Connect CNDR Limited

Report and financial statements for the year ended 31 March 2013

Connect
roads

Registered Number: 06566595

Directors' Report

For the year ended 31 March 2013

The Directors present their report together with the audited financial statements for the year ended 31 March 2013

Principal Activity and Business Review

On 15 July 2009 the Company entered into a Private Finance Initiative (PFI) concession contract with Cumbria County Council to design, construct, operate and maintain an 8km length of new road, the Carlisle Northern Development Route ("CNDR"), and to operate a wider network of county principal roads and detrunked roads in North and West Cumbria over a 30 year period The New Road (North) section was opened in August 2011 and the remainder of the New Road was opened in February 2012 Construction Completion was achieved in February 2013

No change in the Company's activities is anticipated

Going Concern

The Company has substantial financial resources to cover its obligations to Cumbria County Council, having arranged senior debt facilities at the start of the PFI contract and having issued subordinated debt to Connect CNDR Intermediate Limited (a fellow subsidiary of Connect CNDR Holdings Limited), on 5 April 2012

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 financial statements

Share Capital

The issued share capital of the Company at 31 March 2013 was £10,000 (2012 £10,000) consisting of 10,000 ordinary shares of £1 each

Results and Dividends

The Company recorded a profit for the year after taxation of £55,000 (2012 £nil)

The Directors do not propose to declare a dividend in respect of the year ended 31 March 2013 (2012 £nil)

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 Public Private Partnership ("PPP") 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 enable the business to improve performance and fulfil its contractual obligations

Financial instruments

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions Financial instruments are not used for speculative purposes Interest rate swaps are in place between 2009 and 2037 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt

Credit and cash flow risks to the Company arise from its client, Cumbria County Council The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation

Directors' Report (Continued)

For the year ended 31 March 2013

Principal Risks and Uncertainties (continued)

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 On 5 April 2012 the Company issued subordinated debt to Connect CNDR Intermediate Limited In addition the Company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements

Contractual relationships

The Company operates within a contractual relationship with its client 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 its client including discussions on performance, project progress, future plans and client requirements

Key Performance Indicators

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

	31 March 2013	31 March 2012
	£'000	£'000
Net assets	65	10

The Directors consider this KPI to be in line with expectations

Payment to Suppliers

The Company agrees terms and conditions for its business transactions with suppliers Payment is then made to these terms, subject to the terms and conditions being met by the suppliers As at 31 March 2013 the number of days of annual purchases represented by the year end creditors for the Company amounted to 18 days (2012 – 25 days)

Directors

The following persons were Directors of the Company throughout the year and up to the date of this report

A C Beauchamp
B R Walker

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report

Directors' Report (Continued)

For the year ended 31 March 2013

Auditor

Each of the persons who is a Director at the date of approval of the 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/she ought to have taken as a Director in order to make himself/herself 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

Deloitte LLP has indicated its willingness to be reappointed for another term and appropriate arrangements are being made for it to be deemed reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board and signed on its behalf by

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

NJ Marshall

N J Marshall
Secretary
1 August 2013

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Independent Auditor's Report to the Members of Connect CNDR Limited

We have audited the financial statements of Connect CNDR Limited for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent Auditor's Report to the Members of Connect CNDR Limited (Continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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

Makhan Chahal

Makhan Chahal (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
5th August 2013

Profit and Loss Account
For the year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Turnover	2	73,919	4,859
Cost of sales		(73,002)	(4,859)
Gross profit		917	-
Administrative expenses		(764)	-
Operating profit	3	153	-
Net Interest payable	4	(81)	-
Profit on ordinary activities before taxation		72	-
Tax on profit on ordinary activities	5	(17)	-
Profit on ordinary activities after taxation	13	55	-

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

All activities are from continuing operations in the United Kingdom

Balance Sheet

As at 31 March 2013

	Notes	2013 £'000	2012 £'000
Current assets			
Construction work in progress	6	-	70,580
Financial Asset	7	70,566	-
Debtors – due within one year	8	2,425	1,550
Cash at bank and in hand	9	12,135	7,405
		85,126	79,535
Creditors amounts falling due within one year	10	(2,804)	(12,176)
Net current assets		82,322	67,359
Creditors amounts falling due after more than one year	11	(82,257)	(67,349)
Net assets		65	10
Capital and reserves			
Called up share capital	12	10	10
Profit and loss account	13	55	-
Shareholder funds	14	65	10

These financial statements for Connect CNDR Limited, company registration number 06566595, were approved by the Board of Directors on 1 August 2013 and signed on its behalf by

A C Beauchamp
Director

Notes to the financial statements
For the year ended 31 March 2013

1 Accounting policies

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

a) Basis of preparation

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

b) Cash Flow Statement

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary of Balfour Beatty plc, which prepares consolidated financial statements that include a cash flow statement and are publicly available

c) Turnover

Turnover represents the value, net of value added tax and discounts, of services provided in the year to customers after the repayment of the finance debtor and interest imputed on this debtor The company has adopted the provision of FRS 5 Application Note F "Private Finance Initiative and Similar Contracts" It has been determined in accordance with this that the balance of risks and rewards derived from the underlying asset are not borne by the Company and therefore the asset created under the contract will be accounted for as a finance debtor upon completion Revenues received from the customer are apportioned between capital repayments and operating revenue The "finance income" element of the capital repayment is shown within interest receivable Income is deferred where payment is received from the customer in advance of the performance of the related services

d) Financial asset

Following the requirements of FRS 5 Application Note F "Private Finance Initiative and Similar Contracts", it has been determined that the balance of risks from the underlying asset is not borne by the Company and accordingly the asset created under the contract has been accounted for as a financial asset

During the construction phase of the project, all attributable income and expenditure is included in work in progress Upon becoming operational the costs are transferred to the FRS 5 financial asset Revenues received from the client are apportioned between capital repayments, operating profit and finance income The finance income element is recognised as interest receivable using a rate of return specific to the asset The operating revenue relating to the provision of services is recognised as turnover as it is earned

e) Work in progress

All construction costs, including capitalised interest on finance, are recorded within construction work in progress

f) Taxation

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

Deferred tax is 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 Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Notes to the financial statements (continued)

For the year ended 31 March 2013

1 Accounting policies (continued)

g) Finance costs

Finance costs are capitalised into work in progress during the construction phase of the contract and are amortised over the period of the concession Finance costs in relation to bank loans are recognised at a constant rate in accordance with the carrying value of these loans

h) Bank loans

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

i) Derivative financial instruments

The Company uses derivative financial instruments to manage its exposure to changes in interest rates These transactions are accounted for on an accruals basis The Company does not hold or issue derivative financial instruments for speculative purposes

j) Going concern

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

The Directors have reviewed the Company's supply chain and have not identified any specific risks The Directors have also considered the ability of the client to continue to pay unitary fees due under the concession 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 operations 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 accounts

2 Turnover

Turnover by origin and destination

	2013 £'000	2012 £'000
United Kingdom	73,919	4,859

3 Operating profit

	2013 £'000	2012 £'000
Operating profit is stated after charging		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15	15

No non-audit fees were paid to the auditor (2012 £nil)

Notes to the financial statements (continued)

For the year ended 31 March 2013

3 Operating profit (continued)

The Directors received no salary, fees or other benefits in the performance of their duties in respect of their services to the Company in the current year and the preceding year All staff costs are borne by an associated company of the shareholder of Connect CNDR Holdings Limited which seconds employees to the Company The Company had no employees in the year (2012 – none)

4 Net Interest payable

	2013 £'000	2012 £'000
Bank interest payable	(6,986)	(5,926)
Interest transferred to work in progress (note 6)	-	5,926
Bank interest receivable	11	-
Notional interest	6,894	-
	(81)	-

5 Tax on profit on ordinary activities

	2013 £'000	2012 £'000
The tax charge is based on the profit for the period and comprises		
Current tax		
UK corporation tax charge at 24% (2012 - 26%)	17	-
Total tax on profit on ordinary activities	17	-

There is no difference between the current tax and the amount calculated by applying the standard rate of UK Corporation tax to the profit before taxation

In the Finance Act 2012 the main rate of UK corporation tax was reduced to 23% effective from 1 April 2013 Additional changes were announced in the 2012 Autumn Statement to reduce the main rate to 21% from 1 April 2014 and in the March 2013 Budget Statement to further reduce the main rate to 20% from 1 April 2015 These further changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

6 Construction work in progress

	2013 £'000	2012 £'000
At 1 April	70,580	56,316
Additions in the year		
Interest payable and other financing costs	-	5,926
Construction and related costs	-	8,338
Transferred to Financial Asset (Note 7)	(70,580)	-
At 31 March	-	70,580

7 Financial Asset

	2013 £'000	2012 £'000
At 1 April	-	-
Added within the year		
Transferred from construction work in progress (Note 6)	70,580	-
Service revenue	(9,212)	-
Construction and related costs	2,304	-
Notional interest	6,894	-
At 31 March	70,566	-

Notes to the financial statements (continued)
For the year ended 31 March 2013

8 Debtors – due within one year

	2013 £'000	2012 £'000
Trade debtors	1,283	1,333
VAT receivable	-	16
Corporation tax debtor	33	-
Prepayments and accrued income	1,109	201
	2,425	1,550

9 Cash at bank and in hand

In accordance with the Company's funding arrangements, £6,980,000 is restricted and not available to fund the ongoing operations of the Company (2012 – £1,806,000) These funds are held as interest bearing cash deposits for terms of no longer than six months

A further £3,050,000 is restricted for release and only available to fund the ongoing operations of the Company with consent from the client (2012 - £3,279,000)

10 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	379	714
Accruals	538	601
VAT payable	279	-
Secured bank loans – equity bridge	-	10,839
Secured bank loans – term facility	186	22
Subordinated debt interest	1,422	-
	2,804	12,176

Within trade creditors £345,000 was due to Balfour Beatty group companies (2012 £684,000) and within accruals £441,000 was due to Balfour Beatty group companies (2012 £531,000)

On 5 April 2012 the Company issued £10,839,000 of subordinated debt to Connect CNDR Intermediate Limited, the proceeds were used to repay the equity bridge loan on 5 April 2012

11 Creditors: amounts falling due after one year

	2013 £'000	2012 £'000
Secured bank loan – term facility	71,309	67,240
Subordinated debt	10,839	-
Deferred Income	109	109
	82,257	67,349

The secured bank loans represent amounts borrowed by the Company under a facility agreement with a consortium of banks The bank loans bear interest at a margin over LIBOR and are repayable in instalments between 2013 and 2037 The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Company, and have certain covenants attached

Notes to the financial statements (continued)

For the year ended 31 March 2013

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

The borrowings are repayable as follows	2013 £'000	2012 £'000
Repayable within one year	186	10,861
Repayable between one and two years	602	186
Repayable between two and five years	2,921	2,334
Repayable after five years	80,711	66,923
	84,420	80,304
Less arrangement fees	(2,086)	(2,203)
	82,334	78,101

In order to hedge against interest rate variations on the bank loans, the Company has entered into three interest rate swap agreements whereby at intervals of one month during the construction period and six months during the operational period, sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount

The fair value of the interest rate swaps as at 31 March 2013 was a liability of £22,490,000 (2012 - £18,951,000) Market value has been used to determine the fair value

12 Called up share capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
10,000 ordinary shares of £1 each	10	10

13 Profit and loss account

	2013 £'000	2012 £'000
At 1 April	-	-
Retained profit for the year	55	-
At 31 March	55	-

14 Reconciliation of movements in shareholder's funds

	2013 £'000	2012 £'000
Profit for the financial year	55	-
Opening shareholder's funds	10	10
Closing shareholder's funds	65	10

15 Related Party Transactions

As a subsidiary of Connect CNDR Holdings Limited, ultimately wholly owned by Balfour Beatty plc, the Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the Group headed by Balfour Beatty plc

Notes to the financial statements (continued)
For the year ended 31 March 2013

16 Ultimate parent company and controlling party

The Company's immediate parent company is Connect CNDR Holdings Limited, which is incorporated in Great Britain and registered in England and Wales The Company's ultimate parent company and controlling party is Balfour Beatty plc, which is incorporated in Great Britain and registered in England and Wales The only Group in which the results of Connect CNDR Holdings Limited are consolidated is Balfour Beatty plc, copies of whose financial statements can be obtained from 4th Floor, 130 Wilton Road, London SW1V 1LQ