loans (note 13)	17,909	5,786
	<u>85,839</u>	<u>59,574</u>

## Connect Plus (M25) Limited

Company Registration No. 06683845

### Notes to the financial statements (continued)

For the year ended 31 March 2017

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

	2017 £'000	2016 £'000
Loans from associated undertaking (note 13)	204,488	202,846
Secured bank loans (note 13)	1,031,014	1,054,899
Swap liability (note 14)	369,730	333,802
	<u>1,605,232</u>	<u>1,591,547</u>

#### 13. Financial Liabilities - Debt Instruments

	2017 £'000	2016 £'000
Loans from associated undertaking	204,488	206,003
Secured bank loans	1,048,923	1,060,685
	<u>1,253,411</u>	<u>1,266,688</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 with a margin over the London Inter-Bank Offered Rate and are repayable in instalments up to 2036. The loans from associated undertaking bears interest at 12% and is payable to the shareholders in semi-annual instalments between 2017 and 2039.

During the year £nil (2016: £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:

	2017 £'000	2016 £'000
Repayable within one year	17,909	8,942
Repayable between one and two years	25,650	9,821
Repayable between two and five years	149,852	48,440
Repayable after five years	1,062,010	1,205,895
	<u>1,255,421</u>	<u>1,273,098</u>
Less: Unamortised issue costs	(2,010)	(6,410)
	<u>1,253,411</u>	<u>1,266,688</u>

## Notes to the financial statements (continued)

### For the year ended 31 March 2017

#### 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 2017 was a liability of £281m (2016: £278m). Market value has been used to determine the fair value. 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.

In order to hedge the value of future PFI contract receipts to be received from Highways England until 31 March 2036, the company entered into a series of RPI swap contracts. The fair value of the RPI swaps at 31 March 2017 was a liability of £89m (2016: £56m). Market value has been used to determine the fair value.

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

	Non-current	
	2017	2016
	£'000	£'000
Interest rate swaps	280,940	278,142
RPI swaps	88,790	55,660
	<u>369,730</u>	<u>333,802</u>

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

	2017	2016
	£	£
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

#### 16. 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.

**Connect Plus (M25) Limited**  
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**Notes to the financial statements (continued)**  
**For the year ended 31 March 2017**

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

The company's immediate and ultimate 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 controlling parties are Balfour Beatty plc, Equitix Ltd, Grosvenor Capital Management LP, Egis Projects SA and Dalmore Capital Ltd, in the ratio 40:25:17:10:8.