

Registration number: 02999303

# Connect M1-A1 Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2022



## **Connect M1-A1 Limited**

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## Connect M1-A1 Limited

### Strategic Report for the Year Ended 31 March 2022

The Directors present their strategic report for the year ended 31 March 2022.

#### Principal activity

The Company is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

On 26 March 1996 Connect M1-A1 Limited entered into a 30 year concession agreement with National Highways (the "Client") to design, build, finance and operate (the "D.B.F.O. Contract") the M1-A1 Link Road (Lothhouse to Bramham) under the Government's Private Finance Initiative ("PFI").

The M1-A1 Link Road is a motorway link of almost 30 kilometres in length which provides a strategic connection between the M1 and M62 motorways south of Leeds and the A1 Trunk Road south of Wetherby.

The Company maintains and operates the M1-A1 Link Road for the duration of the concession and receives revenue from the Secretary of State for Transport in the form of shadow tolls based on the volume of traffic using the road. Payment of shadow tolls commenced when the M1-A1 Link Road opened and will continue until the end of the concession. In accordance with the concession agreement the Company is responsible for operating the road together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

There have been no changes to the Company's activities in the year under review and none are currently contemplated.

#### Review of business

The results for the year are set out on page 11. The profit for the year before taxation was £3,833k (2021: loss of £4,120k) and the net assets position as at 31 March 2022 was £46,448k (2021: £42,618k) for the Company. The Directors expect the Company to continue its operations for the foreseeable future.

The financial position at the year-end is in-line with the Directors' expectations and can be found on page 13.

#### Key performance indicators

As part of the stewardship of the project the Directors regularly consider Board reports related to the performance of the Company and the information and Key Performance Indicators ("KPI's") contained therein. These include, amongst other things, variance against budget in the financial statements and forward cash flow forecasting and other qualitative and quantitative indicators of performance that, as a whole, provide the basis for the management of the Company.

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

	2022	2021
	£ 000	£ 000
Turnover	22,088	15,871
Profit/(loss) after taxation	3,147	(3,338)
Net assets	<u>46,448</u>	<u>42,618</u>

The Company is showing net assets and recording a profit in the year. The return to profit arose primarily due to a return to pre COVID-19 traffic volume. The Company's projections, taking account of reasonably possible counterparty performance, show that the Company expects to continue to operate for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

## **Connect M1-A1 Limited**

### **Strategic Report for the Year Ended 31 March 2022 (continued)**

#### **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.

#### **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 reviewed the Company's cash flows for the period to September 2023 and considered the security of the cash flows in accordance with the provisions of the Project Agreement with the client, National Highways. Throughout the emergency National Highways continued to adhere to their obligations under the Project Agreement and the Directors expect that they will continue to do so. The Directors therefore expect that the unitary charge payments will continue to be paid on time in the usual fashion.

The Directors have considered the contingency plans that the Company's supply chain has in place. Whilst the contingency plans are not currently required due to the lifting of restrictions, the Directors consider, in taking account of reasonable possible counterparty performance, this will enable services to be maintained should it be required.

During the current period traffic volumes have returned to a pre COVID-19 level. As reflected in the March 2022 Lender model, this ensured that there are no forecasted ratio breaches in future periods and thus no breach in contractual covenants under the financing documents. As a result, the issue described in the statutory accounts for the year ended 31 March 2021, in relation to a future contractual covenant breach, was fully resolved with no material escalation.

The Directors have considered the potential impact of changes in traffic volumes and taking account of severe but plausible downside scenarios, they consider that the company has sufficient cash reserves to continue to meet its liabilities as they fall due.

The Directors have reviewed the carrying amount of the tangible fixed asset and considered if there has been any impairment to its values. Following a review of traffic volumes throughout the year and considering future forecasts, the Directors have assessed that no impairment arose. Further the Directors assessed the tangible fixed asset in the event of a severe but plausible scenario where traffic volumes fell by 5% and concluded that no impairment would arise in this event.

Having considered all of the above, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

#### **Credit and cash flow risks**

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

## Connect M1-A1 Limited

### Strategic Report for the Year Ended 31 March 2022 (continued)

#### Interest rate risk

The financial risk management objective of the Company is 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 between 1996 and 2024 for notional principal amounts equating to 70% of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

#### 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 consequences to the Company of the United Kingdom having exited the European Union and, as at the date of signing the report, this has not had a significant impact on the Company and it is not anticipated that this will have a significant impact in the future. This is primarily because the Company's contractual agreements, including those which cover its financing, are unlikely to be affected.

#### Economic Conditions

The Directors have considered the consequences to the Company of the current economic conditions, including the high rate of inflation, increasing energy costs and the impact of the war in Ukraine. As at the date of signing this report, this has not had a significant impact on the Company, and it is not currently anticipated that this will have a significant impact in the future. This is primarily due to the contractual nature of most of the Company's cash flows, including those which cover financing, which ensures that any inflationary changes to expenditure will be largely offset by equivalent changes to the Company's revenue.

Approved by the Board on 29/07/2022 and signed on its behalf by:



Digitally signed by Mark Mageean  
DN: cn=Mark Mageean, c=GB, o=Connect  
Roads, ou=Connect Roads,  
email=mark.mageean@connectroads.co.uk  
Reason: Approved  
Date: 2022.07.29 13:00:29 +01'00'

M P Mageean  
Director

## **Connect M1-A1 Limited**

### **Directors' Report for the Year Ended 31 March 2022**

The directors present their annual report together with the audited financial statements for the year ended 31 March 2022.

The following information has been disclosed in the Company Strategic Report:

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

#### **Going concern**

The Directors do not expect any significant change to the Company's activities to occur in the following financial year.

After making enquiries, as further elaborated in the Strategic Report, 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 financial statements.

#### **Results and dividends**

The audited financial statements for the year ended 31 March 2022 are set out on pages 11 to 29. The profit for the year after tax was £3,147k (2021: loss of £3,338k).

The Directors declared and paid dividends of £Nil (2021: £Nil). The Directors expect the Company to continue its operations for the foreseeable future.

#### **Directors of the company**

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

M J Edwards

C D B Leverd (until 22 June 2022)

M P Mageean

A V Thorne

A P Walker

The following director was appointed after the year end:

J C P F Neves (appointed 22 June 2022)

#### **Disclosure of information to the auditors**

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.

## Connect M1-A1 Limited

### Directors' Report for the Year Ended 31 March 2022 (continued)

#### Reappointment of auditors

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 29/07/2022 and signed on its behalf by:



Digitally signed by Mark Mageean  
DN: cn=Mark Mageean, c=GB, o=Connect  
Roads, ou=Connect Roads,  
email=mark.mageean@balfourbeatty.com  
Reason: Approved  
Date: 2022.07.29 13:00:45 +0100

.....  
M P Mageean  
Director

**Registered office**      Q14 Quorum Business Park  
Benton Lane  
Newcastle upon Tyne  
NE12 8BU

## **Connect M1-A1 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 M1-A1 Limited**

### **Independent Auditor's Report to the Members of Connect M1-A1 Limited**

#### **Opinion**

We have audited the financial statements of Connect M1-A1 Limited (the 'Company') for the year ended 31 March 2022, 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 2022 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").

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.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

## **Connect M1-A1 Limited**

### **Independent Auditor's Report to the Members of Connect M1-A1 Limited (continued)**

#### **Fraud and breaches of laws and regulations - ability to detect**

##### ***Identifying and responding to risks of material misstatement due to fraud***

To identify risks of material misstatement due to fraud (fraud risks) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for whistleblowing, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board meeting minutes; and
- Using analytic procedures to identify unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as cash flow assumptions in the operating model.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included but not limited to entries posted to unusual account combinations/seldom used accounts and post-closing entries.
- Assessing significant accounting estimates for bias.

##### ***Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

## **Connect M1-A1 Limited**

### **Independent Auditor's Report to the Members of Connect M1-A1 Limited (continued)**

The Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, and certain aspects of company legislation recognising the regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### ***Context of the ability of the audit to detect fraud or breaches of law or regulation***

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **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 any 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.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 6, 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.

## **Connect M1-A1 Limited**

### **Independent Auditor's Report to the Members of Connect M1-A1 Limited (continued)**

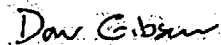
#### **Auditor's responsibilities**

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.



.....  
Dan Gibson (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle Upon Tyne  
United Kingdom  
NE1 3DX

Date: 29 July 2022

## Connect M1-A1 Limited

### Profit and Loss Account for the Year Ended 31 March 2022

	Note	2022 £ 000	2021 £ 000
Turnover	3	22,088	15,871
Cost of sales		<u>(15,583)</u>	<u>(17,213)</u>
Gross profit/(loss)		6,505	(1,342)
Administrative expenses		<u>(372)</u>	<u>(205)</u>
Operating profit/(loss)	4	6,133	(1,547)
Interest receivable and similar income	8	11	13
Interest payable and similar expenses	9	<u>(2,311)</u>	<u>(2,586)</u>
Profit/(loss) before tax		3,833	(4,120)
Taxation	10	<u>(686)</u>	<u>782</u>
Profit/(loss) for the financial year		<u><u>3,147</u></u>	<u><u>(3,338)</u></u>

The above results were derived from continuing operations.

## Connect M1-A1 Limited

### Statement of Comprehensive Income for the Year Ended 31 March 2022

	Note	2022 £ 000	2021 £ 000
Profit/(loss) for the year		3,147	(3,338)
Fair value movement gain on derivatives		823	759
Deferred tax on fair value movements on financial instruments	10	(140)	(144)
		683	615
Total comprehensive income for the year		3,830	(2,723)

# Connect M1-A1 Limited

(Registration number: 02999303)  
Balance Sheet as at 31 March 2022

	Note	2022 £ 000	2021 £ 000
<b>Non current assets</b>			
Tangible assets	12	34,340	42,925
Debtors	13	16,768	16,768
		<u>51,108</u>	<u>59,693</u>
<b>Current assets</b>			
Debtors	14	1,504	2,313
Cash at bank and in hand	15	20,457	18,446
		<u>21,961</u>	<u>20,759</u>
<b>Creditors: Amounts falling due within one year</b>	16	<u>(10,574)</u>	<u>(26,723)</u>
<b>Net current assets/(liabilities)</b>		<u>11,387</u>	<u>(5,964)</u>
<b>Total assets less current liabilities</b>		62,495	53,729
<b>Creditors: Amounts falling due after more than one year</b>	16	(14,799)	(10,846)
<b>Deferred tax liabilities</b>	11	<u>(1,248)</u>	<u>(265)</u>
<b>Net assets</b>		<u>46,448</u>	<u>42,618</u>
<b>Capital and reserves</b>			
Called up share capital	19	3,000	3,000
Hedge reserve account		(205)	(888)
Profit and loss account		<u>43,653</u>	<u>40,506</u>
<b>Total equity</b>		<u>46,448</u>	<u>42,618</u>

Approved and authorised by the Board on 29/07/2022 and signed on its behalf by:



Digitally signed by Mark Mageean  
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Roads, ou=Connect Roads,  
email=mark.mageean@connectroads.co.uk  
Reason: Approved  
Date: 2022.07.29 13:01:00 +01'00'

M P Mageean  
Director

# **Connect M1-A1 Limited**

## **Statement of Changes in Equity for the Year Ended 31 March 2022**

	<b>Called up share capital £ 000</b>	<b>Hedge reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 April 2020	3,000	(1,503)	43,844	45,341
Total comprehensive income	-	615	(3,338)	(2,723)
At 31 March 2021	<u>3,000</u>	<u>(888)</u>	<u>40,506</u>	<u>42,618</u>
	<b>Called up share capital £ 000</b>	<b>Hedge reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 April 2021	3,000	(888)	40,506	42,618
Total comprehensive income	-	683	3,147	3,830
At 31 March 2022	<u>3,000</u>	<u>(205)</u>	<u>43,653</u>	<u>46,448</u>

The notes on pages 15 to 29 form an integral part of these financial statements.



## **Connect M1-A1 Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2022**

#### **1 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

Connect M1-A1 Limited (the "Company") is a private company incorporated, domiciled and registered in England and Wales in the UK. The registered number is 02999303 and the registered address is Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU

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 M1-A1 Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Connect M1-A1 Holdings Limited are available to the public and may be obtained from the address in note 21.

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 M1-A1 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 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 developments and position, are set out in the Strategic Report and Directors' Report.

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

## **Connect M1-A1 Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)**

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

The Directors have prepared cash flow forecasts for the period to September 2023 and considered the security of the cash flows in accordance with the provision of the Project Agreement with the client, National Highways. The Company's operating cash inflows are largely dependent on traffic revenue payments receivable from National Highways and the Directors expect amounts due to be received even in severe but plausible possible downside scenarios. The Company's traffic revenue receipts due in the period March 2022 to date were received on time, in the usual fashion, from National Highways.

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 Company continues to provide the required services in accordance with the requirements set out in the contract.

The cash flow revenues for the year ending March 2023 will be based on actual traffic volumes for the year ended March 2022. Any variances in actual traffic volumes will be recovered / repaid in line with contractual time frames as part of the Annual Reconciliation process. The Directors have considered the potential impact of this and taking account of severe but plausible possible downside scenarios, they consider that the Company has sufficient cash reserves to continue to meet its liabilities as they fall due.

During the current period traffic volumes have returned to a pre COVID-19 level. As reflected in the March 2022 Lender model, this ensured that there are no forecasted ratio breaches in future periods and thus no breach in contractual covenants under the financing documents. As a result, the issue described in the statutory accounts for the year ended 31 March 2021, in relation to a future contractual covenant breach, was fully resolved with no material escalation.

Based on the above indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

#### **Turnover**

Revenue is recognised as turnover as it is earned and represents amounts due, exclusive of value added tax, in respect of services provided under the D.B.F.O. Contract.

#### **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.

#### **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.

## **Connect M1-A1 Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)**

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

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.

#### **Derivative financial instruments**

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.

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.

#### **Tangible assets**

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. Cost represents original purchase cost, except in the case of the construction cost of the M1-A1 Link Road where interest on finance up to the date of Permit to Use has been capitalised. Depreciation of these costs commenced at Permit to Use.

The carrying amount of this tangible fixed asset is reviewed annually by the Directors to determine whether there has been any impairment to its value.

The carrying amount of this tangible fixed asset is reviewed annually by the Directors to determine whether there has been any impairment to its value. Following an impairment of £1,977k recorded in the year ended 31 March 2021, the remaining carrying amount relating to the road surface and the balance of the road construction cost is being depreciated evenly over the remaining life of the concession (to a residual value of nil). The Directors consider that this method reflects their best estimate of the pattern of use and deterioration of the road.

Depreciation on other equipment is provided at rates calculated to write off the cost less any residual value on a straight line basis on useful lives of between three and twenty years.

## **Connect M1-A1 Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2022 (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.

Secured subordinated debt is 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 that 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.

#### **2 Critical accounting estimates and judgements**

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.

##### **Critical judgements**

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

##### *Hedge accounting*

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.

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 2 Critical accounting estimates and judgements (continued)

##### 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 the interest rate swaps at 31 March 2022 was a liability of £273k (2021: £1,096k). Market value has been used to determine the fair value. The directors do not consider the impact of own credit risk to be material.

##### *Impairment of assets*

The Directors use their judgement in assessing whether there are indicators of impairment of the fixed assets. They also use their judgement in calculating the Net Present Value ("NPV") of future cash-flows to assess the fair value of the fixed asset and hence whether an impairment of the carrying value of the fixed asset should be recognised. In order to assess how sensitive the NPV is to a range of discount rates a number of scenarios were modelled. This demonstrated that reasonably possible scenarios would not result in an impairment.

#### 3 Analysis of turnover

Turnover by origin and destination from the Company's principal activity:

	2022 £ 000	2021 £ 000
UK	<u>22,088</u>	<u>15,871</u>

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 4 Operating profit/(loss)

Arrived at after charging

	2022	2021
	£ 000	£ 000
Depreciation expense	8,585	8,980
Impairment loss	-	1,977
	<u>          </u>	<u>          </u>

#### 5 Directors' remuneration

The Directors received an insignificant amount of salary, fees or other benefits in the performance of their duties in respect of the Company in the current or prior year.

#### 6 Staff costs

All costs of staff are incurred by Balfour Beatty Investments Limited, which second its employees to the Company and charges related services costs. The Company had no employees in the current or prior year.

#### 7 Auditors' remuneration

The audit fee for the Company amounted to £29k (2021: £18k).

There were no non-audit fees (2021: £nil).

#### 8 Interest receivable and similar income

	2022	2021
	£ 000	£ 000
Interest income on bank deposits	11	13
	<u>          </u>	<u>          </u>

#### 9 Interest payable and other expenses

	2022	2021
	£ 000	£ 000
Interest payable on senior bank loan	1,026	1,437
Interest payable on Subordinated loan stock	1,108	962
Other finance costs	177	187
	<u>          </u>	<u>          </u>
	<u>2,311</u>	<u>2,586</u>

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 10 Taxation

Tax charged/(credited) in the income statement

	2022 £ 000	2021 £ 000
<b>Current taxation</b>		
UK corporation tax	521	462
UK corporation tax adjustment to prior periods	(678)	-
	<u>(157)</u>	<u>462</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	169	(1,244)
Arising from changes in tax rates and laws	316	-
Arising from adjustments to prior periods	358	-
Total deferred taxation	<u>843</u>	<u>(1,244)</u>
Tax expense/(receipt) in the income statement	<u>686</u>	<u>(782)</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £ 000	2021 £ 000
Profit/(loss) before tax	<u>3,833</u>	<u>(4,120)</u>
Corporation tax at standard rate	728	(783)
Effect of expense not deductible in determining taxable profit (tax loss)	(68)	1
Deferred tax expense relating to changes in tax rates or laws	316	-
Decrease in current tax from adjustments for prior periods	(678)	-
Deferred tax expense from adjustments for prior periods	358	-
Tax increase from other short-term timing differences	30	-
Total tax charge/(credit)	<u>686</u>	<u>(782)</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% (2021: 19%).

For the year end 31 March 2022, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2020 which was enacted on 22 July 2020.

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 10 Taxation (continued)

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

	2022 £ 000	2021 £ 000
Deferred tax related to items recognised as items of other comprehensive income	<u>140</u>	<u>144</u>

#### 11 Deferred tax liability

	2022 £ 000	2021 £ 000
At 1 April	(265)	(1,365)
Credited to the profit and loss account	(843)	1,244
Other comprehensive income movement	<u>(140)</u>	<u>(144)</u>
At 31 March	<u>(1,248)</u>	<u>(265)</u>

	Fair value movement on financial instruments £ 000	Capitalised interest £ 000	FRS 102 Effective interest rate adjustment £ 000	Trading losses £ 000
At 1 April 2021	209	(1,172)	(84)	782
Movement	<u>(140)</u>	<u>(62)</u>	<u>1</u>	<u>(782)</u>
At 31 March 2022	<u>69</u>	<u>(1,234)</u>	<u>(83)</u>	<u>-</u>

The opening deferred tax balances in the financial statements were measured at 19%. For the year end 31 March 2022, a tax rate of 25% has been applied in line with rates enacted by the Finance Act 2021 which was enacted on 24 May 2021. This gives rise to a debit to the profit and loss account of £316k and a credit to the SOCIE of £17k.



## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 12 Tangible assets

	M1-A1 Link Road £ 000	Other equipment £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 April 2021	267,596	29,837	297,433
At 31 March 2022	267,596	29,837	297,433
<b>Depreciation and impairment</b>			
At 1 April 2021	224,671	29,837	254,508
Charge for the year	8,585	-	8,585
At 31 March 2022	233,256	29,837	263,093
<b>Carrying amount</b>			
At 31 March 2022	34,340	-	34,340
At 31 March 2021	42,925	-	42,925

The cost of the M1-A1 Link Road includes capitalised interest of £42,507k (2021: £42,507k). 100% of interest was capitalised during construction, and 0% during operations.

Other equipment comprises traffic management equipment and computers.

For impairment purposes the Directors have reviewed the carrying amount of the tangible fixed asset and considered if there has been any impairment to its value by using the value-in-use method. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax rate of 8.86%, calculated by reference to a Weighted Average Cost of Capital ("WACC"). Following this review it was concluded that there was no Impairment in the year to March 22. Impairment in prior year was driven by reduction in traffic volume as a result of the COVID-19 emergency, traffic volumes in current year have recovered to pre-COVID-19 levels.

The depreciation and impairment charge are recognised in the Cost of Sales line in the Profit and Loss account.

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 13 Debtors due after more than one year

	2022	2021
	£ 000	£ 000
Upstream loan	<u>16,768</u>	<u>16,768</u>

There has been no movement in the upstream loan for the year.

Upstream loans are created to release excess cash to the ultimate Shareholders in the form of a loan when the Company is reserve constrained (the total maximum dividend paid to Shareholders throughout the year cannot exceed that of the profit & loss reserves balance) - therefore to provide the ultimate Shareholders with access to additional cash flow an upstream loan is created. The upstream loan has an interest rate of 0%. The upstream loan is due to be repaid in full on or before the concession end date.

#### 14 Debtors

	2022	2021
	£ 000	£ 000
Trade debtors	106	1,923
Corporation tax	-	166
Prepayments	78	-
Accrued income	<u>1,320</u>	<u>224</u>
	<u>1,504</u>	<u>2,313</u>

#### 15 Restricted cash

Cash at bank and in hand includes £1,995,916 (2021: £2,073,031) restricted from use in the business, being held in the Company's reserve accounts under the terms of its commercial bank facility.

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 16 Creditors

	2022 £ 000	2021 £ 000
<b>Due within one year</b>		
Senior bank loan	6,393	18,196
Trade creditors	29	54
VAT payable	8	383
Corporation tax liability	387	-
Accruals	1,268	8,090
Subordinated debt interest	2,489	-
	<u>10,574</u>	<u>26,723</u>
<b>Due after one year</b>		
Senior bank loan	4,770	-
Subordinated loan stock	5,696	5,693
Deferred income	3,791	4,057
Swap liability	273	1,096
Retention deduction operator	269	-
	<u>14,799</u>	<u>10,846</u>

#### 17 Loans and borrowings

	2022 £ 000	2021 £ 000
Senior bank loan	11,162	18,196
Subordinated loan stock	8,185	5,693
	<u>19,347</u>	<u>23,889</u>

#### Analysis of maturity of debt:

	2022 £ 000	2021 £ 000
Within one year or on demand	8,881	18,196
Between one and two years	4,770	-
Between two and five years	5,696	5,693
	<u>19,347</u>	<u>23,889</u>

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 17 Loans and borrowings (continued)

The subordinated loan stock bears interest at 15% per annum which, if not paid, is compounded each March and September. The loan is repayable in two instalments in September 2024 and March 2025.

The senior bank loan bears interest at a margin over LIBOR and is repayable in instalments between 2000 and 2024.

The Company has entered into interest rate swaps to manage its exposure to interest rate fluctuations. Under interest rate swaps, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cashflow exposure on the issued variable rate debt held. 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.

The interest rate swaps settle on a six-monthly basis. The fixed interest rate on the interest rate swaps is 5.68% and the floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The bank loan and interest rate swaps entered into by the Company contain variable elements linked to LIBOR. This interest rate benchmark was discontinued on 31 December 2021, the Company's loan and interest rate swaps transitioned onto an alternative benchmark in March 2022. This transition of the interest rate benchmark has not been applied in these financial statements, and the impact on the financial statements if it had been applied would not have been material.

The fair value of the interest rate swaps at 31 March 2022 was a liability of £273k (2021: £1,096k).

All of the Company's borrowings contain either a fixed or varying security interest over the assets of the Group, as defined by an inter-creditor agreement. All borrowings would be repaid in advance of other general creditors in the event of the Group becoming insolvent, except as prohibited by any legal restriction.

#### 18 Financial instruments & liabilities

The Company has the following financial instruments:

Financial assets at amortised cost through profit or loss:

	2022	2021
	£ 000	£ 000
Trade debtors	106	1,923

Financial liabilities at fair value through profit or loss:

	2022	2021
	£ 000	£ 000
Derivative financial instruments	273	1,096

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 18 Financial instruments & liabilities (continued)

Financial liabilities at amortised cost through profit or loss:

	2022 £ 000	2021 £ 000
Senior secured loans	11,162	18,196
Subordinated loans	8,185	5,693
Trade creditors	29	54
	<u>19,376</u>	<u>23,943</u>

#### 19 Share capital

Allotted, called up and fully paid shares

	No. 000	2022 £ 000	No. 000	2021 £ 000
Ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>

The Company has one class of ordinary shares which carry no rights to fixed income.

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.

## Connect M1-A1 Limited

### Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

#### 20 Related party transactions

##### Transactions during the year

	2022 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	8,948
Balfour Beatty Investments - staff secondment charges	267
	<u>9,215</u>
	2021 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	6,577
Balfour Beatty Investments - staff secondment charges	333
	<u>6,910</u>

##### Outstanding balances owed by the Company at the end of the year

	2022 £ 000
Balfour Beatty plc - subordinated debt	1,639
BIIF Bidco Limited - subordinated debt	4,099
Infrastructure Investments Limited Partnership - subordinated debt	2,459
	<u>8,197</u>
	2021 £ 000
Balfour Beatty plc - subordinated debt	1,419
BIIF Bidco Limited - subordinated debt	3,547
Infrastructure Investments Limited Partnership - subordinated debt	2,128
	<u>7,094</u>

##### Outstanding balances owed to the Company at the end of the year

	2022 £ 000
Balfour Beatty plc - upstream loan	<u>16,768</u>
	2021 £ 000
Balfour Beatty plc - upstream loan	3,354
BIIF Bidco Limited - upstream loan	8,384
Infrastructure Investments Limited Partnership - upstream loan	5,030
	<u>16,768</u>

## **Connect M1-A1 Limited**

### **Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)**

#### **21 Parent and ultimate parent undertaking**

The Company's immediate parent is Connect M1-A1 Holdings Limited, incorporated in the United Kingdom and registered in England and Wales.

The ultimate controlling parties are Balfour Beatty plc, BIIF LLP (acting by its manager, 3i BIFM Investments Ltd) and InfraRed Partners LLP which are incorporated in the United Kingdom and registered in England and Wales.

The largest and smallest group in which these financial statements are consolidated is Connect M1-A1 Holdings Limited.

The address of Connect M1-A1 Holdings Limited is:

Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU

#### **22 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.