

CONNECT M77/GSO PLC

Annual Report and Financial Statements  
For the Year Ended  
31 March 2018

**CONNECT M77/GSO PLC**  
**Annual Report and Financial Statements**  
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**CONNECT M77/GSO PLC**  
**Strategic Report**  
**for the year ended 31 March 2018**

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

**Strategic Review**

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

On 7 May 2003 Connect M77/GSO plc signed a contract with East Renfrewshire Council (on behalf of the Scottish Government for the M77 and South Lanarkshire Council and East Renfrewshire Council for the Glasgow Southern Orbital (GSO)) to design, build, finance and operate (DBFO) the M77 from Fenwick to Malletsheugh and the GSO from Malletsheugh to Philipshall, East Kilbride and sections of the A726 and to maintain these roads under a licence over a 32 year period as well as modify certain sections of the A77. In accordance with the concession agreement the Company is responsible for operating the roads together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

The new road sections were opened to the public in April 2005 and the final completion certificate was issued in September 2005.

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 9. The loss for the year before taxation was £(33,000) (2017: £(61,000)) and the net liabilities position as at 31 March 2018 is £28,809,000 (2017: £29,095,000) for the Company.

**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:

	<b>2018</b>	<b>2017</b>
	<b>£ '000</b>	<b>£ '000</b>
(Loss)/profit after taxation	(32)	42
Net liabilities	(29,127)	(29,095)

#### **Key Performance Indicators (continued)**

Despite the Company showing net liabilities, the Company's projections, taking account of reasonably possible counterparty performance, show that the Company expects to be able 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.

#### **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. The Financial risks are described in detail in note 13 of the Financial Statements.

##### *Credit & cash flow risks*

The relevant financial risks to the Company are credit and cash flow risks, which arise from its primary client, East Renfrewshire Council. The credit and cash flow risks are not considered significant as the client is a government organisation.

##### *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. There are no derivatives, risk is mitigated through a fixed rate loan instrument. Financial instruments are not used for speculative purposes.

##### *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 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 has a net liability position which is caused by the rolled up subordinated debt interest and principal amounts due to the shareholders. This does not cause an issue for going concern since the shareholders have waived their rights to receive interest for the year to 31/03/2019. As such the Company has the required funds to meet debt obligations as they fall due for the following year.



**Principal Risks and Uncertainties (continued)**

*Contractual relationships*

The Company operates within a contractual relationship with its primary customer, East Renfrewshire Council. 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 East Renfrewshire Council including discussions on performance, project progress, future plans and customer requirements.

The Directors do not believe that the Company is exposed to any significant Financial Risk. The Company's principal activity as detailed above is low risk as all relationships with the customer, funders and sub-contractors within the Company in which it sits are determined by the terms of the respective contracts.

**Future Developments**

The Directors expect the general level of activity to remain stable in the forthcoming year. There have been no other changes to the Company's activities in the year under review and no others are currently contemplated.

This report was approved by the board on 15 July 2018 and signed by its order.



Patrick McCarthy  
Company Secretary

**CONNECT M77/GSO PLC****Registered number:** 04698798**Directors' Report****for the year ended 31 March 2018**

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 March 2018.

The following information has been disclosed in the Strategic Report:

1. Principal Activity and Business Review
2. Key Performance Indicators
3. Principal Risks and Uncertainties
4. Indication of likely future developments in the business

**Results & Dividends**

The audited financial statements for the year ended 31 March 2018 are set out on pages 9 to 24. The profit for the year after taxation was £286,000 (2017: profit £42,000).

The directors declared and paid dividends of £nil (2017: £nil). The Directors expect the Company to continue its operations for 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. Further information is provided in note 1 to the financial statements.

**Directors**

The following persons served as directors throughout the year and up to the date of this report:

D. W. Bowler  
M. P. Mageean  
M. J. Edwards  
D. G. Blanchard (appointed on 20/06/17)

**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.

**Provision of Information to Auditors**

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

- (i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (ii) 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 s418 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.

**CONNECT M77/GSO PLC**  
**Registered number: 04698798**  
**Directors' Report**  
**for the year ended 31 March 2018**

This report was approved by the board on 5 July 2018 and signed by its order.



Patrick McCarthy  
Company Secretary

## **CONNECT M77/GSO PLC**

### **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 M77/GSO PLC**  
**Independent auditor's report**  
**to the members of CONNECT M77/GSO PLC**

**1 Our opinion is unmodified**

We have audited the financial statements of M77/GSO Plc ("the Company") for the year ended 31 March 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the 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 Company's affairs as at 31 March 2018 and of its loss 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 17 October 2016. The period of total uninterrupted engagement is for the 2 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

**2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**Service revenue recognition**

(£2,380; 2017: £2,245k)

Refer to page 13 (accounting policy) and page 15 (financial disclosures).

**The risk**

The amount of service revenue recognised is calculated via a mark-up being applied to costs incurred during the year. The mark-up is determined from a long term financial model which acts as a long term forecast of the revenues and costs to be incurred on the project. A significant portion of the service provision and the associated performance risk, are outsourced to subcontractors with costs contractually agreed over the life of the contract. Lifecycle replacement risk remains with the Company and is a significant estimate.

A fraud risk exists as management could manipulate the amount of revenue recognised either through amending the future forecast assumptions, particularly through the lifecycle costs which are a key estimate (see note 7 for details) and hence change the mark-up applied to the costs on which revenue is recognised or by applying the mark-up to costs which are not related to the provision of the services under the concession contract.

**Our response**

Our procedures included:

- **Service revenue recalculation:** We recalculated service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- **Comparing forecasts:** We challenged the appropriateness of cost estimates and assessed whether or not estimates showed any evidence of management bias. Our challenge was based upon our assessment of historical accuracy of the Company's forecasts through comparison of current year actual costs, a sample of which have been verified to supplier invoices, versus prior year forecast, comparison of forecast cost estimates in current year versus the prior year and expectations based on our knowledge of the Company and experience of the industry in which it operates.

**CONNECT M77/GSO PLC**  
**Independent auditor's report**  
**to the members of CONNECT M77/GSO PLC**

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the statutory financial statements as a whole was set at £720,000 (2017: £750,000) determined with reference to a benchmark of total assets, of which it represents 0.5% (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £36,000 (2017: £38,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level set out above and was performed at our offices in London.

**4 We have nothing to report on 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.

**5 We have nothing to report on the strategic report and the 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

**6 We have nothing to report on the other 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 by the Company, or returns adequate for our audit have not been
- the 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.

We have nothing to report in these respects.

**7 Respective responsibilities**

**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 including 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 M77/GSO PLC**  
**Independent auditor's report**  
**to the members of CONNECT M77/GSO PLC**

**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 other irregularities (see below), 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, other irregularities 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).

*Irregularities – ability to detect*

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

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

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

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities)/ irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

**8 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

25 July 2018

**CONNECT M77/GSO PLC**  
**Profit and Loss Account**  
**for the year ended 31 March 2018**



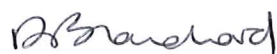
	Notes	2018 £ '000	2017 £ '000
Turnover	2	2,380	2,245
Cost of sales		(1,992)	(1,902)
<b>Gross profit</b>		<b>388</b>	<b>343</b>
Administrative expenses		(281)	(240)
<b>Operating profit</b>	3	<b>107</b>	<b>103</b>
Interest receivable and similar income	4	9,610	9,718
Interest payable and other expenses	5	(9,750)	(9,882)
<b>(Loss) before taxation</b>		<b>(33)</b>	<b>(61)</b>
Tax on (loss)	6	1	103
<b>(Loss)/profit for the financial year</b>		<b>(32)</b>	<b>42</b>

There were no items recognised in Other Comprehensive Income in either year other than the reported profit / (loss) shown above; consequently no separate statement of other comprehensive income is presented.

**CONNECT M77/GSO PLC**  
**Balance Sheet**  
**as at 31 March 2018**

	Notes	2018 £ '000	2017 £ '000
<b>Current assets</b>			
Financial asset: amounts falling due within one year	7	1,073	1,265
Debtors: due within one year	8	148	117
Investments: due within one year	9	16,867	15,944
Cash and cash equivalents		<u>3,009</u>	<u>3,030</u>
		<b>21,097</b>	<b>20,356</b>
<b>Non-current assets</b>			
Financial asset: amounts falling due after one year	7	<u>122,820</u>	<u>124,002</u>
		<b>122,820</b>	<b>124,002</b>
<b>Total Assets</b>		<b>143,917</b>	<b>144,358</b>
<b>Current liabilities</b>			
Creditors: due within in one year	10	<u>(6,366)</u>	<u>(5,080)</u>
Total current liabilities		<b>(6,366)</b>	<b>(5,080)</b>
<b>Non-current liabilities</b>			
Creditors: due after one year	11	(165,126)	(166,816)
Deferred tax liability	11	<u>(1,552)</u>	<u>(1,557)</u>
Total non-current liabilities		<b>(166,678)</b>	<b>(168,373)</b>
<b>Total liabilities</b>		<b>(173,044)</b>	<b>(173,453)</b>
<b>Net Liabilities</b>		<b>(29,127)</b>	<b>(29,095)</b>
<b>Capital and reserves</b>			
Called up share capital	13	50	50
Profit and loss account		<u>(29,177)</u>	<u>(29,145)</u>
		(701)	
<b>Shareholders' deficit</b>		<b>(29,127)</b>	<b>(29,095)</b>

These financial statements for Connect M77/GSO plc, company registration number 04698798, were approved by the Board of Directors and authorised for issue on 25 July 2018 and signed on its behalf by:



David Blanchard  
 Director

Approved by the board on 25 July 2018

**CONNECT M77/GSO PLC**  
**Statements of Changes in Equity**  
**for the year ended 31 March 2018**



	<b>Called Up Share capital £ '000</b>	<b>Profit and Loss account £ '000</b>	<b>Total £ '000</b>
<b>At 31 March 2016</b>	<u>50</u>	<u>(29,187)</u>	<u>(29,137)</u>
Profit for the year	-	42	42
<b>At 31 March 2017</b>	<u>50</u>	<u>(29,145)</u>	<u>(29,095)</u>
(Loss) for the year	-	(32)	(32)
<b>At 31 March 2018</b>	<u><u>50</u></u>	<u><u>(29,177)</u></u>	<u><u>(29,127)</u></u>

**CONNECT M77/GSO PLC**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2018**

**1 Accounting policies**

*a) Basis of preparation*

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 issued to FRS 102 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 Company's parent undertaking, Connect M77/GSO Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Connect M77/GSO Holdings Limited are available to the public and may be obtained from the address in note 15.

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 preparation of a Cash Flow Statement and related notes.

As the consolidated financial statements of Connect M77/GSO Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The 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.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

*b) Going Concern*

The current economic conditions create some general uncertainty. 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 the Authority to continue to pay unitary fees due under the concession contract to the Company's subsidiary 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. Despite the Company showing net liabilities the Company's projections, taking account of reasonably possible counterparty performance, show that the Company expects to be able 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.



## 1 Accounting policies (continued)

### *c) Financial Asset and Service Revenue*

The Company accounts as a financial asset in accordance to Section 11 of FRS 102 for a basic financial instrument and is measured at amortised cost.

In the operational phase, revenue is recognised by allocating a proportion of total unitary income receivable over the life of the project to service costs by means of a deemed constant rate of return on these costs. Revenue is recognised by applying a 5% mark-up % on the operational costs, representing the fair value of operational services.

### *d) Other Financial Assets*

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments. Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets have been classified as 'loans and receivables', which includes cash and cash equivalents. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

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. Other financial assets classified as fair value through profit or loss are measured at fair value.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate except for short term receivables where the recognition of interest would be immaterial.

Cash and cash equivalents comprise cash on hand, demand deposits, and other short term highly liquid investments, that are readily convertible into cash and are subject to an insignificant risk of change in value.

Financial assets are impaired where there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. The carrying amount of a financial asset is reduced by the impairment directly with the exception of trade receivables which would be reduced through the use of an allowance account, unless it is considered that it is uncollectible.

The Company derecognises a financial asset only when the contractual rights to receive the cash flows from the asset expire, or it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another entity.



## 1 Accounting policies (continued)

### *e) Financial Liabilities*

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The Company derecognises its financial liabilities when the Company's obligations are discharged, cancelled or they expire.

The effective interest rate method is a method of calculating amortised costs of the financial liabilities and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liabilities.

### *f) Taxation*

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. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

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.

### *g) Finance Costs*

Finance costs in relation to the fixed rate senior secured bonds and the secured loan stock are recognised using the effective interest rate method under FRS 102 whereby expected interest over the life of the project is spread and recognised in each period.

### Finance assets and financial liabilities

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets have been classified as 'loans and receivables', which includes cash and cash equivalents, based on the nature and purpose of the financial assets.

### *h) Fixed rate senior secured bonds*

Senior secured bonds 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 that period.

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

### *j) Critical accounting judgements and key sources of estimation uncertainty*

#### *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.

#### *Key sources of estimation uncertainty*

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

#### *Service concession arrangement*

The Company accounts for the project as a service concession arrangement. The directors have used their judgement in selecting the appropriate accounting basis for the concession. As the payment mechanism is now based on a fixed usage, the Directors deemed it suitable for the accounting basis to be changed from a fixed asset to a financial asset as at 31st March 2016. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the Company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

## **2 Analysis of turnover**

### **Turnover**

Turnover by origin and destination:

	2018 £ '000	2017 £ '000
United Kingdom	2,380	2,245
	<u>2,380</u>	<u>2,245</u>

All activities are from continuing operations in the United Kingdom.

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**3 Operating Profit**

Operating profit is stated after charging:

	2018 £ '000	2017 £ '000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	18	13
Total audit fees	<u>18</u>	<u>13</u>

The Directors received no salary, fees or other benefits in the performance of their duties in the current and preceding year. All staff costs are borne by the shareholders of Connect M77/GSO Holdings Limited who second employees to the Company and charge related service costs. The Company had no employees during the year (2017: none).

The audit fee for the Company was amounted to £18,000 payable to KPMG LLP (2017: £13,000 payable to KPMG LLP).

**4 Interest receivable and similar income**

	2018 £ '000	2017 £ '000
Interest on bank accounts and deposits	12	61
Finance income	9,598	9,657
	<u>9,610</u>	<u>9,718</u>

**5 Interest payable and other expenses**

	2018 £ '000	2017 £ '000
Secured bond interest	7,708	7,376
Secured loan stock interest	2,042	2,506
Total interest payable and similar charges	<u>9,750</u>	<u>9,882</u>

**6 Tax (charge)/credit on profit/(loss)**

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

	2018 £ '000	2017 £ '000
<b>Current tax</b>		
Corporation tax due	-	-
Corporation Tax charge in respect of previous years	(4)	-
Total current tax	<u>(4)</u>	<u>-</u>
<b>Deferred tax</b>		
Tax on current year losses deferred	6	12
Effect of changes in tax rate	(1)	91
Total deferred tax	<u>5</u>	<u>103</u>
Total tax (charge)/credit on profit/(loss)	<u>1</u>	<u>103</u>

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/(loss) before tax is as follows:



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**6 Tax (charge)/credit on profit/(loss) (continued)**

	<b>2018</b>	<b>2017</b>
	<b>£ '000</b>	<b>£ '000</b>
(Loss) before tax	(33)	(61)
Tax on (loss) on ordinary activities at standard UK corporation tax rate of 19%	6	12
<b>Effects of:</b>		
Adjustments to tax charge in respect of previous years	(4)	-
Changes in tax rate	(1)	91
	<u>1</u>	<u>103</u>

**7 Financial Asset**

	<b>2018</b>	<b>2017</b>
	<b>£ '000</b>	<b>£ '000</b>
Opening balance	125,268	126,547
Service Income received in the year	(14,078)	(13,826)
Operating revenues	2,259	2,148
Lifecycle replacement costs	846	742
Notional interest	9,598	9,657
Closing Balance	<u>123,893</u>	<u>125,268</u>
	<b>2018</b>	<b>2017</b>
	<b>£ '000</b>	<b>£ '000</b>
<b>Comprising:</b>		
Amounts falling due within one year	1,073	1,265
Amounts falling due after more than one year	122,820	124,002
	<u>123,893</u>	<u>125,267</u>

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**8 Debtors**

	2018 £ '000	2017 £ '000
Due within one year:		
Trade debtors	148	116
	<u>148</u>	<u>116</u>

**9 Investments - due within one year**

Investments due within one year represent amounts held on deposit > 3 months with a financial institution which are not available for withdrawal within that time and, in accordance with the Company's funding arrangements, are restricted and cannot be used to fund the on-going operations of the Company.

There are £nil amounts held on deposit > 3 months.

Restricted cash includes:

Debt Service Reserve: £8,509K (2017: £8,133K)

Tax Reserve: £8,358K (2017: £7,811K)

**10 Creditors: due within one year**

	2018 £ '000	2017 £ '000
Trade creditors	190	101
Accruals	1,705	1,538
VAT payable	205	184
Fixed rate guaranteed senior secured bonds	3,911	3,257
Corporation tax payable	355	-
	<u>6,366</u>	<u>5,080</u>

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**11 Creditors: due after more than one year**

	2018 £ '000	2017 £ '000
Fixed rate guaranteed senior secured bonds	126,504	130,236
	<u>126,504</u>	<u>130,236</u>
Secured loan stock	14,865	14,865
Secured loan stock interest	23,757	21,715
	<u>38,622</u>	<u>36,580</u>
	<u><u>165,126</u></u>	<u><u>166,816</u></u>

Deferred taxation

	2018 £ '000	2017 £ '000
Opening deferred tax asset/(liability)	(1,557)	(1,660)
Current year credit to the statement of comprehensive income	6	12
Current year disallowed depreciation	-	-
Utilisation of losses	-	-
Effect of change in tax rate	(1)	91
Closing deferred tax asset/(liability)	<u><u>(1,552)</u></u>	<u><u>(1,557)</u></u>

	At 1 April 2017	Movement in the year	At 31 March 2018
Trading losses	10	5	15
Capitalised Interest	(1,567)	-	(1,567)
	<u>(1,557)</u>	<u>5</u>	<u>(1,552)</u>



**11 Creditors: amounts falling due after more than one year (continued)**

Fixed rate guaranteed senior secured bonds due 2034 of £152,429,000 were issued on 7 May 2003. The bonds have been unconditionally and irrevocably guaranteed by Syncora Guarantee (UK) Limited (formerly XL Capital Assurance (UK) Limited) for payment of principal and interest.

Interest on the bonds is payable semi-annually in arrears on 31 March and 30 September in each year at a fixed rate of 5.404% per annum commencing on 30 September 2003.

Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2034 and are subject to redemption in part from, and including, 30 September 2006 in accordance with the amortisation schedule set out in the bonds offering circular.

The secured loan stock bears interest at 12.1% per annum and accrues from the date of final completion. It is redeemable in instalments between 2015 and 2035, or as the Company elects, but subject to certain restrictions in the collateral deed. The secured loan stock issued by the Company is held by the Company's immediate parent companies. The Company's immediate parent companies have waived their rights to receive interest within 12 months for the years ending 31 March 2017 and 31 March 2018.

All borrowings contain either a fixed or varying security interest over the assets of the Company, as defined by an intercreditor agreement. The bonds have certain covenants attached.

Fixed rate guaranteed senior secured bonds are stated net of unamortised issue costs of £2,172,000 (2017: £2,351,000). The Company incurred total issue costs of £4,403,000 in respect of the fixed rate bonds. These costs, together with the interest expense, are allocated to the profit and loss amount over the term of the bonds. Interest is calculated using the effective interest rate method.

The Company has committed borrowing facilities available of £167,294,000 which have been fully drawn as at 31 March 2018 (2017 - £167,294,000).

	2018 £ '000	2017 £ '000
Fixed rate guaranteed senior secured bonds	132,587	135,844
Secured loan stock	14,865	14,865
	<u>147,452</u>	<u>150,709</u>

The borrowings are repayable as follows:

	2018 £ '000	2017 £ '000
Repayable within one year	3,911	3,257
Repayable between one and two years	4,344	3,911
Repayable between two and five years	15,880	14,458
Repayable after five years	123,317	129,083
	<u>147,452</u>	<u>150,709</u>

## **12 Financial instruments and derivatives**

The Company's financial instruments are shown in the table below. The main purpose of these financial instruments is to raise finance for the construction and operation of the DBFO roads. The Company has not entered into derivative transactions. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are market, credit and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Company has no foreign currency transactions. All the Company's borrowings are denominated in sterling.

### **Credit risk**

The Company's principal financial assets are cash and short-term deposits and trade and other receivables. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

For cash and short-term deposits, only independently rated counterparties with a minimum medium term senior debt rating of at least A from Standard & Poors and A3 from Moody's are accepted. The maximum exposure to credit risk is the carrying value of the financial assets in the table above.

### **Interest rate risk**

The Company has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest. The fixed rate bonds have interest payable at 5.404% per annum and the secured loan stock has interest payable at 12.1% per annum. Interest rate risk arises on the Company's cash and short term deposits. A 50 basis point increase/decrease in the interest rate on each term deposit held would lead to an increase/decrease of £80,071 (2017: £94,444) in the Company's net interest receivable.

### **Liquidity risk**

The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings with an amortising profile that matches the expected availability of funds from the Company's operating activities.

### **Financial liabilities gross maturity**

The following table details the Company's remaining contractual maturities for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to make payments. The table includes both interest and principal cash flows.

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**12 Financial instruments and derivatives (continued)**

Non-derivative financial liabilities gross maturity

	Other borrowings	Other financial liabilities	Total non- derivative liabilities
	2018	2018	2018
	£ '000	£ '000	£ '000
Due on demand or within one year	(11,251)	-	(11,251)
Due within one to two years	(11,459)	-	(11,459)
Due within two to five years	(35,625)	-	(35,625)
Due after more than five years	(190,892)	-	(190,892)
	<u>(249,227)</u>	<u>-</u>	<u>(249,227)</u>
	Other borrowings	Other financial liabilities	Total non- derivative liabilities
	2017	2017	2017
	£ '000	£ '000	£ '000
Due on demand or within one year	(10,789)	(100)	(10,889)
Due within one to two years	(11,251)	-	(11,251)
Due within two to five years	(35,029)	-	(35,029)
Due after more than five years	(202,947)	-	(202,947)
	<u>(260,016)</u>	<u>(100)</u>	<u>(260,116)</u>

**Capital risk management**

The Company manages its capital to ensure its ability to continue as a going concern, to meet the requirements of its collateral deed and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital and profit and loss account as disclosed in Note 13 and cash and cash equivalents and borrowings as disclosed in Notes 10, 11 and 12. The Company has complied with capital requirements imposed by the collateral deed throughout the year. There have been no changes in the Company's management of capital from previous years.

**13 Called-up share capital**

	2018	2017
	£ '000	£ '000
Allotted, called-up and fully paid		
42,500 class A ordinary shares of £1 each	43	43
7,500 class B ordinary shares of £1 each	7	7
	<u>50</u>	<u>50</u>

The shareholders' percentage holdings in the Company at 31 March 2018 are as follows:

Balfour Beatty Infrastructure Investments Limited	Class A ordinary shares 100%
Cricketdrift Limited	Class B ordinary shares 100%

Both classes of equity rank 'pari passu' in respect of voting, dividends and other rights.



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**14 Capital commitments**

	2018 £ '000	2017 £ '000
Contracted but not provided for	-	75
	<u>-</u>	<u>75</u>

**15 Ultimate parent companies and controlling parties**

The Company's immediate parent company is Connect M77 Holdings Limited, which is incorporated in Great Britain and registered in England and Wales. The ultimate parent companies and controlling parties are Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd) which are incorporated in the United Kingdom and registered in England and Wales. The registered offices of the controlling parties are 5 Churchill Place, Canary Wharf, London, E14 5HU and 16 Palace Street, London, SW1E 5JD respectively.

The Company is a wholly-owned subsidiary of Connect M77 Holdings Limited which is registered in England and Wales. The largest and smallest Company in which the results of Connect M77/GSO plc are consolidated is Connect M77/GSO Holdings Limited, copies of whose financial statements are available from its registered office; 350 Euston Road, London NW1 3AX.

**16 Related party transactions**

	2018 £ '000	2017 £ '000
Balfour Beatty Civil Engineering - operation and maintenance	2,765	2,734
Balfour Beatty Investments - staff secondment charges	162	136
	<u>2,927</u>	<u>2,870</u>
Outstanding balances at the end of the year		
Balfour Beatty Civil Engineering - operation and maintenance	139	146
Balfour Beatty Investments - staff secondment charges	926	764
	<u>1,065</u>	<u>910</u>