

Registration number: 04698798

Connect M77/GSO plc

Annual Report and Financial Statements

for the Year Ended 31 March 2019

Connect M77/GSO plc

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Connect M77/GSO plc

Strategic Report for the Year Ended 31 March 2019

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

Principal activity

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 Mallettsheugh and the GSO from Mallettsheugh 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 12. The loss for the year before taxation was £14,000 (2018: £33,000) and the net liabilities position as at 31 March 2019 is £29,139,000 (2018: £29,127,000) for the Company.

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

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:

	2019 £ 000	2018 £ 000
Turnover	2,926	2,380
Loss after taxation	(12)	(32)
Net liabilities	<u>(29,139)</u>	<u>(29,127)</u>

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.

Connect M77/GSO plc

Strategic Report for the Year Ended 31 March 2019 (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.

Credit and cash flow risk

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's operating activities. In addition, the Company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

The Company 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 March 2020. As such the Company has the required funds to meet debt obligations as they fall due for the following year.

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.

Brexit

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

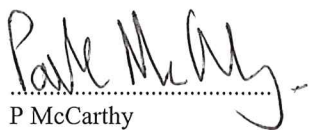
Connect M77/GSO plc

Strategic Report for the Year Ended 31 March 2019 (continued)

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.

Approved by the Board on 29 July 2019 and signed on its behalf by:



P McCarthy
Company secretary

Connect M77/GSO plc

Directors' Report for the Year Ended 31 March 2019

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2019.

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

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

Results and dividends

The audited financial statements for the year ended 31 March 2019 are set out on pages 12 to 25. The loss for the year after tax was £12,000 (2018: £32,000).

The Directors declared and paid dividends of £- (2018: £-) 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:

D G Blanchard

D W Bowler

M J Edwards

M P Mageean

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.

Disclosure of information to the auditors

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

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

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

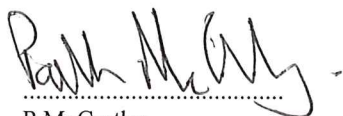
Connect M77/GSO plc

Directors' Report for the Year Ended 31 March 2019 (continued)

Reappointment of auditors

The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 29 July 2019 and signed on its behalf by:



P McCarthy
Company secretary

Registered office 6th Floor
350 Euston Road
Regent's Place
London
NW1 3AX

Connect M77/GSO plc

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 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.

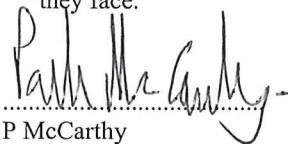
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.



P McCarthy
Company Secretary

Date: 29 July 2019

Connect M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc

Opinion

We have audited the financial statements of Connect M77/GSO plc (the 'Company') for the year ended 31 March 2019, which comprise the Profit and Loss Account, 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 2019 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 Directors.

We were first appointed as auditor by the directors on 17 October 2016. The period of total uninterrupted engagement is for the 3 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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

(£2,926k; 2018: £2,380k)

Refer to page 14 (accounting policy) and page 16 (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 2 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.

Connect M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

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.

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 £1,410,000 (2018: £720,000) determined with reference to a benchmark of total assets, of which it represents 1% (2018: 0.5%).

We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £70,000 (2018: £36,000), 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.

We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Connect M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

We have nothing to report on the Strategic Report and Directors' Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

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

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, 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.

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 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 M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc (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 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.

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 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.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Connect M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

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

15 Canada Square
London
E14 5GL

Date: 29 July 2019

Connect M77/GSO plc

Profit and Loss Account for the Year Ended 31 March 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	2,926	2,380
Cost of sales		<u>(2,448)</u>	<u>(1,992)</u>
Gross profit		478	388
Administrative expenses		<u>(346)</u>	<u>(281)</u>
Operating profit		132	107
Interest receivable and similar income	7	9,532	9,610
Interest payable and similar expenses	8	<u>(9,678)</u>	<u>(9,750)</u>
Loss before tax		(14)	(33)
Taxation	9	<u>2</u>	<u>1</u>
Loss for the financial year		<u><u>(12)</u></u>	<u><u>(32)</u></u>

The above results were derived from continuing operations.

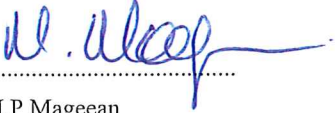
The Company has no recognised gains or losses for the year other than the results above. Accordingly no statement of comprehensive income is presented.

Connect M77/GSO plc

(Registration number: 04698798)
Balance Sheet as at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Non current assets			
Financial asset	11	120,695	122,820
Current assets			
Debtors	12	1,676	148
Investments	13	16,688	16,867
Financial assets	11	1,759	1,073
Cash at bank and in hand		1,908	3,009
		<u>22,031</u>	<u>21,097</u>
Creditors: Amounts falling due within one year	14	<u>(7,196)</u>	<u>(6,366)</u>
Net current assets		<u>14,835</u>	<u>14,731</u>
Total assets less current liabilities		135,530	137,551
Creditors: Amounts falling due after more than one year	14	(163,119)	(165,126)
Deferred tax liabilities	10	<u>(1,550)</u>	<u>(1,552)</u>
Net liabilities		<u>(29,139)</u>	<u>(29,127)</u>
Capital and reserves			
Called up share capital	17	50	50
Profit and loss account		<u>(29,189)</u>	<u>(29,177)</u>
Total equity		<u>(29,139)</u>	<u>(29,127)</u>

Approved and authorised by the Board on 29 July 2019 and signed on its behalf by:



M P Mageean
Director

Connect M77/GSO plc

Statement of Changes in Equity for the Year Ended 31 March 2019

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2017	50	(29,145)	(29,095)
Total comprehensive income	<u>-</u>	<u>(32)</u>	<u>(32)</u>
At 31 March 2018	<u>50</u>	<u>(29,177)</u>	<u>(29,127)</u>
	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2018	50	(29,177)	(29,127)
Total comprehensive income	<u>-</u>	<u>(12)</u>	<u>(12)</u>
At 31 March 2019	<u>50</u>	<u>(29,189)</u>	<u>(29,139)</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Name of parent of group

These financial statements are consolidated in the financial statements of Connect M77/GSO Holdings Limited.

The financial statements of Connect M77/GSO Holdings Limited may be obtained from Level 6, 350 Euston Road, London, NW1 3AX.

Summary of disclosure exemptions

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

- The disclosures required by FRS 102.7 statement of cash flows and FRS 102.3.17(d) financial statement presentation,
- 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.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 2 and the Directors' Report on pages 3 and 4.

The Directors have reviewed the Company's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the client to continue to pay unitary fees due under the D.B.F.O Contract to the Company and do not consider this to be a material risk. The Company's forecasts and projections, taking account of reasonably possible counterparty performance, show the Company expects to be able to continue to operate for the full term of the concession. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Turnover

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.

Financial asset

Classification

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 as per IAS39 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.

Recognition and measurement

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.

Impairment

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.

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Other financial assets and financial liabilities

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

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.

Tax

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 at the balance sheet date.

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

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

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.

Cash and cash equivalents

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

Investments due within one year represent amounts held on deposit > 1 month with a financial institution which are available for withdrawal within that time.

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

1 Accounting policies (continued)

Trade and other debtors/creditors

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, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

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.

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 currently 5% 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.

3 Analysis of turnover

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

	2019	2018
	£ 000	£ 000
UK	<u>2,926</u>	<u>2,380</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

4 Directors' remuneration

The Directors received no salary in the performance of their duties during the current or preceding year. All costs of the Directors are borne by the shareholders of the ultimate parent companies, who second their employees to the Company.

5 Staff costs

The Company had no employees in the current or preceding year. All costs of staff are borne by the shareholders of the ultimate parent companies, who second their employees to the Company.

6 Auditors' remuneration

The audit fee for the Company amounted to £18k (2018: £18k).

There were no non-audit fees (2018: £nil).

7 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest income on financial assets	9,493	9,598
Interest on bank accounts and deposits	39	12
	<u>9,532</u>	<u>9,610</u>

8 Interest payable and other expenses

	2019 £ 000	2018 £ 000
Secured bond interest	7,522	7,708
Secured loan stock interest	2,156	2,042
	<u>9,678</u>	<u>9,750</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

9 Taxation

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax adjustment to prior periods	-	4
Deferred taxation		
Arising from origination and reversal of timing differences	(2)	(6)
Arising from changes in tax rates and laws	-	1
Total deferred taxation	<u>(2)</u>	<u>(5)</u>
Tax receipt in the income statement	<u>(2)</u>	<u>(1)</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax	<u>(14)</u>	<u>(33)</u>
Corporation tax at standard rate	(3)	(6)
Effect of expense not deductible in determining taxable profit (tax loss)	1	-
Deferred tax expense relating to changes in tax rates or laws	-	1
Increase in UK and foreign current tax from adjustment for prior periods	<u>-</u>	<u>4</u>
Total tax credit	<u>(2)</u>	<u>(1)</u>

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

For the year ended 31 March 2019, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2016. The Finance Act 2016, which was substantively enacted on 6 September 2016, provided for a reduction in the main rate of UK corporation tax to 19% effective from 1 April 2017 and a further reduction to 17% from 1 April 2020.

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

10 Deferred tax asset/(liability)

	2019	2018
	£ 000	£ 000
At 1 April	(1,552)	(1,557)
Charged to other comprehensive income	2	6
Effect of change in tax rate	<u>-</u>	<u>(1)</u>
	<u><u>(1,550)</u></u>	<u><u>(1,552)</u></u>

	Trading losses	Capitalised
	£ 000	interest
		£ 000
At 1 April	15	(1,567)
Movement	<u>2</u>	<u>-</u>
At 31 March	<u><u>17</u></u>	<u><u>(1,567)</u></u>

11 Financial asset

	2019	2018
	£ 000	£ 000
Balance brought forward	123,893	125,268
Service income received in the year	(14,557)	(14,078)
Operating revenues	2,786	2,259
Lifecycle replacement costs	839	846
Notional interest	<u>9,493</u>	<u>9,598</u>
Balance carried forward	<u><u>122,454</u></u>	<u><u>123,893</u></u>

Financial asset comprising:

	2019	2018
	£ 000	£ 000
Amounts falling due within one year	1,759	1,073
Amounts falling due after more than one year	<u>120,695</u>	<u>122,820</u>
	<u><u>122,454</u></u>	<u><u>123,893</u></u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

12 Debtors

	2019 £ 000	2018 £ 000
Trade debtors	1,461	-
Prepayments and accrued income	215	148
	<u>1,676</u>	<u>148</u>

13 Current asset investments

The following current asset investments include restricted cash which cannot be used to fund the on-going operations of the Company:

	2019 £ 000	2018 £ 000
Debt service reserve	8,679	8,509
Tax reserve account	8,009	8,358
	<u>16,688</u>	<u>16,867</u>

14 Creditors

	2019 £ 000	2018 £ 000
Due within one year		
Trade creditors	479	190
Accruals and deferred income	1,994	1,705
VAT payable	202	205
Fixed rate senior secured bonds	4,344	3,911
Corporate tax liability	177	355
	<u>7,196</u>	<u>6,366</u>
Due after one year		
Fixed rate guaranteed senior secured bonds	122,342	126,504
Secured loan stock	14,865	14,865
Secured loan stock interest	25,912	23,757
	<u>163,119</u>	<u>165,126</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

14 Creditors (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 2018 and 31 March 2019.

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 £1,989,000 (2018: £2,172,000). 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 2019 (2018 - £167,294,000)

15 Loans and borrowings

Loans not wholly repayable within five years:

	2019 £ 000	2018 £ 000
Fixed rate guaranteed senior secured bonds	128,676	132,587
Secured loan stock	14,865	14,865
	<u>143,541</u>	<u>147,452</u>

Analysis of maturity of debt:

	2019 £ 000	2018 £ 000
Within one year or on demand	4,344	3,911
Between one and two years	4,808	4,344
Between two and five years	17,256	15,880
After five years	117,133	123,317
	<u>143,541</u>	<u>147,452</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

16 Financial instruments

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 and cash and cash equivalents and borrowings. 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.

The principal risks and uncertainties faced are highlighted in the strategic report on page 2.

The Company has the following financial instruments:

	2019 £ 000	2018 £ 000
Due on demand or within one year	11,459	11,251
Due within one to two years	11,674	11,459
Due within two to five years	36,098	35,625
Due after more than five years	178,044	190,892
	<u>237,275</u>	<u>249,227</u>

17 Share capital

Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
A Ordinary shares of £1 each	42,500	42,500	42,500	42,500
B Ordinary shares of £1 each	7,500	7,500	7,500	7,500
	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

Connect M77/GSO plc

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

18 Related party transactions

Transactions during the year

	2019
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	3,759
Balfour Beatty Investments - staff secondment charges	234
	<u>3,993</u>
	2018
	£ 000
Balfour Beatty Civil Engineering - operation and maintenance	2,765
Balfour Beatty Investments - staff secondment charges	162
	<u>2,927</u>

Outstanding balances at the end of the year

	2019
	£ 000
Balfour Beatty - operation and maintenance	202
Balfour Beatty Investments - staff secondment charges	1,047
	<u>1,249</u>
	2018
	£ 000
Balfour Beatty - operation and maintenance	139
Balfour Beatty Investments - staff secondment charges	926
	<u>1,065</u>

19 Parent and ultimate parent undertaking

The Company's immediate parent is Connect M77/GSO Holdings Limited, incorporated in Great Britain and registered in England and Wales. Connect M77/GSO Holdings Limited is the largest and smallest group in which the results of the company are consolidated. Copies of these financial statements are available from Level 6, 350 Euston Road, London, NW1 3AX.

The ultimate parent is Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd), incorporated in United Kingdom and registered in England and Wales. Copies of the financial statements are available upon request from 5 Churchill Place, Canary Wharf, London, E14 5HU and 16 Palace Street, London, SE1E 5JD respectively.

20 Subsequent events

There have been no material post balance sheet events.