

Company Registration No. 06683845

Connect Plus (M25) Limited

Annual Report and Financial Statements

31 March 2018



Connect Plus (M25) Limited
Company Registration No. 06683845

Annual Report and financial statements
For the year ended 31 March 2018

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Connect Plus (M25) Limited
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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:

	2018 £'000	2017 £'000
Profit after taxation	18,572	18,657
Net liabilities	(175,590)	(236,995)

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 30 May 2018 and signed on its behalf.



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

Connect Plus (M25) Limited

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Directors' report

The directors present their report together with the audited financial statements of the company for the year ended 31 March 2018. 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 £18,572,000 (2017: profit £18,657,000). No dividend was declared during the year (2017: £5,493,000).

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 2018 was £100 (2017: £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.

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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:

A Benhatta
A Campbell
A Dean
J Guyett
D Hughes
R Knight
D McDonagh
C Richardson
B Walker

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

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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 *30 May* 2018 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;
- 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
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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 2018 which comprise the Company Statement of Comprehensive Income, the Company Statement of Financial Position, the Company 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 2018 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

Connect Plus (M25) Limited
Company Registration No. 06683845

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNECT PLUS (M25) LIMITED
(Continued)

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.

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

30 May 2018

Connect Plus (M25) Limited
Company Registration No. 06683845

Company Statement of Comprehensive Income
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	3	127,409	129,074
Cost of sales		(105,558)	(108,290)
Gross profit		21,851	20,784
Administrative expenses		(14,667)	(14,514)
Operating profit	4	7,184	6,270
Interest receivable and similar income	5	120,222	121,627
Interest payable and similar expenses	6	(104,618)	(104,359)
Profit before taxation		22,788	23,538
Tax on profit	7	(4,216)	(4,881)
Profit after taxation for the financial year		<u>18,572</u>	<u>18,657</u>
Other comprehensive income for the year			
Fair value movement gain / (loss) on derivatives	14	51,690	(35,347)
Deferred tax on fair value movements on derivatives	7	(8,857)	2,770
Total comprehensive income		<u>61,405</u>	<u>(13,920)</u>

All activities are from continuing operations in the United Kingdom.

The notes on pages 11 to 22 form part of these financial statements.

Connect Plus (M25) Limited
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Company Statement of Financial Position
For the year ended 31 March 2017

	Notes	2018 £'000	2017 £'000
Current assets			
Debtors	8	95,115	90,940
Debtors – amounts falling due after one year	9	1,169,817	1,199,694
Investments due within one year	10	64,107	132,591
Cash at bank and in hand		140,536	30,851
		<u>1,469,575</u>	<u>1,454,076</u>
Creditors: amounts falling due within one year	11	<u>(106,562)</u>	<u>(85,839)</u>
Net current assets (including £1,169,817k (2017: £1,199,694k) due after one year)		<u>1,363,013</u>	<u>1,368,237</u>
Creditors: amounts falling due after more than one year	12	<u>(1,538,603)</u>	<u>(1,605,232)</u>
Net liabilities		<u>(175,590)</u>	<u>(236,995)</u>
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account		87,871	69,299
Hedging reserve		<u>(263,461)</u>	<u>(306,294)</u>
Shareholder's deficit		<u>(175,590)</u>	<u>(236,995)</u>

The notes on pages 11 to 22 form part of these financial statements.

The financial statements of Connect Plus (M25) Limited, company registration number 06683845 were approved by the Board of Directors on *30 May* 2018 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 2018

	Called up share capital £'000	Hedging Reserve £'000	Profit and loss account £'000	Total £'000
At 31 March 2016	-	(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/(loss) for the year	-	(32,577)	18,657	(13,920)
Dividends paid on equity shares	-	-	(5,493)	(5,493)
At 31 March 2017	-	(306,294)	69,299	(236,995)
Profit for the year	-	-	18,572	18,572
Fair value movement gain on derivatives	-	51,690	-	51,690
Deferred tax on fair value movements on financial instruments	-	(8,857)	-	(8,857)
Total comprehensive income for the year	-	42,833	18,572	61,405
Dividends paid on equity shares	-	-	-	-
At 31 March 2018	-	(263,461)	87,871	(175,590)

The notes on pages 11 to 22 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2018

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 the Company has 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 2018

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.

Notes to the financial statements (continued)

For the year ended 31 March 2018

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 2018

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 2018

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 £239m for interest rate swaps and £78mm 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 2018

3. Turnover

Turnover by origin and destination:

	2018 £'000	2017 £'000
United Kingdom	127,409	129,074

4. Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Fees payable to the company's auditor for the audit of the company's annual financial statements	24	15
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 (2017: £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 £695k (2017: £835k). The remuneration of the highest paid director was £187k (2017 £254k).

5. Interest receivable and similar income

	2018 £'000	2017 £'000
Bank interest receivable	563	552
Interest imputed on contract debtor receivable	119,659	121,075
	120,222	121,627

6. Interest payable and similar expenses

	2018 £'000	2017 £'000
Bank interest payable	79,404	80,221
Interest payable to shareholders	25,214	24,138
	104,618	104,359

Notes to the financial statements (continued)
For the year ended 31 March 2018

7. Tax

a) Tax on profit

	2018	2017
	£'000	£'000
The tax charge is based on the profit for the year and comprises:		
UK corporation tax charge	4,128	4,694
Over provision in prior years	(11)	-
Deferred tax expense resulting from origination and reversal of temporary timing differences	98	187
	<hr/>	<hr/>
Total tax on profit	<u>4,216</u>	<u>4,881</u>

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

	2018	2017
	£'000	£'000
<i>Deferred tax:</i>		
Deferred tax on fair value movements on financial instruments	8,857	(2,770)
	<hr/>	<hr/>
Total tax (credit)/charge	<u>8,857</u>	<u>(2,770)</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:

	2018	2017
	£'000	£'000
Profit before tax	22,788	23,538
	<hr/>	<hr/>
Tax on profit at applicable UK corporation tax rate of 19% (2017: 20%)	4,330	4,707
Effect of:		
Expenditure not deductible for tax	(75)	120
FRS 102 adjustment	(39)	54
	<hr/>	<hr/>
Total tax expense	<u>4,216</u>	<u>4,881</u>

Notes to the financial statements (continued)
For the year ended 31 March 2018

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 2018 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:

	2018 £'000	2017 £'000
Included in debtors amounts falling due after one year (Note 9)	54,915	63,871
	<u>54,915</u>	<u>63,871</u>

The deferred tax asset comprises:

FRS 102 Swap	54,025	62,854
FRS 102 Amortisation of issue costs	890	1,017
	<u>54,915</u>	<u>63,871</u>

	2018 £'000	2017 £'000
Deferred tax at 1 April	63,871	61,288
Other comprehensive expense	(8,857)	2,770
Profit and loss movement	(99)	(187)
Deferred tax asset at 31 March	<u>54,915</u>	<u>63,871</u>

Notes to the financial statements (continued)
For the year ended 31 March 2018

8. Debtors

	2018	2017
	£'000	£'000
Contract debtor receivable	16,119	14,551
Trade debtors	27,611	29,729
Amounts due from associate undertakings	40	63
Other debtors and prepayments	51,345	46,597
	<u>95,115</u>	<u>90,940</u>

9. Debtors amounts falling due after one year

	2018	2017
	£'000	£'000
Contract debtor receivable	1,114,902	1,135,823
Deferred tax asset	54,915	63,871
	<u>1,169,817</u>	<u>1,199,694</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

	2018	2017
	£'000	£'000
Trade creditors	8,156	5,267
Other creditors and accruals	38,748	27,368
Amounts due to associated undertakings	38,400	28,848
Corporation tax	1,346	1,364
Other taxes and social security costs	4,688	5,083
Secured bank loans (note 13)	15,224	17,909
	<u>106,562</u>	<u>85,839</u>

Notes to the financial statements (continued)
For the year ended 31 March 2018

12. Creditors: amounts falling due after one year

	2018 £'000	2017 £'000
Loans from associated undertaking (note 13)	204,445	204,488
Secured bank loans (note 13)	1,016,531	1,031,014
Swap liability (note 14)	317,627	369,730
	<u>1,538,603</u>	<u>1,605,232</u>

13. Financial Liabilities - Debt Instruments

	2018 £'000	2017 £'000
Loans from associated undertaking	204,445	204,488
Secured bank loans	1,031,754	1,048,923
	<u>1,236,199</u>	<u>1,253,411</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 (2017: £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:

	2018 £'000	2017 £'000
Repayable within one year	15,224	17,909
Repayable between one and two years	32,232	25,650
Repayable between two and five years	145,210	149,852
Repayable after five years	1,040,889	1,062,010
	<u>1,233,555</u>	<u>1,255,421</u>
Less: Effective interest rate adjustment	2,644	(2,010)
	<u>1,236,199</u>	<u>1,253,411</u>

Notes to the financial statements (continued)

For the year ended 31 March 2018

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 2018 was a liability of £239m (2017: £281m). 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 2018 was a liability of £78m (2017: £89m). 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	
	2018	2017
	£'000	£'000
Interest rate swaps	239,466	280,940
RPI swaps	78,161	88,790
	<u>317,627</u>	<u>369,730</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

	2018	2017
	£	£
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

Company Registration No. 06683845

Notes to the financial statements (continued)

For the year ended 31 March 2018

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, 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.

18. Post balance sheet event

Since 31 March 2018 the Company has been engaged with its financial advisors reviewing the possibility replacing existing loans with new loan facilities and associated adjustments to derivative agreements, retained loan facilities, and the Company's concession agreement with Highways England. As at the balance sheet date the review was at an exploratory phase and no commitment has been entered into to modify any agreement. As at the date of approval of these accounts the board and shareholders has given preliminary approval to proceed with a refinancing and detailed negotiations with stakeholders are underway. However, no irrevocable undertakings to any counterparty have been given. This has been treated as a non-adjusting post balance sheet event.