

Registration number: 06683845

# Connect Plus (M25) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2020



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

### **Contents**

Strategic Report	1 to 2
Directors' Report	3 to 4
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	5
Independent Auditor's Report to the Members of Connect Plus (M25) Limited	6 to 7
Profit and Loss Account	8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 to 25

## Connect Plus (M25) Limited

### Strategic Report for the Year Ended 31 March 2020

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

#### Principal activity

The principal activity of the Company is the operation of a 30 year Private Finance Initiative ("PFI") contract to develop and maintain the M25 motorway (the "Concession Agreement").

On 20 May 2009 Connect Plus (M25) Limited entered into a PFI contract with Highways England (the "Client") to upgrade and maintain the M25 motorway for 30 years. The construction of the 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.

#### Review of the Business

The results for the year are set out on page 8. The profit for the year after taxation was £25,382k (2019: loss of £31,931k). The net liabilities position as at 31 March 2020 was £209,358k (2019: £242,788k).

The profit has significantly increased this year compared to the prior year. This is mainly due to the one-off interest expense cost of £68,506k incurred in 2019 in relation to refinancing the Company. The decrease in net liabilities in the year ended 31 March 2020 is attributable to a gain in relation to RPI rate swaps.

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

#### Key Performance Indicators

The Company has set specific business objectives, which are monitored using a number of Key Performance Indicators ("KPI's"). The relevant KPI's for this report are detailed below.

	2020	2019
	£ 000	£ 000
Profit after tax	25,382	(31,931)
Net liabilities	<u>(209,358)</u>	<u>(242,788)</u>

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

#### Principal Risks and Uncertainties

The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the PFI contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil our contractual obligations.

#### Contractual relationships

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

#### Credit & cash flow risks

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

## Connect Plus (M25) Limited

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

#### Liquidity risk

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.

#### Brexit

The Directors have considered the potential consequences to the Company of the United Kingdom leaving the European Union and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Company. This is primarily because the Company's contractual agreements, including those which cover its financing, are unlikely to be affected.

#### COVID-19

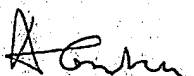
The Directors have considered the potential impacts on the Company of the COVID-19 emergency and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Company's ability to continue as a going concern.

In making this assessment the Directors have considered the Government Guidance, as issued on 2 April 2020: "Supporting vital service provision in PFI/PF2 (and related) contracts during the COVID-19 emergency."

The Directors expect the Company can continue to meet its contractual obligations and that Highways England will adhere to the guidance as issued, and therefore the unitary charge payments will be maintained, and the cash flows of the company are unlikely to be affected. Additionally, the Directors have considered the contingency plans that the Company's supply chain has in place and consider that, in conjunction with the government guidance and taking account of reasonably possible counterparty performance, this will enable services to be maintained.

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

Approved by the Board on 16 October 2020 and signed on its behalf by:



A J Campbell  
Company secretary and director

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

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

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

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

The following information has been disclosed in the Strategic Report.

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

#### **Going Concern**

The Directors, as elaborated further in the Strategic Report, do not expect any significant change to the Company's activities to occur in the following financial year.

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 RPI swaps.

The Company is meeting the key operational requirements of the PFI contract with 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 2020 was £100 (2019: £100).

#### **Results and Dividends**

The audited financial statements for the year ended 31 March 2020 are set out on pages 8 to 25 . The profit for the year after taxation was £25,382k (2019: loss of £31,931k). The Directors paid a dividend in respect of the year ended 31 March 2020 of £34,970k (2019: £37,285k).

#### **Directors of the Company**

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

S Athanassiou

A Benhatta

P M Bentley

A J Campbell - Company secretary and director

A M Dean

J S Gordon

J E Guyett

R D Knight

B P Millsom

P A Skerman

B R Walker

S D Worthy

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

### **Directors' Report for the Year Ended 31 March 2020 (continued)**

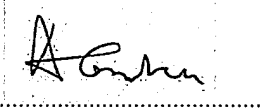
#### **Disclosure of Information to the Auditor**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

#### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 16 October 2020 and signed on its behalf by:



A J Campbell  
Company secretary and director

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

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

### **Independent Auditor's Report to the Members of Connect Plus (M25) Limited**

#### **Opinion**

We have audited the financial statements of Connect Plus (M25) Limited (the 'Company') for the year ended 31 March 2020, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going Concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

#### **Strategic Report and Directors' Report**

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.



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

### **Independent Auditor's Report to the Members of Connect Plus (M25) Limited (continued)**

#### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, 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.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

This report is made solely to the 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.



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

Date: ...19 October 2020.....

## Connect Plus (M25) Limited

### Profit and Loss Account for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	6	163,202	171,210
Cost of sales		<u>(131,941)</u>	<u>(142,222)</u>
Gross profit		31,261	28,988
Administrative expenses		<u>(15,361)</u>	<u>(14,062)</u>
Operating profit		15,900	14,926
Interest receivable and similar income	7	117,790	119,299
Interest payable and similar expenses	8	<u>(103,641)</u>	<u>(172,402)</u>
Profit/(loss) before tax		30,049	(38,177)
Taxation	9	<u>(4,667)</u>	<u>6,246</u>
Profit/(loss) for the financial year		<u><u>25,382</u></u>	<u><u>(31,931)</u></u>

All activities are from continuing operations in the United Kingdom.

# **Connect Plus (M2S) Limited**

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


	2020 £ 000	2019 £ 000
Profit/(loss) for the year	<u>25,382</u>	<u>(31,931)</u>
Unrealised gain/(loss) on cash flow hedges before tax	46,648	(11,462)
Income tax effect	(3,630)	1,091
Amortisation of cash flow hedge balances held in reserves	<u>-</u>	<u>12,389</u>
	<u>43,018</u>	<u>2,018</u>
Total comprehensive income for the year	<u><u>68,400</u></u>	<u><u>(29,913)</u></u>

The notes on pages 12 to 25 form an integral part of these financial statements.

**Connect Plus (M25) Limited**  
**(Registration number: 06683845)**  
**Balance Sheet as at 31 March 2020**

	Note	2020 £ 000	2019 £ 000
<b>Non current assets</b>			
Deferred tax	10	61,105	63,672
<b>Current assets</b>			
Debtors - amounts falling due within one year	11	91,100	96,667
Debtors - amounts falling due after one year	11	1,108,274	1,120,215
Investments due within one year		43,247	42,961
Cash at bank and in hand		136,684	109,590
		<u>1,379,305</u>	<u>1,369,433</u>
<b>Creditors: Amounts falling due within one year</b>	12	<u>(116,576)</u>	<u>(86,196)</u>
<b>Net current assets (including £1,108,274k (2019: £1,120,215k) due after one year)</b>		<u>1,262,729</u>	<u>1,283,237</u>
<b>Total assets less current liabilities</b>		1,323,834	1,346,909
<b>Creditors: Amounts falling due after more than one year</b>	12	<u>(1,533,192)</u>	<u>(1,589,697)</u>
<b>Net liabilities</b>		<u>(209,358)</u>	<u>(242,788)</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Cash flow hedge reserve		(218,425)	(261,443)
Profit and loss account		9,067	18,655
<b>Total equity</b>		<u>(209,358)</u>	<u>(242,788)</u>

Approved and authorised by the Board on 16 October 2020 and signed on its behalf by:



A J Campbell  
Company secretary and director

# **Connect Plus (M25) Limited**

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

	<b>Called up share capital £ 000</b>	<b>Cash flow hedge reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 April 2018	-	(263,461)	87,871	(175,590)
Loss for the year	-	-	(31,931)	(31,931)
Other comprehensive income	-	2,018	-	2,018
Dividends	-	-	(37,285)	(37,285)
At 31 March 2019	-	(261,443)	18,655	(242,788)
	<b>Called up share capital £ 000</b>	<b>Cash flow hedge reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 April 2019	-	(261,443)	18,655	(242,788)
Profit for the year	-	-	25,382	25,382
Other comprehensive income	-	43,018	-	43,018
Dividends	-	-	(34,970)	(34,970)
At 31 March 2020	-	(218,425)	9,067	(209,358)

The notes on pages 12 to 25 form an integral part of these financial statements.

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

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

#### **1 Accounting policies**

Connect Plus (M25) Limited (the 'Company') is a private company incorporated, domiciled and registered in England in the UK. The registered number is 06683845 and the registered address is Connect Plus House, St Albans Road, South Mimms, EN6 3NP.

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

#### **Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, unless otherwise stated.

The Company's immediate parent undertaking, Connect Plus (M25) Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Connect Plus (M25) Holdings Limited are available to the public and may be obtained from the address in note 17.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Connect Plus (M25) Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1 of the Companies Act 2006.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through the profit or loss are stated at their fair value.

#### **Going concern**

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

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Connect Plus (M25) Limited

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

#### 1 Accounting policies (continued)

##### *COVID-19*

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of more than 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on Highways England continuing to meet its obligations under the Project Agreement which are Guaranteed by the Secretary of State for Transport

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

The Company's operating cash inflows are largely dependent on unitary charge receipts from Highways England and the Directors expect these amounts to be received even in severe but plausible possible downside scenarios.

The contract payments are availability-based. The Company continues to provide availability of the asset in accordance with the contract. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

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

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

##### **Service concession agreement**

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

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

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

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

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

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

##### **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.

##### **Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

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

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

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

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

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

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



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

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

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

##### **Financial instruments**

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

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

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

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

Investments realisable within one year held by the Company represent amounts held on deposit with a financial institution which are not available for withdrawal without penalty in under 24 hours. Investments realisable within one year are stated at amortised cost with the interest receivable being recognised at a constant rate over the life of the investment.

Cash and cash equivalents comprise cash balances and call deposits. 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.

###### ***Impairment***

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

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

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

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

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

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

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

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

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

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

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

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

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

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

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

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

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

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

##### **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.

##### Hedging

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

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

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

##### Service concession arrangement

The 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 maintenance spend.

##### Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the 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.

## Connect Plus (M25) Limited

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

#### 2 Critical accounting judgements and key sources of estimation and uncertainty (continued)

##### Cash flow hedge reserve amortisation upon termination

As part of the refinancing transaction in 2019, the Company repaid the existing commercial loan and issued fixed rate bonds. The Company terminated the existing interest rate swaps upon issuance of fixed rate debt. This is because the interest cash flows will be fixed from this point. The Directors have made a significant judgement that the interest payments on the bonds can be regarded as representing the forecast transactions for which the interest rate swap instruments were in a hedge relationship. Accordingly, the amounts in Hedging Reserve in respect of this is amortised to the Other Comprehensive Income as interest payable and similar expenses in future periods as the interest expense on the fixed loan is recorded in the Other Comprehensive Income.

##### Gain share

Under the concession agreement with Highways England ("HE"), the grantor, HE, is entitled to a share of the benefits that are generated upon an advantageous refinancing transaction in 2019 - the "HE gain share". The Company applies FRS102 with the accounting policy choice of applying IFRS 9. The payment of the gain share will be via a reduction in the Unitary charge. Under IFRS 9, transaction costs are included in the initial measurement of financial assets and financial liabilities, except for those measured at fair value through profit and loss. The Directors regard the gain share as a financing cost of the issuance of the new debt and modification of the European Investment Bank ("EIB") loan, and have apportioned the costs into the effective interest rate calculation of the amended EIB loan and the bond. The Directors consider that these incremental costs are those that would not have been incurred if the instrument had not been acquired, originated or issued.

##### EIB loan terms

The EIB loan has been modified as an integral part of the refinancing transaction in 2019. The Directors have considered both the qualitative and quantitative aspects of the changes to determine whether the modification is substantial or non-substantial. From the quantitative perspective, the Directors have performed the 10-percent test, assessing whether the net present value of the cash flows under the new terms, including any fees paid and discounted at the original effective interest rate differs by at least 10 percent from the net present value of the remaining cash flows under the original terms. The 10-percent test was not exceeded, based on which it was concluded that the modification is a non-substantial change and accordingly, the carrying amount of the liability is adjusted by discounting the modified future cash flows by the original effective interest rate and recognising any gain or loss immediately. In addition, the carrying amount of the liability is adjusted for fees and transaction costs incurred which are amortised over the remaining life of the modified liability. For the purpose of qualitative assessment, the directors believe there are no changes to indicate a different conclusion.

#### 3 Auditors' remuneration

The audit fee for the Company was £32k (2019: £77k).

Amounts payable to KPMG LLP by the Company in respect of non-audit services were £Nil (2019: £42k).

## Connect Plus (M25) Limited

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

#### 4 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Remuneration	<u>695</u>	<u>754</u>

The remuneration of the highest paid director was £197k (2019: £195k).

#### 5 Staff costs

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 Company had no employees during the year.

#### 6 Turnover

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

	2020 £ 000	2019 £ 000
UK	<u>163,202</u>	<u>171,210</u>

#### 7 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	1,118	1,208
Interest imputed on contract debtor receivable	<u>116,672</u>	<u>118,091</u>
	<u>117,790</u>	<u>119,299</u>

#### 8 Interest payable and similar charges

	2020 £ 000	2019 £ 000
Bank and bond interest payable	80,675	79,937
Costs arising from refinancing	-	68,506
Interest payable to associated undertakings	<u>22,966</u>	<u>23,959</u>
	<u>103,641</u>	<u>172,402</u>

## Connect Plus (M25) Limited

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

#### 9 Taxation

Tax charged/(credited) in the income statement

	2020 £ 000	2019 £ 000
<b>Current taxation</b>		
UK corporation tax	5,697	1,420
UK corporation tax adjustment to prior periods	<u>33</u>	<u>-</u>
	5,730	1,420
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	<u>(1,063)</u>	<u>(7,666)</u>
Tax expense/(receipt) in the income statement	<u><u>4,667</u></u>	<u><u>(6,246)</u></u>

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

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit/(loss) before tax	<u>30,049</u>	<u>(38,177)</u>
Corporation tax at standard rate	5,709	(7,254)
Effect of expense not deductible in determining taxable profit (tax loss)	3	(30)
Deferred tax (credit)/expense relating to changes in tax rates or laws	(1,078)	1,038
Increase in current tax from adjustment for prior periods	<u>33</u>	<u>-</u>
Total tax charge/(credit)	<u><u>4,667</u></u>	<u><u>(6,246)</u></u>

The Company earns its results primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the current UK corporation tax rate of 19% (2018: 19%).

For the year end 31 March 2020, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2016. The Finance Act 2016, which was substantively enacted on 6 September 2016, provided for a reduction in the main rate of UK corporation tax to 19% effective from 1 April 2016 and a further reduction to 17% from 1 April 2020. However, the Finance Bill 2020 substantively enacted on 17 March 2020 supersedes this, and states, that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021.

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

	2020 £ 000	2019 £ 000
Deferred tax related to items recognised as items of other comprehensive income	<u>(3,630)</u>	<u>1,091</u>

## Connect Plus (M25) Limited

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

#### 10 Deferred tax and other provisions

	2020 £ 000	2019 £ 000
At 1 April	63,672	54,915
Profit and loss movement	1,063	7,666
Movement through other comprehensive income	<u>(3,630)</u>	<u>1,091</u>
At 31 March	<u>61,105</u>	<u>63,672</u>
	<b>Fair value movement on financial instruments £ 000</b>	<b>FRS102 transitional adjustment £ 000</b>
At 1 April 2019	62,990	682
Movement in the year	<u>(2,520)</u>	<u>(47)</u>
At 31 March 2020	<u>60,470</u>	<u>635</u>

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

The deferred tax balances in the financial statements were measured at the future rate of 17% in the prior period, in line with the Finance Act 2016 which was substantively enacted on 6 September 2016. The Finance Bill 2020 which was substantively enacted on 17 March 2020 stated that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021. The prior year closing deferred tax balances were recognised at 17%. The deferred tax balances recognised in the accounts for the year ended 31 March 2020, have been recalculated and recognised at 19%. The impact of recalculating the deferred tax balances at 19% as at 31 March 2020, gives rise to a credit to the SOCIE of £7,491k.

#### 11 Debtors

	2020 £ 000	2019 £ 000
<b>Due within one year</b>		
Trade debtors	4	23,982
Amounts owed by related parties	16	13
Prepayments and other debtors	68,605	54,973
Contract debtor receivable	19,746	17,539
Corporation tax recoverable	<u>2,729</u>	<u>160</u>
	<u>91,100</u>	<u>96,667</u>
<b>Due after one year</b>		
Contract debtor receivable	<u>1,108,274</u>	<u>1,120,215</u>

## Connect Plus (M25) Limited

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

#### 12 Creditors

	2020 £ 000	2019 £ 000
<b>Due within one year</b>		
Secured bank loans	6,400	2,928
Loan from fellow subsidiary undertaking	11,822	5,189
Loans from associated undertakings	3,036	2,475
Trade creditors	15,700	8,473
VAT payable	4,741	2,996
Accruals	52,241	43,761
Amounts due to associated undertakings	22,636	20,374
	<u>116,576</u>	<u>86,196</u>
<b>Due after one year</b>		
Secured bank loans	383,040	390,274
Loan from fellow subsidiary undertaking	846,931	865,635
Loans from associated undertakings	192,869	195,905
RPI swap liability	110,352	137,883
	<u>1,533,192</u>	<u>1,589,697</u>

#### 13 Loans and borrowings

	2020 £ 000	2019 £ 000
Secured bank loans	389,440	393,202
Bonds issued	858,753	870,824
Loans from associated undertaking	195,905	198,380
	<u>1,444,098</u>	<u>1,462,406</u>

The bank loans represent amounts borrowed under facility agreements with the EIB. In July 2018, the Company entered into a £892,575k loan agreement with Connect Plus (M25) Issuer plc, a fellow subsidiary undertaking, and the proceeds were used to repay the commercial bank syndicate facility and its associated interest swap contracts. These both bear interest at fixed rates and are repayable in instalments up to 2039.

#### Loan Guarantees:

The secured bank 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.



## Connect Plus (M25) Limited

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

#### 13 Loans and borrowings (continued)

Analysis of maturity of debt:

	2020 £ 000	2019 £ 000
Within one year or on demand	35,608	25,729
Between one and two years	36,734	35,608
Between two and five years	132,642	117,981
After five years	1,217,995	1,269,393
Effective interest rate adjustment	21,119	13,694
	<u>1,444,098</u>	<u>1,462,405</u>

#### 14 Financial liabilities and instruments

##### Financial liabilities

	2020 £ 000	Non-current 2019 £ 000
RPI swaps	<u>110,352</u>	<u>137,883</u>

The RPI swaps settle on a six-monthly basis and they are hedged at an RPI rate of 2.410%.

##### Financial instruments

The carrying value of financial assets:

	2020 £ 000	2019 £ 000
Held at amortised cost	<u>1,128,020</u>	<u>1,161,749</u>

The carrying value of financial liabilities:

	2020 £ 000	2019 £ 000
Held at amortised cost	110,352	137,883
Held at cost, less impairment	<u>1,539,416</u>	<u>1,538,009</u>
At 31 March	<u>1,649,768</u>	<u>1,675,892</u>

## Connect Plus (M25) Limited

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

#### 14 Financial liabilities and instruments (continued)

##### Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models.

	2020 Carrying amount £ 000	2019 Carrying amount £ 000
Liabilities	110,352	137,883
	2020 Expected cash flows £ 000	2019 Expected cash flows £ 000
Less than 1 year	1,694	1,636
1 to 2 years	2,054	2,139
2 to 5 years	8,515	9,726
More than 5 years	105,091	154,718
At 31 March	117,354	168,219

#### 15 Share capital

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

	No.	2020 £	No.	2019 £
Ordinary shares of £1 each	100	100	100	100

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

The Company's other reserves are as follows:

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

#### 16 Related party transactions

The Company has taken advantage of the disclosure exemptions set out in FRS 102.33 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 (M25) Holdings Limited, which prepares consolidated financial statements that are publicly available.

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

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

#### **17 Parent and ultimate parent undertaking**

The Company's immediate parent is Connect Plus (M25) Holdings Limited, incorporated in the United Kingdom and registered in England and Wales, with registered office of Connect Plus House, St Albans Road, South Mimms, Hertfordshire, EN6 3NP.

The ultimate controlling parties are Equitix Ltd, Dalmore Capital Ltd, Grosvenor Capital Management LP, Balfour Beatty plc and Egis Projects SA, with interests in the ratio 37.5:20:17.5:15:10, respectively.

The largest and smallest group in which these financial statements are consolidated is Connect Plus (M25) Holdings Limited, copies of whose financial statements are available from 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX.

#### **18 Subsequent events**

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