

Connect Plus (M25) Holdings Limited

Report and financial statements for the year ended 31 March 2010

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Directors' Report

For the year ended 31 March 2010

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

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

Principal Activity and Business Review

The Company is an investment holding company whose sole business is the holding of an investment in its wholly owned subsidiary Connect Plus (M25) Limited.

On 20 May 2009 Connect Plus (M25) Limited entered into a Private Finance Initiative contract with the Secretary of State for Transport to upgrade and maintain the M25 motorway for 30 years. The Directors expect the general level of activity to continue at current levels in the foreseeable future.

Going Concern

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

Share Capital

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

Results and Dividends

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

Principle Risks and Uncertainties

The Group recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments to the Secretary of State for Transport 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 Group operates within a contractual relationship with its primary customer the Secretary of State for Transport. A significant impairment of this relationship could have a direct and detrimental effect on the Group's results and could ultimately result in termination of the concession. To manage this risk the Group has regular meetings with the Secretary of State for Transport's representatives including discussions on performance, project progress, future plans and customer requirements.

Key Performance Indicators

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

	31 March 2010	31 March 2009
	£'000	£'000
Profit / (loss) after taxation	1,493	(23)
Net assets / liabilities	1,477	(23)

The Directors consider that these KPIs are in line with expectations.

Directors' Report (continued)

For the year ended 31 March 2010

Directors

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

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

Payment to Suppliers

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

Financial risk management

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

Auditors

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

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

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

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

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

By order of the Board



Alastair Campbell
Secretary
23 September 2010

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

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

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

We have audited the financial statements of Connect Plus (M25) Holdings Limited for the year ended 31 March 2010 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, consolidated cash flow statement and the related notes numbered 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime or take advantage of the small companies exemption in preparing the directors' report



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

23 September 2010

Consolidated Profit and Loss Account

For the year ended 31 March 2010

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

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

All activities are from continuing operations in the United Kingdom

Consolidated Balance Sheet

As at 31 March 2010

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

These financial statements for Connect Plus (M25) Holdings Limited, company registration number 06684025, were approved by the Board of Directors on 23 September 2010 and signed on its behalf by



A Campbell
Director

Company Balance Sheet

As at 31 March 2010

	Notes	Company 2010 £'000	Company 2009 £'000
Fixed assets			
Investment in subsidiary undertakings	14	-	-
Net assets		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	-	-
Shareholder's funds	13	<hr/>	<hr/>

These financial statements for Connect Plus (M25) Holdings Limited, company registration number 06684025, were approved by the Board of Directors on 23 September 2010 and signed on its behalf by



A Campbell
Director

Consolidated Cash Flow Statement

For the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Net cash outflow from operating activities	15a	(373,724)	-
Returns on investments and servicing of finance			
Interest received		281	-
Interest paid		(28,045)	-
Net cash outflow from returns on investments and servicing of finance		(27,764)	-
Taxation		-	-
Net cashflow before use of liquid resources and financing		(27,764)	-
Management of liquid resources			
Increase in treasury deposits		(62,972)	-
Net cash outflow from management of liquid resources		(62,972)	-
Financing			
Bank loans drawn		469,674	-
Net cash inflow from financing		469,674	-
Increase in cash in the year	15b	5,214	-

Notes to the accounts

For the year ended 31 March 2010

1 Accounting policies

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

a) Basis of preparation

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

b) Turnover

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

c) Construction work in progress

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

d) FRS 5 Finance debtor

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

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

e) Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Notes to the accounts (continued)

For the year ended 31 March 2010

1 Accounting policies (continued)

f) Finance costs

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

g) Borrowings

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

h) Derivative financial instruments

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

i) Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 and 3.

The current economic conditions create some general uncertainty. The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the Secretary of State for Transport to meet their payment obligations for the M25 PFI contract and do not consider this to be a material risk. The company's forecasts and projections, taking account of reasonably possible counterparty performance, show the company expects to be able to continue to operate for the full term of the concession. After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence.

2 Turnover

Turnover by origin and destination

	Year ended March 2010 £'000	Period ended March 2009 £'000
United Kingdom	<u>39,419</u>	<u>-</u>

Notes to the accounts (continued)

For the year ended 31 March 2010

3 Operating profit / (loss)

	Year ended March 2010 £'000	Period ended March 2009 £'000
--	--	--

Operating profit / (loss) is stated after charging

Fees payable to the Company's auditors for the
audit of the Company's annual accounts
The audit of the Company's subsidiaries
pursuant to legislation

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19	22

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

All audit costs are borne by Connect Plus (M25) Limited in both years

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

4 Interest receivable and similar income

	Year ended March 2010 £'000	Period ended March 2009 £'000
--	--	--

Bank interest receivable

281	-
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5 Tax on profit / (loss) on ordinary activities

	Year ended March 2010 £'000	Period ended March 2009 £'000
--	--	--

The tax charge is based on the profit / (loss) for the year and comprises

Current tax
UK corporation tax charge at 28% (2009 28%)
Deferred tax charge
Total tax on profit / (loss) on ordinary activities

577	-
-	-
577	-

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

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

Notes to the accounts (continued)

For the year ended 31 March 2010

6 Construction Work in Progress

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

7 Debtors

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Trade debtors	9,715	-	-	-
Vat receivable	3,630	-	-	-
Other debtors, prepayments and accrued income	10,609	-	-	-
	<u>23,954</u>	<u>-</u>	<u>-</u>	<u>-</u>

8 Investments due within one year

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

9 Creditors. amounts falling due within one year

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

10 Creditors amounts falling due after one year

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Shareholders' loanstock (note 16)	75,671	-	-	-
Secured bank loans	394,003	-	-	-
	<u>469,674</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Notes to the accounts (continued)

For the year ended 31 March 2010

10 Creditors amounts falling due after one year (continued)

The commercial bank syndicate has guaranteed EIB repayment of £81.3m of the loans EIB has made to the company (2009 £nil). The commercial bank syndicate has provided the company a committed letter of credit facility of £247m for the sole purpose of providing this guarantee and as of 31 March 2010 none of the letters of credit had been utilised.

In order to hedge against interest rate variations on the loans the Group has entered into an interest rate swap agreement whereby the Group has agreed to exchange at monthly intervals with its bankers sums reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount. The fair value of the interest rate swaps at 31 March 2010 was a liability of £39.2m (2009 £nil). Market value has been used to determine the fair value.

In order to hedge the value of future PFI contract receipts to be received from the Secretary of State for Transport until 31 March 2036, the Group has entered into a series of RPI swap contracts. The fair value of the RPI swaps at 31 March 2010 was a liability of £80.6m. Market value has been used to determine the fair value.

The group borrowings are repayable as follows

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

11 Called Up Share Capital

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

12 Profit and loss account

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

Notes to the accounts (continued)

For the year ended 31 March 2010

13 Shareholders' Funds

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Opening shareholders' funds	(23)	-	-	-
Profit / (loss) for the financial year	1,493	(23)	-	-
Closing shareholders' funds	1,470	(23)	-	-

14 Fixed asset investments

	Company £
Cost and net book value	
Shares in subsidiary undertakings	
At 1 April 2009	200
Disposal	(100)
At 31 March 2010	100

Principal subsidiary undertakings as at 31 March 2010

The Company has an investment in the following subsidiary undertakings

	Country of <u>Incorporation</u>	<u>Shareholding</u>
Connect Plus (M25) Limited	Great Britain	100%

Connect Plus (M25) Limited is incorporated in Great Britain and registered in England and Wales

In the opinion of the directors the value of the investments in the subsidiary undertaking is not less than the amount stated in the balance sheet

During the year the company's investment in Connect Plus (M25) Intermediate Limited was sold for £100

Notes to the accounts (continued)

For the year ended 31 March 2010

15 Notes to the consolidated cash flow statement

a) Net cash inflow from operating activities

	2010 £'000	2009 £'000
Operating profit / (loss)	1,789	(23)
Increase in Construction Work In Progress	(363,796)	(22,416)
Increase in debtors	(23,954)	-
Increase in creditors	12,237	22,439
Net cash inflow from operating activities	(373,724)	-

b) Analysis and reconciliation of net debt

	31 March 2009 £'000	Cash flow £'000	Non Cash Change £'000	31 March 2010 £'000
Cash at bank and in hand	-	5,214	-	5,214
Investments Treasury deposits	-	62,972	-	62,972
Debt due within one year	-	-	-	-
Debt due after one year (note 10)	-	(469,674)	(25,468)	(495,142)
Net debt	-	(401,488)	(25,468)	(426,956)

	2010 £'000	2009 £'000
Increase in cash in the year	5,214	-
Increase in Investments	62,972	-
Cash outflow from net decrease in debt	(469,673)	-
Change in net debt resulting from cash flows	(401,487)	-
Issue costs	(25,468)	-
Net debt at 1 April	-	-
Net debt at 31 March	(426,955)	-

Notes to the accounts (continued)

For the year ended 31 March 2010

16 Related party transactions

The group purchased construction services totalling £320.5m (2009 £22.4m) from an unincorporated joint venture comprising of Balfour Beatty Civil Engineering Limited and Skanska J V Projects Limited. As of 31 March 2010 the group owed £27.8m (2009 £22.4m) to this unincorporated joint venture. The outstanding balance is repayable with 12 months and does not accrue interest.

The group purchased road maintenance services totalling £47.7m (2009 nil) from an unincorporated joint venture comprising of Balfour Beatty Civil Engineering Limited and WS Atkins Limited and Egis Road Operations UK Limited.

The group paid project development and bidding costs of £20.6m (2009 £nil) to Balfour Beatty Capital Limited, £8.7m (2009 £nil) to Skanska Infrastructure Investment UK Limited, £2.1m (2009 £nil) to Egis Projects SA and £1.8m to WS Atkins Limited.

The group purchased project management services of £2.0m (2009 £nil) from Balfour Beatty Management Limited, £0.6m (2009 £nil) from WS Atkins Limited, £0.2m (2009 £nil) from Balfour Beatty Capital Limited, £0.3m (2009 £nil) from Transroute UK Limited and £0.3m (2009 £nil) from Skanska Infrastructure Investment UK Limited. The balances outstanding as of 31 March 2010 were £234k (2009 £nil) with Balfour Beatty Management, £21k (2009 £nil) with Skanska Infrastructure Investment UK Limited, £29k (2009 £nil) with Balfour Beatty Capital Limited and £2k (2009 £nil) with WS Atkins Limited.

The group paid interest on loans of £3.0m (2009 £nil) to Connect Plus (M25) Intermediate Limited, a company owned by the controlling parties, and as 31 March 2010 owed Connect Plus (M25) Intermediate Limited £75.7m (2009 nil).

17 Controlling parties

The controlling parties are Balfour Beatty plc, Skanska AB, WS Atkins plc and Egis Projects SA, in the ratio 40 40 10 10.