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Amey UK plc

Annual Report and Financial Statements 2019

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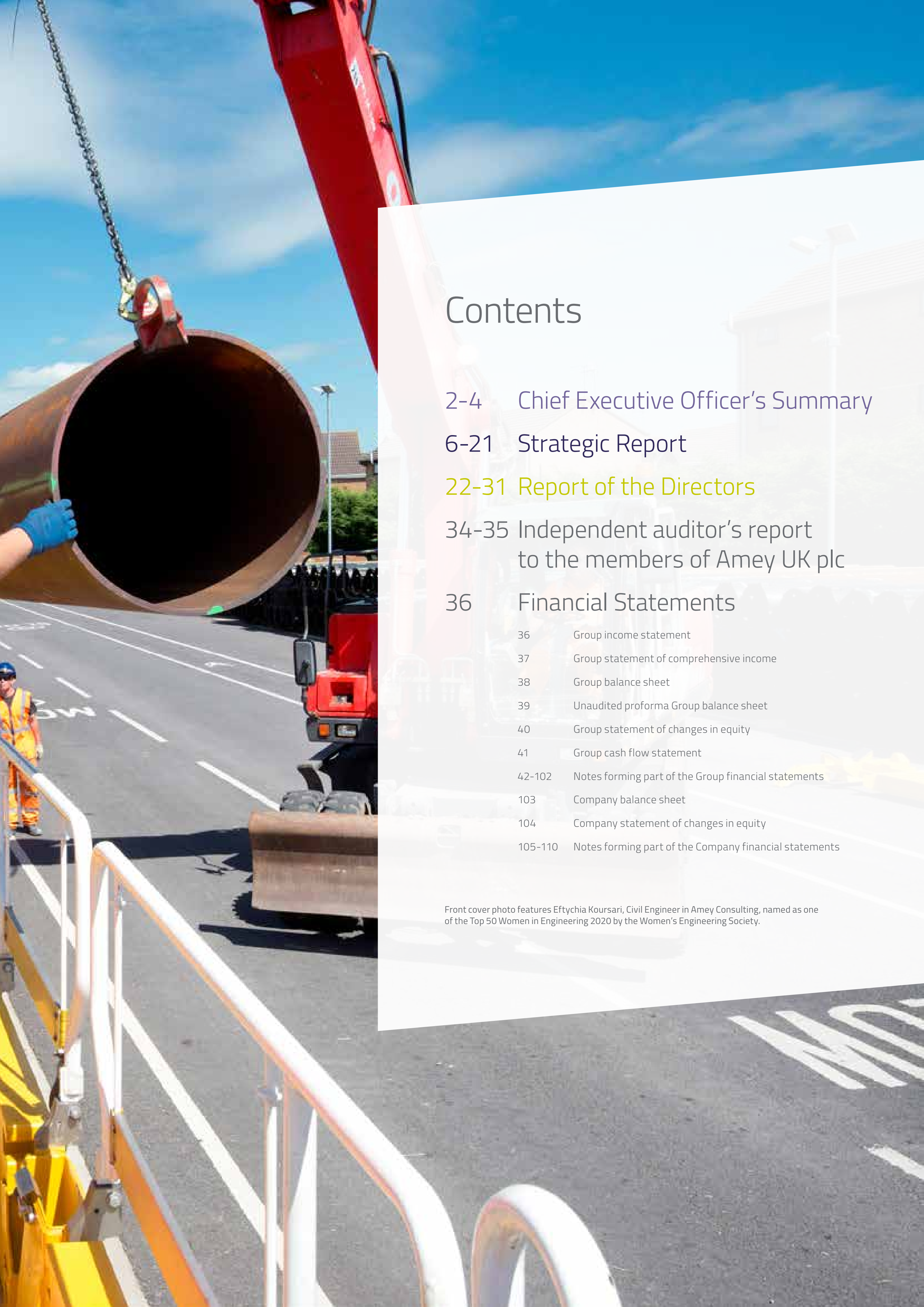

Contents

Front cover photo features Eftychia Koursari, Civil Engineer in Amey Consulting, named as one of the Top 50 Women in Engineering 2020 by the Women's Engineering Society.

Company Information

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'Amey' or 'Group' is defined as being Amey UK plc group of companies.

Chief Executive Officer's Summary

It was a privilege to be appointed Chief Executive in December 2019 from my role as Managing Director for the Facilities Management, Defence and Justice Division.

What has been apparent since joining Amey in the summer of 2017, is the dedication of our staff to public service delivery and how they live our values and company purpose which is to create better places to live, work and travel.

Business Overview

Market conditions have remained challenging with government contracting and outsourcing services remaining firmly in the spotlight whilst the domestic government agenda has been overshadowed by Brexit. In 2020, the COVID-19 pandemic in the UK has also led to significant business challenges to be met, including ensuring the health and safety of all of our employees in this time. Throughout this period, we have remained focused on three key priorities: protecting our employees and the communities we serve; continuing to deliver for our clients and maintaining critical services that the country relies on; and supporting our suppliers.

In June 2019, a settlement agreement was signed enabling Amey to exit the Birmingham Highways PFI contract. After a long and difficult dispute, we are pleased to have reached a resolution that is a good outcome for all involved and most importantly for the people of Birmingham. The full financial impacts of Birmingham were concluded and reported in the 2018 financial statements and there have been no major further financial impacts in 2019. Amey continued to provide interim services until 31 March 2020 at which point, an alternative operator took over operations.

Following a strategic review of the business, we concluded that the Group's portfolio of business is too diverse and needs simplifying, rationalizing and resizing. As part of our new strategy we intend to dispose of the Utilities and Environmental Services businesses for which a disposal programme has commenced. These assets met the criteria to be classified as held for sale at the balance sheet date. The COVID-19 pandemic has however delayed these transactions as the transaction markets have closed during this period. As they remain operational businesses, our modelled cash flows include full consideration for any cash outflows associated with these businesses in our 2020 budget and we have included a sensitivity against our 2021 strategic plan if any of the disposals have still not been completed.

In the continuing business, revenue grew by £325 million in 2019, to £1.9 billion (2018: £1.5 billion) representing a 21% increase in growth in part benefiting from the full year impact of the acquisition of the CarillionAmey Defence joint venture companies ("Carillion Amey") in 2018. Operating profit on continuing activities before exceptional items was £63.0 million (2018: £70.0 million) equating to a 3.4% margin (2018: 4.5%). Operating exceptional items totalled £9.8 million credit (2018: £247.8 million loss). Operating profit after exceptional items was £73.2 million (2018: £178.2 million loss). The loss from discontinued operations was £97.2 million (2018: £30.5 million). After an exceptional impairment charge in respect of these discontinued operations of £158.9 million (2018: £180.3 million), the total group loss after tax was £217.5 million (2018 - £388.0 million).

Strong performance of the Next Generation Estates Contracts continues in defence and, as such, the Defence Infrastructure Organisation awarded us a contract to deliver facilities management services to the United States Visiting Forces estate. In Justice, as part of our successful and long-term joint venture, GeoAmey re-secured the Prisoner Escort and Custodial Services contract for the north of England and Wales.

In Highways, we secured a three-year £49 million extension in North Lanarkshire to maintain the council's road network and with Staffordshire County Council, we were awarded a £30 million contract to construct new transport link connecting the north and west of Stafford. Finally, in Rail we were successful in winning a contract to develop infrastructure as part of the construction of the new Brent Cross West station, as well as winning work to complete improvements on the electrification of the Midland Mainline.

Attractive and stable markets

We operate in public sector and regulated markets where our capabilities and skills in engineering, project management, design and service delivery are highly valued by customers. Our markets enjoy stable regulatory environments with generally good forward pipeline visibility.

Amey is a strategic supplier to the UK Government and works closely with the Cabinet Office in reforming procurement practices including the better allocation of risk, improved governance and increased focus on value rather than just cost – all areas that were set out in government policy in the Cabinet Office's Outsourcing Playbook, published in February 2019.

These policy reforms mark an important and progressive milestone in our markets and provide greater confidence of improved procurement practices for complex public service outsourcing.

Strategic focus

We do however need to further strengthen Amey as we enter a new chapter in our evolution. We need to re-focus on delivering the services our clients and communities rely on us providing.

In parallel with our business divestment plans we have also launched a transformation process to rebuild the organisation. Our strategy 'Freedom to Perform' will create a more integrated and refocused business with stronger client relationships. Our programme to deliver this will be underpinned by four key elements; empowerment, engagement, efficiency and customer focus.

We will review our capabilities and propositions, our internal processes, our cost structure and potential synergies across Amey. We have started the rebuilding already by redefining the divisions and creating lean enabling functions. Aligned to this, a new Executive team has been created with a streamlined management structure and clear accountability.

The business has been restructured as follows: Rail, Highways and Waste Collections have come together to form Transport Infrastructure; Facilities Management, Defence and Justice has been launched as Secure Infrastructure; Consulting Services is now a separate business division leveraging our enhanced analytics capabilities as part of our differentiated offering providing intelligent data and insight into operations; Waste Treatment and Utilities will continue as they do now.

We have also made several new appointments in key functional areas such as Commercial, HR and Transformation.

Social value

We want to make a positive, responsible contribution to society. Never before has there been such a focus and scrutiny on the wider impact organisations have on society – on livelihoods, on the natural world and on the communities in which they and their supply chains operate. And rightly so. At Amey, we believe our success and sustainability is inextricably linked to our leadership for social and environmental action, from giving everyone a fair opportunity to access the workplace, to moving to an economy that refuses to continue contributing to climate change. As an organisation that delivers public services across the UK and beyond, we are committed to work with and empower our employees to genuinely be a force for positive change and long-term benefit to society. We have therefore launched an ambitious 'Social Impact' plan which lays out some challenging targets, such as increasing the spend in social enterprises by over 60% in 2020 to £8 million.

Our people

The success of Amey depends on our people. The skills and commitment of our 16,000 employees are fundamental to our business. We want to be an employer of choice, attracting and retaining the best talent in our industry. Despite the challenges experienced in 2019, our employee engagement score registered at an upper quartile 77%. Looking ahead into 2020, we are committed to introducing the Real Living Wage for over 3,000 employees and increasing our minimum holiday benefit for all employees to 24 days a year as well as enhancing the death in service benefit.

Over the last few years Amey has built a good reputation for supporting communities across the UK in respect of our work for charities, local community groups and individuals. This success has included valued partnerships with the Duke of Edinburgh Awards Scheme ('DofE'), SSAFA – the armed forces charity, and Girlguiding UK. To evolve this further, we will be introducing a fresh strategy for our charity and large-scale community activities building on the success of the last five years but creating a more cohesive strategy which will enable our teams across Amey to own and be part of our activities. This will be through the Amey Foundation, that will be established to monitor and maximise the impact of the social and community investment activities of our people.

The Amey Foundation will support activities associated with three areas:

- **Education –** Projects that educate, develop and inspire future generations to be the talent that delivers sustainable cities and infrastructure
- **Opening Doors –** Projects that support and provide opportunities for those with barriers to sustainable employment
- **Social Enterprise –** Projects that support entrepreneurial action to transform lives and shape sustainable communities

Our long-standing partnership with the DofE charity is a testament to this commitment and in particular our focus on supporting young people, whereby we positively impact their futures and help them realise their potential. All Amey's young employees have the opportunity to participate in the Gold DofE Award which is proving hugely successful for both our staff and the Group.

Lastly, and most importantly, we are committed to the safety and well-being of our employees. We have made significant improvements in our safety performance in 2019 with a reduction in lost time injuries of 49% and we are committed to continuing this trajectory to keep everyone healthy and safe to realise our ambition for zero harm.

Chief Executive Officer's Summary

Looking forward

We will embed a culture of empowerment, engagement, efficiency and customer focus and by the close of this year, the Group will be re-structured with a reduced cost base and simplified portfolio. We have a new strategic focus and a management team dedicated to deliver our 'Freedom to Perform' strategy and we will act decisively to deliver our plan investing in a targeted manner to support sustainable growth.

We have a strong order book, operating in solid markets and whilst we expect markets to remain tough in 2020, we see an improving trajectory and, with this, confidence that we can create long-term value for both customers and shareholders, well supported by the quality of our people and the Group's expertise and capabilities.

In October 2018, Grupo Ferrovial, our parent company, announced a strategic review of the markets it operates in. This review concluded that Ferrovial would divest its wider Services portfolio, which includes Amey. Since Ferrovial acquired Amey in 2002 it has been, and continues to be, a supportive shareholder. This decision does not impact our day-to-day operations and, in any event, as Amey does not rely on Ferrovial guarantees there should be no contractual implications.

Since the year end, the global COVID-19 pandemic has led to significant challenges for the business to meet, particularly with regards to ensuring the health and safety of our employees. We have been able to keep large parts of the business fully operational with a maximum of 755 employees furloughed to date during this period of uncertainty. We also secured the necessary PPE to protect our workforce. We have also adapted our operational practices to meet the guidelines on social distancing and minimising contacts. Reduced volumes of work have been noted and appropriate actions have been taken to utilise the various UK Government initiatives to assist the economy.

Amanda Fisher
Chief Executive Officer, Amey
29 June 2020

Strategic Report

Divisional and Business Update

Consulting and Rail

In this business unit we combine our expertise in transforming transport with our passion for engineering, infrastructure and asset management. It encompasses rail services operations as well as practical and strategic consultancy.

Looking after our workforce is our number one priority and our focus on health and safety resulted in our 'All Accident Injury Rate' (including employees and suppliers) improving by 16% from 1.81 in 2018 to 1.52 in 2019. Our injury severity rate reduced by 13% from 0.30 in 2018 to 0.26 in 2019.

With above-average win rates on our contract bids, 2019 was a strong year on bidding for Consulting and Rail as we secured new business worth £292 million. 2019 saw a slight reduction in revenue as contracts were completed.

The division's revenues, including share of joint venture revenues, totalled £726.4 million in 2019 (2018: £773.7 million). Operating profits, including share of joint venture profit after tax, were reduced to £10.4 million (2018: £50.8 million), before exceptional items. In 2019, the division incurred an exceptional cost of £4.0 million in respect of impairments on non-current assets (2018: £4.0 million). Operating profits after exceptional items were £6.4 million (2018: £46.8 million).

Consulting won the £15 million contract for Network Rail's Intelligent Infrastructure Programme. We added a further two Network Rail contracts where we will be using data science to improve the railway network as well as consultancy and design services business for Merseytravel and Severn Trent Water, together worth £6.9 million.

Other highlights include a £10 million contract with Leicestershire County Council's Midlands Highways Alliance and the master planning and design for Glasgow Airport's improvement scheme.

Outside the UK, we secured more than £3 million of consulting opportunities in the US and a further £1.6 million in Australia.

Rail has added £200 million of new business. Significant contract wins include the remodelling and rail systems works at Brent Cross & Cricklewood – a £70 million contract, and the £34 million railway investment project for stations between London and Corby. We added Network Rail's £45 million minor signalling framework and also won both the £20 million overhead line equipment refurbishment programme and a £17.3 million civils assessment framework agreement for London North Eastern and East Midlands.

The £5 billion transformation programme of the Wales and Borders network, through our KeolisAmey Wales joint venture, is also underway and will create 500 jobs over the next four years.

In our first full year as Transport for Wales rail services operator, we have introduced new services, brought in new rolling stock and introduced 7,600 additional seats on the 1,035-mile network. The contract has seen a 24% reduction in network delay minutes and customer satisfaction now stands at 82%. In October, Amey Consulting opened a new Consulting design hub in Cardiff.

We are continuing to develop new technology, such as a long-range drone which can carry out asset and track inspections, removing the need for workers to be close to the railway. Working collaboratively with Network Rail, and using our data analytics tool, we have reduced rail delays on the South East Route by 40%, saving our client £7 million over 10 years. We are pleased to have won funding from Highways England for two innovative projects using smart technology to improve air quality around the UK's road and motorway network. Building on our 2018 joint initiative with Leeds Beckett University on behavioural safety, we surveyed over 1,200 employees and subcontractors using our ThinkSafe toolkits, which are grounded in psychological theory. We have used the results to make evidence-based improvements in our safety culture throughout 2019.

The business unit is proud to have been at the forefront of our Group's proactive partnerships to help the engineering industry increase the diversity of its workforce. Our Challenge Cup aims to boost the percentage (currently only 23%) of women in the UK's STEM workforce. Nearly 200 girls took part in this annual competition, which gives girls aged 13-15 an opportunity to work with engineers on a real-life project. Halfway through our three-year partnership with Girlguiding, we are delighted that over 140,000 requests have been made for the Engineering badge that we helped to design, and we continue to work on new projects to boost girls' skills and leadership qualities. Now in its fifth year, our partnership with the Royal Academy of Engineering on its Graduate Engineering Engagement Programme encourages more students and graduates from diverse backgrounds to enter a career in engineering. Over 650 students have participated in the programme to date.

By May 2019, Consulting had picked up 10 major awards including The Chartered Institution of Highways & Transportation's Overall Project of the Year Award for the Belfast Bus Rapid Transit project. The Management Consultancies Association awarded us the best Performance Improvement in the Public Sector. We were pleased to receive both the British Safety Council's Safety Sword of Honour and the RoSPA President's Award, in recognition of our long-held commitment to health and safety.

Facilities Management, Defence & Justice

Facilities Management, Defence & Justice maintains infrastructure and assets, and delivers services to clients in the public sector. We thrive in complex, challenging environments.

An engaged leadership team with a clear strategy has delivered a strong financial performance in 2019, a year when we restructured for further delivery and growth and turned around poor performing contracts.

The division's revenues, including share of joint venture revenues, totalled £1,027.1 million in 2019 (2018: £738.8 million). Operating profits, including share of joint venture profit after tax, were increased to £47.3 million (2018: £23.6 million), before exceptional items. In 2018, the division incurred an exceptional cost of £2.7 million in respect of impairments on non-current assets (2019: £nil). Operating profits after exceptional items were £47.3 million (2018: £20.9 million).

During the year, we won projects worth £400 million across the defence and prison estates. The full integration of the Defence business into the business unit has brought savings of £5.7 million.

We were awarded two-year extensions on our four Regional Prime contracts by the Defence Infrastructure Organisation (DIO), originally let to CarillionAmey in 2015. Amey has successfully managed the contracts since Carillion's liquidation in January 2018 and has overseen increasing levels of performance. We now consistently achieve and exceed our key performance indicators, which we now publish online. These showed, for example, that customer complaints halved during a year in which we relocated 1,400 service families from Germany. We have also taken over FM services for the United States Visiting Forces from Interserve whilst the contract is re-let.

Successes outside the defence arena include being awarded a two-year extension to our FM contract with Kent County Council, the provision of FM services for Birmingham Prison, and a place on the Crown Commercial Service Construction Framework. Our joint venture, GeoAmey, won the Prisoner Escort service for the north of England and Wales.

Continuing our focus on poor performing contracts, we have improved performance on our Northamptonshire County Council contract, which is now profitable and has minimal deductions. We completed the exit of the London Tri-Boroughs TFM contracts in April.

We continued to significantly improve safety across the division, reducing employee Lost Time Injury (LTI) rate by 52% (compared to December 2018) and achieving our annual LTI reduction target of 33%.

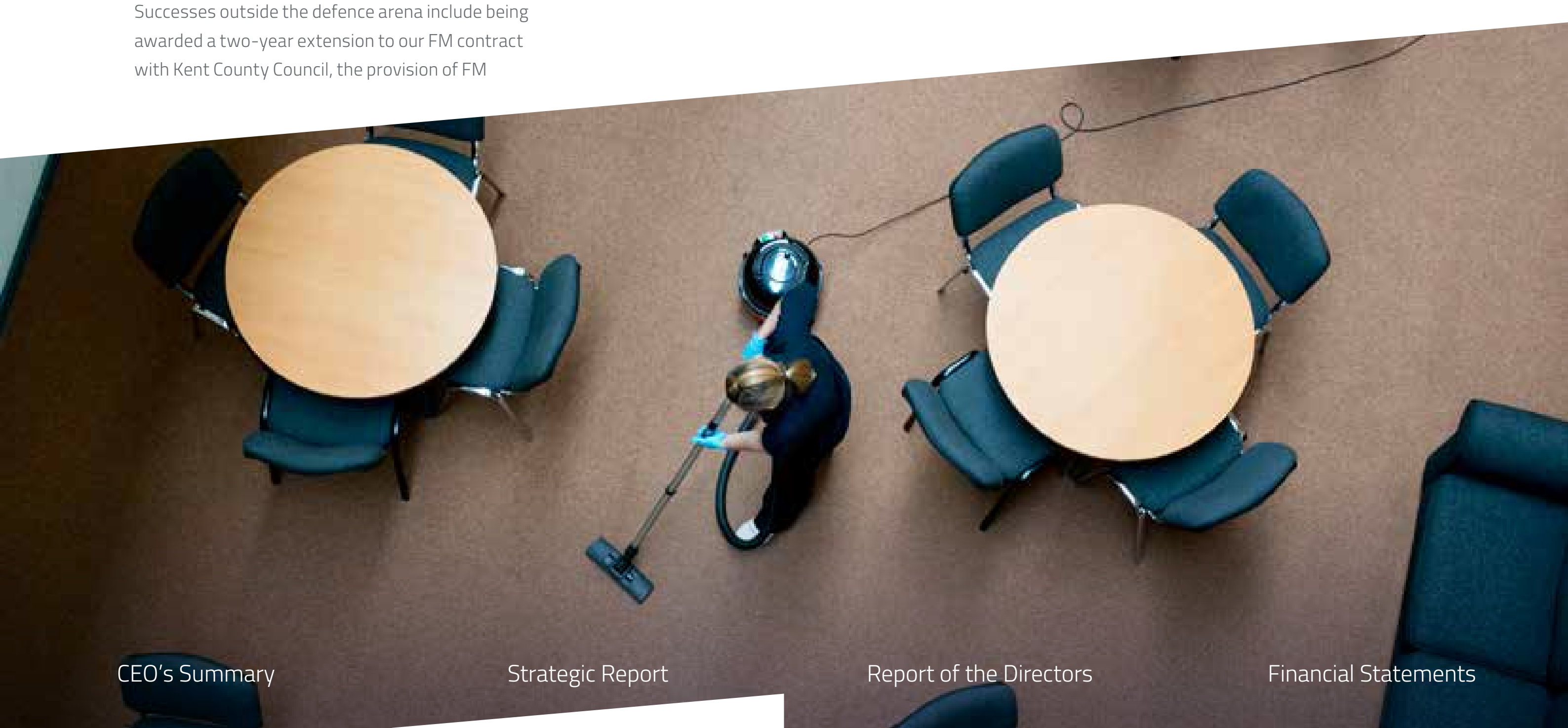
In 2018, Managing Director Amanda Fisher implemented a 'Fix-Win-Grow' strategy. We are now at the end of the 'Fix' period, moving into 'Win' and 'Grow'. We have restructured the business, with a clear strategy for delivery and growth, and introduced a high performing team programme for our senior leaders.

It was also the Year of Engagement with the 5,500 people that we directly employ across the country. With the aim of better connecting teams and making the senior leadership team more visible, we launched a number of initiatives. A well-received Directors' Hotline now gives any employee the chance to ring the on-call Director on a Wednesday morning to raise issues and suggest improvements. Springboard, an employee suggestion scheme that rewards the best ideas each quarter, has generated savings of over £250,000 since it was introduced in February.

Having identified that our biggest overhead spend was in travel, overtime, absence, subsistence and temporary labour - aka TOAST – we set a challenge in May to reduce this cost by £3 million in the next first year. Asking our employees how they could help, and rewarding those who were 'Healthy and Here,' has put us on track to deliver this annual saving by May 2020. A Directors' Roadshow, giving all employees an update about the business and the opportunity to ask the Exec anything, reached over 3,000 employees in 30 locations over the summer of 2019.

We were proud to receive the Armed Forces Covenant Gold Standard. We also achieved the ISO44001 collaborations standard on our Defence contracts and, with DIO, were successful in the Annual Institute for Collaborative Working Awards for Public and Private sector collaboration. In addition, we gained the ISO27001 for Information Security Management, and RoSPA Gold in recognition of our safety culture.

Amey is one of six shortlisted FM providers for the next round of UK Defence contracts, known as Future Defence Infrastructure Services, which will replace the existing Next Generation Estate Contracts. We are shortlisted for two housing contracts: occupancy management services and housing maintenance services, as well as the contract to provide hard facilities management services for barracks, airfields and other defence facilities in the UK and Northern Ireland. In 2020 we will compete in a series of call-off competitions for seven-year contracts.



Highways

We manage, operate and maintain roads, bridges and their related infrastructure and assets. Our clients are Highways England, Transport Scotland, Transport Northern Ireland as well as local authorities, including Staffordshire and other County Councils.

This year has seen continuous improvement in health and safety, people and profitability, as well as in contract performance. With a stable client base, we have been able to introduce innovations into our service delivery as well as focusing on growth. We have made more headway in realising our Vision 2030 – the use of technology and automation to remove people from hazardous locations.

The Highways division's revenues totalled £395.8 million in 2019 (2018: £363.6 million). Operating profits were £0.4 million (2018: £2.6 million operating loss), before exceptional items. In 2019, the division incurred an exceptional credit of £22.3 million in respect of a reduction to the provision for the overall cost of exiting the Birmingham City Council Highways PFI contract and an exceptional cost of £8.5 million arising from the agreement of a contract claim against Amey and another Ferrovial group company. In 2018, the division recorded an additional exceptional cost of £95.0 million for exiting that contract. In 2018, the goodwill allocated to the division of £138.7 million was impaired in full as an exceptional charge, reflecting the difficult market conditions. Operating profits after exceptional items were £14.2 million (2018: £236.3 million loss).

Highways is a hazardous working environment so we are pleased to report that with a focus on continuous improvement, we had a 26% reduction in Employee Injury Rate and a 50% reduction in incidents pursuant to the Reporting of Injuries, Diseases and Dangerous Occurrences (RIDDORs). As chair of the Supply Chain Safety Leadership Group, we brought together Highways England and other tier one contractors to create a paradigm shift in safety performance, through a drive for consistency in high risk operations.

We mobilised Area 10, the contract for the design and maintenance of the strategic road network around Manchester and Liverpool, at the beginning of April. Our client, Highways England, was pleased with the smooth transition and the speed with which the new service was up and running. Through our new partnership with Sir Robert McAlpine, we began work on the M6 J19 scheme, with a second scheme also agreed through the Delivery Integration Partnership with Highways England. Our longstanding 20-year partnership with North Lanarkshire Council was cemented with a three-year extension. In Staffordshire, our capital programme continues to perform well and we were awarded the Stafford Western Access Route, a £30 million new transport link connecting the north and west of Stafford. We also successfully completed the replacement of Lichfield Bypass railway bridge at Christmas. Throughout 2020, we will be working with Trafford Council to unlock funding through the £160 million Mayor's Challenge Fund to help deliver Beelines, Greater Manchester's cycling and walking infrastructure plan.

This year we received innovation funding totalling £11 million for projects such as the further development of an autonomous impact protection vehicle with Highways England. The total includes £4 million of Live Labs funding for innovation projects in Kent and Staffordshire. These projects are very much aligned to our Vision 2030 objective.

We have led the development of a Highways Sector Deal across industry, sector organisations, local authorities, and Central Government to create a single, unified voice for the sector. This activity will continue in 2020 with engagement at senior levels within government.

Client satisfaction remains a priority. This year we launched the ADEPT Excellence in Place Leadership programme to form a network of 'thought leaders' from local authorities to stimulate industry conversations on key topics such as future business models, Green Finance and climate change.

Through our Customer Maturity Matrix, which we have developed and rolled out across our accounts, we can now benchmark our performance and work with our clients to improve our services further. We have shared this approach with our competitors, and they are starting to utilise it on Highways England projects.

Waste Collections

We manage waste collections, street cleansing and grounds maintenance. Our clients are local authorities.

Following a strategic review of the business, the results of this division are now classed as discontinued operations and the assets and liabilities are now included on the Group balance sheet as assets held for sale.

The division's revenues totalled £111.2 million in 2019 (2018: £148.6 million). Operating losses were £24.3 million (2018: £8.3 million), before exceptional items. In 2019, the division incurred an exceptional charge of £31.7 million arising on the impairment of non-current assets now classed as held for sale. In 2018, the goodwill allocated to the division of £103.0 million was impaired in full as an exceptional charge, reflecting the difficult market conditions. Operating losses after exceptional items were £56.0 million (2018: £111.4 million).

Our Waste Collections team implemented a 'back to basics' strategy over the year, helping to rebuild engagement with employees and focusing on delivering our core service safely and in the best interests of local communities. We have been working with our clients to restore relationships and repair and rectify the issues we have faced.

Although it was a difficult year for the team, they made great progress in stabilising this part of the business unit. We are confident that we will make significant improvements to how we deliver services with Trafford and Surrey throughout the early part of 2020. Meanwhile, we negotiated exits for Peterborough, City of London, Dartford and Redbridge. Ealing is on target for a negotiated exit in July 2020. A smaller portfolio of accounts allows us greater focus on relationships and the engagement between account management teams and clients, enhancing the confidence of all parties.

Waste Collections is another hazardous environment to work in. Health and safety performance has been a core focus for the team in 2019. We have seen a 62% reduction in Employee Injury Rate, an 85% reduction in RIDDORs and a 73% reduction in LTIs. We re-inducted all of the driver workforce, with training covering driving techniques and driver behaviour, and completed the trial of an automatic handbrake system which is being rolled out across the refuse collection vehicle fleet.

We are also introducing the principles of Vision 2030 to our Waste Collections operations, with trials of autonomous vehicles such as street sweepers, investment in safety systems on refuse vehicles, and the introduction of articulated vehicles in Eden, Solihull and Gloucester.

Utilities

We keep homes supplied with water, heat and power, as well as providing people across the UK with access to ultrafast broadband and smart metering.

This was a transitional year for the Utilities business. As the water sector in England moved from asset management period AMP6 into AMP7, some of our clients evolved their contracting strategies to reduce their reliance on a small number of suppliers. Therefore, although we succeeded in securing contracts in the new AMP cycle with our key customers, some decreased in value compared to AMP6 and this resulted in lower revenues in 2019. In Scotland our water business continued to operate strongly and in line with expectations.

In the power sector we had some good contract wins which broadly maintained volumes and helped build the order book for 2020 and beyond. Smart metering volumes were down year on year, in large part due to the transition from SMETs 1 to SMETs 2 meters which has driven down profitability across the industry. Our profit margin was further impacted by losses on construction projects as a result of cost over-runs. These projects are now either complete or due to be completed in the first half of 2020.

Following a strategic review of the business, the results of this division are now classed as discontinued operations and the assets and liabilities are now included on the Group balance sheet as assets held for sale.

The division's revenues totalled £393.9 million in 2019 (2018: £513.5 million). Operating losses were £33.3 million (2018: £0.4 million operating profit), before exceptional items. In 2019, the division incurred an exceptional charge of £92.0 million arising on the further impairment of goodwill now classed as an asset held for sale. In 2018, the goodwill allocated to the division of £65.2 million was impaired in part as an exceptional charge, reflecting the difficult market conditions. In 2018, the division also incurred an exceptional loss of £4.5 million in respect of impairments of non-current assets (2019: £nil). Operating losses after exceptional items were £125.3 million (2018: £69.3 million).

Gains in 2019 include a new contract, worth up to £20 million, with Yorkshire Water for its minor civils framework. This will run from 2020 to 2025, with an option to extend a further three years. It covers minor civil and building works and specialist activities for water-retaining structures such as pumping stations and tanks.

In April, we entered a six-year contract with United Utilities for maintenance on its South region wastewater network. Building on our status as a trusted supplier to United Utilities for nearly a decade, its key objectives are to improve customer experience, bring innovation and help to proactively identify and resolve issues on the network before they impact customers. We have also secured contracts for specialist services and small projects in both waste and clean water.

As one of seven partners in Severn Trent's design and build delivery framework, we will help deliver a £2 billion capital programme for AMP7, providing clean and wastewater services to over 4.3 million households and businesses. We will be responsible for the design and build of water and waste water assets both above and below ground. We have worked with Severn Trent for over 20 years.

In power, we are part of the £40 million Northern Powergrid Framework to carry out overhead line condition and vegetation surveys. We will also be responsible for 5,000 carrier and distribution pole replacements a year for Openreach across the West Midlands and Wales regions as part of Openreach's 2019 asset assurance poling programme. We have won two contracts for National Grid under their high voltage transmission framework. The schemes, worth a combined value of up to £12 million, will run until 2021 and involve design and construction works across sites in Deeside and Willington.

We have continued to develop innovations that benefit the sectors and their consumers. Our collaboration with United Utilities and jetting equipment supplier Jetchem has led to the development of two new pieces of low-cost equipment that can both prevent customers' properties being flooded by sewage and reduce the cost of keeping them clear.

In March, we set a 2020 Challenge to ensure that no streetworks excavations are left open overnight by 2020. We launched an industry-wide competition to identify and develop new products and techniques. This received 50 entries, six of which were taken forward for research and development. We will be rolling out the new solution in 2020.

The Fieldviewer app, introduced into our Severn Trent contract, has reduced travel by allowing supervisors to collect data from multiple sites. As well as benefiting employee safety and wellbeing, it has also resulted in a 27% cut in fuel spend and a 75 tonne-reduction in CO_2 emissions.

Independent company Achilles gave the business unit 100% for the second year running in an external health and safety audit. In April, Utilities received a RoSPA Gold Medal for the first time.

Working with Severn Trent, we have developed a new apprenticeship programme that aims to address a key skills gap in the water industry. The Water Process Technician Apprenticeship is being delivered in partnership with national training provider Merit. Amey is the first Tier 1 contractor to offer a programme of this type. In 2019 we joined forces with the Energy & Utilities Skills Partnership to attract ex-service personnel into utilities sector, and we have combined with other leading energy and utilities companies to launch a commitment to inclusion across the sector.

In November we were proud to be awarded for our Outstanding Contribution by the utilities industry's trade body, Street Works.

Waste Treatment

Amey is one of the UK's largest waste treatment operators, with four major waste treatment facilities.

This was the first full year of operations for our Waste Recovery Parks in Milton Keynes and in Allerton, North Yorkshire. Our site in Waterbeach, Cambridgeshire, required extensive repairs to its roof following storm damage in March which we carried out swiftly and completed within three months.

Following a strategic review of the business, the results of this division are now classed as discontinued operations and the assets and liabilities are now included on the Group balance sheet as assets held for sale.

The division's revenues, including share of joint ventures revenues, totalled £93.3 million in 2019 (2018: £122.4 million). Operating losses, including share of joint ventures profit after tax were £33.0 million (2018: £47.0 million), before exceptional items. In 2019, the division incurred an exceptional charge of £36.1 million arising on the impairment of non-current assets now classed as held for sale. In 2018, the goodwill allocated to the division of £7.3 million was impaired in full as an exceptional charge, reflecting the difficult market conditions. A further impairment of £0.3 million arose on non-current assets in 2018. Operating losses after exceptional items were £69.1 million (2018: £54.7 million).

We process close to 132,000 tonnes of household waste in Milton Keynes each year, uniquely combining three technologies to generate renewable energy exported to the National Grid whilst maximising the recovery of recyclables. This site has had a strong performance, with both its mechanical treatment and anaerobic digestion operating with high availability. We have reached a stable operating condition in our gasification plant, which reached full capacity in 2018. It has been operating on a stable and reliable basis since spring 2019, reaching 91% availability in December. Through our continuous community outreach programme of educational visits, talks and workshops, we have reached an additional 5,000 people this year. The site's safety record has been exemplary – it has achieved 600 days without a LTI.

Allerton has continued to operate with high availability – about 90% on average – and has continued to overperform on its electricity generation, with an average of 0.8MWh per tonne treated. Since it became operational in March 2018, 100,000 tonnes of CO2 equivalent have been saved through waste being diverted to the plant instead of landfill.

At Waterbeach, we are in year nine of a 25-year PFI complete waste management contract for the county council. During a 2019 planning enquiry, we robustly defended the site's proposed 250,000 tonnes per annum Energy from Waste (EfW) facility. This could provide the new town of 11,000 homes, which is due to be constructed adjacent to the site, with a low-carbon district heating network, and reduce carbon emissions by at least 35,000 tonnes per year compared to landfill. A decision is expected from the Secretary of State in 2020.

We are also investigating similar opportunities on the Isle of Wight, where the 40,000 tonnes per annum facility currently being constructed could potentially supply heat to the nearby hospital and prison. During 2019, we commissioned mechanical treatment at the Forest Park site and will complete its energy recovery facility in 2020. We continue to provide waste collection and household recycling centres and have helped the island to have one of the UK's highest recycling rates. 54% of the Isle of Wight's waste is now recycled. We achieved close to 1,000 days without RIDDORs and maintained a 100% environmental compliance record. We also delivered waste collection services for the Isle of Wight Festival, where our team recovered all the abandoned tents – amounting to more than 2,000 kg of waste – and donated them to a local charity for the homeless.

We partnered with Charpak and RECAP to create a recycling closed loop for PET plastic food packaging collected from Cambridgeshire homes. This is a great example of a local circular economy and an indication of the direction of travel for resource management in the UK.

We are also tackling the growing problem of batteries and other forms of electronic waste being disposed of incorrectly. Lithium-ion batteries in particular can cause fires and on average we halt, detect and remove between three and five fire hazards per week at each of our resource and waste management facilities – averting 800 fires each year just across Amey's operations. In March 2020, we hosted an industry conference on the subject, in partnership with the Chartered Institution of Wastes Management.

Health, Safety, the Environment and Quality

Health and Safety

In our 2019 survey, 92% of employees said Amey takes health and safety in the workplace seriously and the same percentage said they feel empowered to speak up if they see anything potentially unsafe in the workplace.

Encouraging everyone to stay alert and take responsibility for health and safety has been a key driver of our planned improvement in 2019.

All in all, it was an encouraging year for safety at Amey.

- Lost Time Incidents fell from 0.9 to 0.48, an overall reduction of 49%, which meant that 79 fewer people were hurt compared to the previous year.
- The more serious RIDDOR reportable injuries also fell by almost half.
- 'All injuries' were down by a third over the year and the number of working days lost improved by 14%.

At Amey, safety is everyone's job and we support engagement with safety through our Visible Felt Leadership programme. This is an opportunity for leaders and teams to have detailed on-site conversations about their experience of safety and to see where improvements can be made. Over 1,600 of these visits were made in the course of the year.

The 4th Phase of ZEROCODE-Stay Alert, a practical guide covering fatigue, personal wellbeing and travel safety, relevant to all employees, was launched in November. Everyone has been encouraged both to take fewer journeys, and to take time to make them safely.

Among a number of safety awards, the Highways business unit was awarded the ROSPA International Dilmun Environmental Award which recognises excellence in environmental and health and safety management.

Environmental performance

Energy and carbon performance

In 2019, our total carbon footprint was 232,210 tCO2e under GHG protocol scope 1 and 1,495 tCO2e under GHG protocol scope 2. We achieved a 6.6% reduction of our Scope 1 & 2 carbon emissions across the business without the inclusion of the new advanced thermal treatment activities.

We consumed 312.7 GWh of energy in 2019 from the sources detailed in the table below:

Energy Source	kWh	% of total consumption
EfW Parasitic Consumption	25,578,068	8%
Electricity	32,578,262	10%
Gas	3,401,253	1%
Diesel	187,461,733	60%
Unleaded	9,296,940	3%
Red Diesel	52,578,632	17%
Kerosene	525,062	0.2%
LPG	1,440	0.0%
Bottled LPG	1,311,115	0.4%
Total	**312,732,505**	

Our energy intensity is annual energy consumed per annual turnover. In 2019 this was: 0.12 GWh/£m turnover, an improvement of 0.1 GWh/£m Turnover from our 2018 performance.

A number of energy-saving initiatives have been carried out within our business units. In Utilities, a new FieldViewer app has helped cut our fuel spend by 27% and reduced CO2 emissions by 75 tonnes in our Severn Trent contract. This app helps supervisors to collect real-time data from multiple sites, allowing them to plan and reduce travel. Fewer journeys benefits employee safety and wellbeing as well as reducing CO2 emissions.

In Sheffield, we have invested in a new low carbon fleet as part of the Streets Ahead initiative with our customer Sheffield City Council. We now operate a fleet of 20 electric vans, with 17 charging points across Sheffield, which has achieved 12.8 tonnes of carbon savings while they travelled over 66,400 miles delivering services to the city. Within the same contract, a trial of two hydrogen-powered vans, in collaboration with Office for Low Emissions Vehicles, continues. To date this has seen a saving of 4.2 tonnes of carbon over 13,400 miles.

A zero-plastic initiative at our Oxford office helped people to alter their behaviour and changed what we buy. Awareness of plastic use rose from 53% to 93%, while a very high proportion of participants said they had gained understanding of how waste is managed in the UK. Around 73% said they felt confident to engage and influence others in their use of plastics.

Quality

We became one of the first companies to be certificated to the new Health & Safety Management Standard ISO 45001 and the new Collaboration Standard ISO 44001, which shows how we put our customers' needs at the heart of our business.

Methodology: Carbon emissions are calculated in accordance with the GHG Protocol – Corporate Standard (version 3.51) and the Waste Sector built on GHG Protocol and externally verified by external auditors PricewaterhouseCoopers. Our total energy consumption has been calculated using data and methodologies compiled in the fulfilment of the Energy Savings Opportunity Scheme (ESOS) Regulations.

Social Value

We are continuing to increase our positive social impact within the communities in which we work - inspiring people, supporting local enterprise, and responding to the social, economic and environmental challenges faced by our customers.

Supply chain

Amey spends approximately £1.9 billion each year with suppliers and subcontractors. Around 75% of our 5,700 suppliers are SMEs and 48% of everything we spend by value goes directly to those companies, supporting thousands of jobs in almost every corner of the UK.

In 2019, we launched our Social Value Supply Chain Charter, as a means to engage and work with all our suppliers on their commitment and contribution to social impact. In October, we announced our commitment to place 5% of our addressable spend with social enterprises – businesses which use their profits to create positive, social change – by 2023. This will amount to around £40 million in the next four years.

Modern slavery

During 2019, we continued our focus and engagement with our supply chain about modern slavery. We assess new suppliers on their perceived risk for modern slavery and have developed training to support, where necessary, their knowledge of the issue and the associated legislation. We scored 87% in the Cabinet Office's Modern Slavery Assessment Tool and are reviewing and working on the assessment recommendations.

Education and diversity

Only 23% of the UK's STEM (science, technology, engineering and maths) workforce is female. As a major engineering employer, Amey is keen to improve the industry's gender diversity. Designed to bring girls aged 13-15 into the business to work with engineers for the day and demonstrate the wide range of roles available, our Challenge Cup gives teams of six a chance to compete in activities that mimic a real-life engineering project. It has grown since 2015 to become an event which now reaches and inspires just under 200 girls around the country.

Our work with the Girlguides continues. Since 2018, over 140,000 of our Engineering Badges and associated STEM activities packs have been distributed to help engage and inspire young girls. As part of our three-year partnership, we continue to support Girlguiding's Innovator Skills Badges, and in particular the element called 'Break the Rules.'

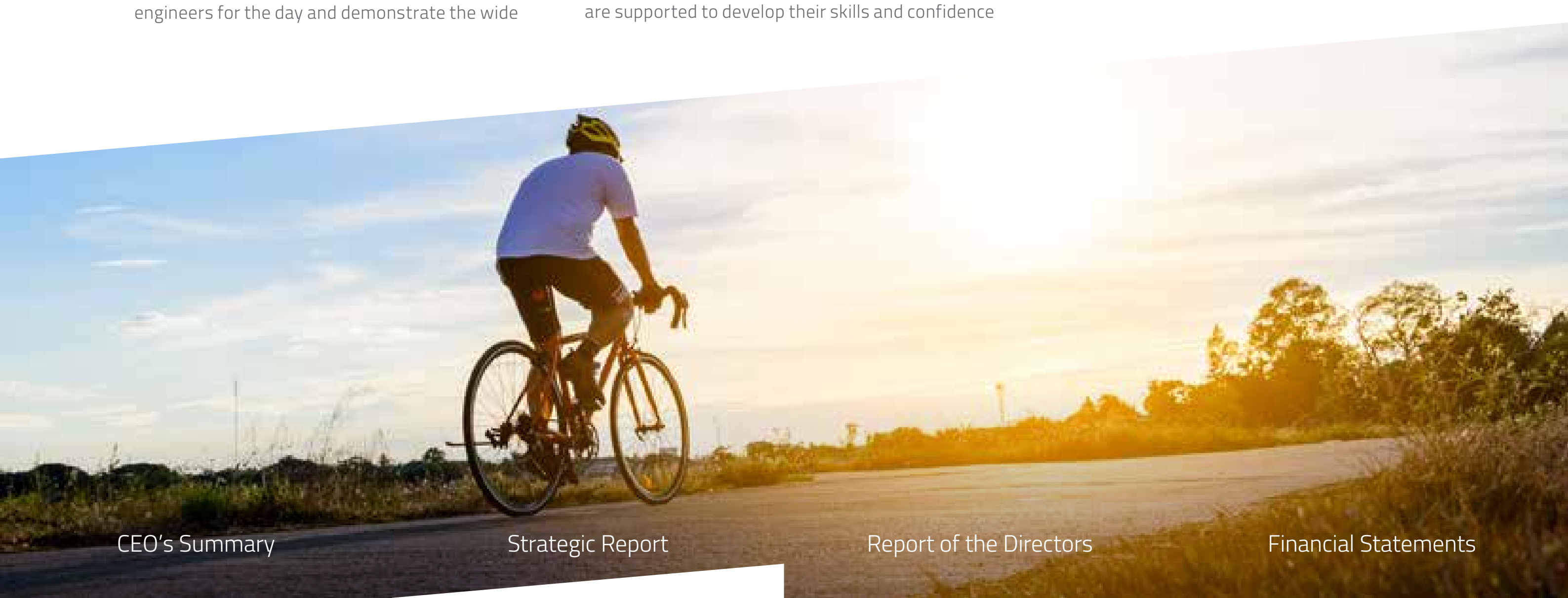
Skills building and rehabilitation

We continue to support those who faced barriers into employment. Originally developed at HMP Liverpool, our Clean, Rehabilitative, Enabling and Decent (CRED) programme supports prisoner rehabilitation, getting prisoners to work alongside our Facilities Management teams. It now operates in eight of the prisons we maintain on behalf of the Ministry of Justice, and a further eleven are in the early stages of mobilisation. This year we delivered over 14,500 hours of purposeful activity and helped bring over 900 prison cells up to a safe, decent standard.

Further work to support the reduction in re-offending has been seen through our engagement and partnership with Recycling Lives – a social enterprise offering recycling services and whilst delivering programmes to rehabilitate offenders, support the homeless and redistribute food. Its HMP Academy programme employs offenders in workshops to undertake recycling or fabrication work and support their rehabilitation. Participants are supported to develop their skills and confidence and to secure work and housing upon release – less than 5% of those supported reoffend. In 2018, a workshop in a Category C men's prison processed 939 tonnes of televisions from household waste recycling centres managed by Amey, achieving a 99.8% recycle rate for metals, glass, plastics, panels and circuit boards. This partnership was recognised with a win in the Partnership Excellence Award (Public/Private Sector) in the 2019 National Recycling Awards.

Employee involvement

Every Amey employee has one paid volunteering day per year, which can be used to support a charity or community organisation of their choice. This year around 10% of employees contributed, giving 1,410 days to good causes. Activities have included river and beach clean-ups, working with local Wildlife Trusts, and volunteering to inspire young people in STEM subjects. This year a record 135 volunteers worked with the Trussell Trust, the food bank charity that we support, sorting and encouraging donations. Our partnership with SSAFA, the Armed Forces charity, entered its fourth year and saw our employees raise over £34,000, taking our overall contributions to over £200,000. Amey continues to be a signatory to the Armed Forces Corporate Covenant, achieving the MOD's Defence Employment Recognition Scheme Gold Award for our outstanding support for the Armed Forces community. We also support our employees in their own fundraising endeavours, and last year the Amey Foundation committed over £17,000 to match the fundraising activities of nearly 70 employees.



Our People

Our 16,000 people are our most vital resource. We continuously invest in developing their skills and enhancing their wellbeing.

As a Group accredited with a Silver Award from Investors in People (IiP)*, Amey is placed within the top five per cent of UK employers. In 2019, we continued to strive to evaluate and shape our leadership and people management practices to inspire and build a capable future workforce.

We align our IiP priorities with our employee engagement survey to bring simplicity and focus which everyone can see and understand. This year's survey again showed very high agreement (92%) that Amey takes health and safety in the workplace seriously, among the 55% who responded. In an affirmation of our culture of improvement that encourages everyone to stay alert and take responsibility, the same percentage said they felt empowered to speak up if they saw anything potentially unsafe in the workplace. A large majority (84%) also agreed that Amey puts the customer first, a rise of 4% compared to the previous year.

94% of employee survey respondents said they felt trusted by their manager to get on with their job. With 79% (12% more than last year) saying that their manager gives them regular feedback on their performance, it is evident that our Performance and Development Review (PDR) process is reaching more people to develop and succeed in their roles. Each year, we ensure that all employees have personal objectives based upon Amey's five strategic performance pillars, so there is clear line of sight between corporate and individual aims, whilst also making our values a key component of this dialogue.

This year we have allowed managers and employees more time for quality conversations to review performance. Building on our focus on inclusion, we now calibrate performance across the business by reviewing how different groups are rated to ensure fairness and consistency.

In 2019, following a pilot, we have an additional option for managing the performance of frontline employees called Job Chats. These offer a simple structure for a regular check-in between the employee and their manager, to see how things are going, if they need any help, and how they are working alongside the Amey values.

We invest in skills for the future by building a talent pipeline which prepares for new technologies and our business growth. We will continue to attract, retain and develop diverse and committed placement students, apprentices and graduates across all areas of our business. There are currently 369 apprentices and 169 graduates across Amey.

In 2019, we designed and launched the UK's first Rail Degree Apprenticeship Programme in partnership with Sheffield Hallam University. This will provide a clear career path for our engineers of the future and enable our Consulting & Rail division to grow its own talent.

We have further optimised our Levy fund by introducing a Level 3 Supervisory and a Level 5 Leadership Development Programme to underpin our leadership and management capabilities.

Wellbeing

Our Wellbeing Framework, delivered by a steering committee, takes a holistic view of wellbeing including emotional and mental, physical, financial, community and development factors. Throughout 2019, we continued our focus on mental health, working through our 117 Wellbeing Ambassadors who promote and support the wellbeing of our people. Our 89 Mental Health First Aiders are trained to spot the early signs and symptoms of mental health conditions and can offer initial assistance and guidance alongside our Employee Assistance Programme. At the start of the year we published guidance on common mental health conditions to help raise awareness.

Other initiatives include nutrition insight and discovery workshops at our Liverpool and Stafford contracts, and a financial wellbeing platform to address financial problems, one of the biggest causes of stress. Through a new partnership with Salary Finance, we offer financial education, affordable salary-linked loans and savings accounts.

New technology, including SAP Concur Expenses, has improved the user experience for employees as well as boosting our compliance and visibility on spend. A 'MyGateway' case management solution has brought new efficiencies and better cross-functional working between HR and IT.

*Amey achieved IiP reaccreditation in 2018, a process which takes place every three years.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Key Performance Indicators (KPIs)

To assist the Board's management of the business and to provide evidence of achieving the Group strategy, the Board monitors a number of financial and non-financial KPIs. To the extent that these are applicable, the KPIs are used to determine bonus and other reward mechanisms in the Group.

The Directors consider that revenue, gross profit, operating profit and operating cash flows are the Group's principal financial KPIs. The non-financial KPIs referred to in this Strategic Report demonstrate the importance to the Group of health and safety accidents minimisation, recruitment of people and encouraging community involvement.

Revenue, gross and operating profit are monitored at a divisional level and these have been discussed within each of the divisional reviews. The Group's cash outflow from operating activities was £171.6 million (2018: £130.5 million). The increase in cash outflow has resulted from various movements as detailed in Note 29 of the financial statements but were primarily attributable to a settlement payment of £160 million to exit the Birmingham City Council Highways PFI contract.

Principal Risks and Uncertainties

The principal risks and uncertainties relating to the Group are summarised below:

Contract claims and disputes

Many of the Group's contracts with public sector clients include a significant amount of risk transfer in relation to the delivery of key services. Failure to deliver services in accordance with required KPI levels can result in performance deductions and/or disputes arising with a client. Each business unit undertakes regular reviews of its contract performance and the Amey Executive reviews the key contracts across the Group on a monthly basis. A number of initiatives are in place across the Group to monitor, manage, and improve contract management to ensure contractual compliance.

Contract retention, new business and competitive pressures

The Group seeks to manage the risk of losing contracts by the provision of added value services, improving the quality of services provided and by maintaining strong relationships with key customers. The pipeline of new contracts may be increased or reduced in line with local authority, government and utilities regulators' spending plans in the UK. The Group is able to adapt its capabilities and resources to meet any significant change arising from both the overall work pipeline and increased competitive pressures. Dedicated resources are devoted to securing new contracts. As investment in the bidding process is only recouped in the event of securing a new contract, the Group regularly reviews the risks and rewards potentially arising. The Group also endeavours to restrict expenditure in the early stage of a bid, when the certainty of success is less likely.

Cash and credit risk

The Group's credit risk is primarily attributable to its non-public sector trade receivables. However, there are significant amounts of trade receivables due from public sector clients. Credit risk is managed by running credit checks on new clients and by monitoring payments against contractual agreements. The Group monitors cash flow as part of its day-to-day control procedures. In addition, the Directors regularly review the Group's cash flow projections to ensure that appropriate facilities are available to be drawn upon as necessary.

The management of credit risk, interest rate risk, funding and liquidity risk and foreign exchange risk is further explained in note 16 to the Group financial statements. The objectives and policies of managing the financial risk of the Group are also outlined in note 16.

Reputational risk

As a major supplier of services to local authorities and Government, the Group recognises the reputational risk inherent in continuing to deliver added value and reliable performance on our contracts. The Group also recognises the importance of reputational risk when bidding for new contracts. In respect of loss of reputation due to tax avoidance, the Group has been assessed as 'Low Risk' by Her Majesty's Revenue and Customs (HMRC) in the UK. This is based on an open and co-operative relationship with HMRC supported by strong internal controls, clear governance at Board level and a commitment to manage the Group's tax affairs in an ethical and commercial manner.

Effective account management of compliance and efficiency

Effective account management – and ensuring our people are equipped with the right skills and resources - is a key priority for the Group. Without effective account management, compliance and/or achievement of optimum efficiencies and commercial outputs cannot be attained. Amey has initiatives in place to improve its account management. These initiatives are referenced throughout this report and include our ongoing commitment to development of our people towards ensuring compliance and accountability, and also to business audit and assurance.

Health and safety

As referred to earlier in this report, Amey operates in a number of complex, high risk environments such as rail networks, airports, utilities, defence establishments, civil engineering structures, schools and industrial and power plants. It also operates a significant fleet of rail and road vehicles. Health and safety is a priority for the Group and a robust governance structure is in place to ensure compliance and proactivity. Further details on our approach to health and safety are set out on page 14.

Information security and data protection

Following the implementation of the General Data Protection Regulation, the Group continues to focus on the effective management of information, including personal data. In addition, the constantly evolving transformation from hard copy data to soft copy data, and the ability to protect the Group's IT systems from the continually evolving threat of attack, is a key focus.

Government procurement policy

The UK Government's strategy for future investment in the markets in which Amey operates will affect the new opportunities available to Amey. The UK's current restrictive procurement processes, often with little opportunity to propose changes to contact terms, means the Group must evaluate such opportunities with some scrutiny to ascertain whether it can accommodate those risks or else remove itself from a particular opportunity.

People, culture and values

People are a priority for Amey. Ensuring our people have the right skills and resources to undertake their roles is a key focus for the Group. Aligning our people to the Group's culture and values and ensuring consistency across the Group is also critical. The three values that provide a framework for delivering services and guide us in the way we work are: putting people first; delivering great service; and creating better solutions.

See page 16 above for further details on Amey's people.

Regulatory requirements

The markets within which the Group operates give rise to a considerable number of regulatory requirements, with regulators naturally taking a proactive interest in ensuring compliance. Operational risks are managed by the individual business units together with support from central functions. The Group's Executive reviews the management thereof to ensure consistency of high standards across the Group. Corporate regulatory requirements are coordinated by central functions and similarly reviewed by the Group's Executive.

Continuity

Other risks include operational risks threatening the continuity of business operations such as the failure of information systems, loss of key infrastructure and the recruitment and retention of key staff; and financial and commercial risks which include the failure to meet financial business plans, pension fund liabilities and delays or cost over-runs in major programmes.

COVID-19 pandemic

Since the year end, the global COVID-19 pandemic has led to significant challenges for the business to meet, particularly with regards to ensuring the health and safety of our employees. We have been able to keep large parts of the business fully operational with a maximum of 755 employees furloughed to date during this period of uncertainty and we also secured the necessary PPE to protect our workforce. We have also adapted our operational practices to meet the guidelines on social distancing and minimising contacts. Reduced volumes of work have been noted and appropriate actions have been taken to utilise the various UK Government initiatives to assist the economy. It remains unclear how long the pandemic will last and at what point economic and social restrictions will be relaxed or what the macro-economic impact will be. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million. The main variables considered to quantify the range of £30 to £50m range of pandemic impact have been the extent of operational disruption, the potential for diminished volumes, contract modifications (changes in the economic activity caused by the pandemic causing the renegotiation of the terms of existing contracts and arrangements) and the impact of lower performance on the gain-share mechanisms of the contracts. The operational disruption and potential diminished volumes have been assessed in a moderate and severe scenario. In the moderate scenario, we have seen a 20-30% reduction in volumes during lock down period and then gradual recovery of the business activity. In the severe scenario, a 50%-60% reduction of the labour force would be out of action during lock down period impacting volumes, then gradual recovery of the business activity. The analysis of the contract modifications and gain-share impacts has been performed on a contract by contract basis.

The pandemic has also delayed the disposal processes for our held for sale businesses which are now likely to complete over the next 12 months as the transaction markets reopen.

Brexit

Amey has carried out a detailed review of its operational business and supply chain including second and third tier suppliers with regard to the UK leaving the European Union (Brexit). This has included setting up a working group to review client requirements, the impact on key supply chain partners and of course the potential effect on our workforce.

Until we know and understand the full terms of the United Kingdom's withdrawal and its new relationship with the European Union (and other non-EU countries) it is difficult to comment in detail, however, Amey is actively monitoring developments, engaging with stakeholders and reviewing the potential impact on all operations.

Potential divestment

Ferrovial, our parent company, has announced the potential sale of all or parts of its services portfolio, of which Amey forms a part. Amey is held for sale, but it is very much business as usual.

Part of the sale strategy has been to review and assess our service delivery portfolio to ensure we focus on our core offering where we can add the most value. As part of this review we have now classed as held for sale our Environmental Services' Treatment and Collections businesses, as well as our Utilities business.

This classification currently has no impact on our day-to-day operations, and in any event, there will be no contractual implications. We remain committed to our operations and to delivering a high standard of service.

Principal Risks and Uncertainties Continued

Birmingham

In July 2019, we announced that a consensual settlement agreement had been signed to exit the Birmingham Highways PFI contract. As part of the agreement, Amey continue to provide services until a replacement contractor was appointed on an interim basis. Amey's contract came to an end on 31 March 2020. All parties have worked closely to ensure the smooth transition of services and staff.

Transparency and government contracts

As a public service provider, we are acutely aware of the responsibility we have to government and taxpayers, and we are mindful of the positive impact that transparency and engagement has on the way that our industry is perceived.

Since June 2018, we have been working closely with the Cabinet Office on a range of reforms to public sector contracting. Together with leaders from across our sector, in addition to senior civil servants and ministers, we have been engaged in a series of monthly forums to put forward and debate ways to introduce more transparency and resilience to outsourcing.

The Government has said it is committed to moving away from a focus on lowest cost to a greater emphasis on innovation and social value in public services. It is clear that contractors must move forward with this same commitment to reform, which is why we are focused on streamlining our operations, leveraging our consulting capability, diversifying our workforce, reducing our environmental impact, and stepping up the way we engage with government and the wider public. In 2019, we continued to consult with key stakeholders on issues of national policy, including prison maintenance, service housing, rail, prompt payment, SME engagement, and inclusion and diversity.

Strategic Report Approval

The Strategic Report on pages 6 to 20 contains the strategic review of the business for 2019. This Report was approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

Amanda Fisher
Chief Executive Officer, Amey
29 June 2020

Report of the Directors

Report of the Directors

The Directors present their annual report together with the audited financial statements of the Amey UK plc group of companies (Amey or the Group) for the year ended 31 December 2019. Amey UK plc (the Company) is incorporated in England and Wales and is the holding Company of a Group whose subsidiary companies and joint venture undertakings are listed in note 32 to the financial statements.

Strategic report

The Chief Executive Officer's summary statement on pages 2 to 4 and the corporate commentary on pages 6 to 20 to describe the principal activities of the Group, the development and performance of the Group's business during 2019, future developments and the position of the Group at the end of the year.

A description of the principal risks and uncertainties facing the Group is also contained in the Strategic Report.

Results and dividends

Following a strategic review of the business, the results of the Utilities and Environmental Services divisions are now classed as discontinued operations and the assets and liabilities are now included on the Group balance sheet as assets held for sale. Comparative information in the income statement has been re-presented accordingly.

The Group income statement is set out on page 36 and shows a profit after tax for the year on continuing operations amounting to £39.0 million (2018 re-presented: £177.3 million loss) on Group revenue on continuing operations of £1.87 billion (2018 re-presented: £1.55 billion). The loss on discontinued operations for the year was £256.2 million (2018 re-presented: £210.8 million).

The overall gross profit and operating profit on continuing operations before exceptional items were respectively £129.9 million and £63.5 million (2018 re-presented: £141.1 million and £69.6 million) representing a margin of 6.9% and 3.4% (2018 re-presented: 9.1% and 4.5%). Administrative expenses on continuing operations increased to £79.3 million (2018 re-presented: £76.2 million).

The operating profit on continuing operations is stated after charging all operating costs and before net finance expense and tax. The operating profit on continuing operations after exceptional items was £73.2 million (2018 re-presented: £178.2 million loss). Net operating exceptional income on continuing items arising in 2019 totalled £9.8 million (2018 re-presented: £247.8 million exceptional cost) which in 2019 was in respect of a £22.3 million reduction to the provision for the overall cost of exiting the Birmingham City Council Highways PFI contract, a cost of £8.5 million arising from the agreement of a contract claim against Amey and another Ferrovial group company, and the impairment of non-current assets of £4.0 million on a Consulting and Rail contract. The 2018 exceptional items arose on the cost of exit from the Birmingham City Council Highways PFI contract (£123.2 million), the impairment of goodwill (£138.7 million), impairments of other assets (£12.4 million), the share of joint ventures exceptional impairment charge (£4.6 million) and a pension cost arising on the equalisation of Guaranteed Minimum Pensions (£3.2 million). These costs are offset by gains in 2018 on the disposal of joint venture investments (£25.9 million) and arising on the pre-acquisition holding of Carillion Amey (£8.3 million). An associated tax credit of £35.0 million arose as a result of recognising these items (2019: £nil).

The loss from discontinued operations was £97.2 million (2018: £30.5 million). After an exceptional impairment charge in respect of these discontinued operations of £158.9 million (2018: £180.3 million), the total group loss after tax was £217.5 million (2018 - £388.0 million).

Net finance expense on continuing operations was £19.7 million (2018 re-presented: £10.1 million). The Group's share of profit after tax of joint ventures on continuing operations was £13.3 million (2018 re-presented: £0.1 million).

Group operating cash flows from all activities were £171.6 million outflow (2018: £130.5 million outflow.). The 2019 outflow included payments of £160.0 million to exit from the Birmingham City Council Highways PFI contract.

A second issue of an Other equity instrument to Landmille Limited took place, allowing a reduction of intercompany loan balances of £200.0 million due to Landmille Limited on 8 July 2019. The Group also received cash of £75.0 million on 29 June 2019 through a new subordinated intercompany loan from Ferrofin, SL. Both Landmille Limited and Ferrofin, SL are Ferrovial, S.A. group undertakings.

Equity shareholder funds at 31 December 2019 were £55.0 million deficit (2018: £32.8 million deficit). No interim dividend was paid during the current or preceding year. The Directors do not recommend the payment of a final dividend. Since the year end, shareholder funds have been bolstered by the issue of a £169.0 million Other equity instrument to Landmille Limited in exchange for a reduction of group borrowings.

The reduction in equity shareholder funds of £22.2 million represents £217.2 million of loss for the year, £5.0 million other comprehensive expense offset by the £200 million issue of the other equity instrument. The £217.2 million includes £158.9 million impairment in respect of assets classified as held for sale. As a consequence, the Group balance sheet now reports net current liabilities of £20.7 million in respect of assets classified as held for sale. The classification of these businesses as held for sale has reduced the Group's non-current assets by £341.8 million.

Disposal of joint venture investment

On 9 January 2019, the Group disposed of all of its investment in its joint venture company, MTCnovo Limited (since renamed Management & Training Corporation Limited), for a total cash consideration of £10.0 million. A minimal loss of £0.03 million arose on this disposal in the current year.

Post balance sheet events –

(a) Further issue of Other equity instrument

On 26 February 2020, a third issue of an Other equity instrument to Landmille took place further reducing the loans to Landmille by £169.0 million and increasing equity shareholder funds by the equivalent amount. In light of this new financing arrangement, the Group has presented a proforma balance sheet incorporating this intercompany loan change (see page 39). This proforma balance sheet shows net assets of £125.7 million at 31 December 2019.

(b) COVID-19 pandemic

Since the year end, the global COVID-19 pandemic has led to significant challenges for the business to meet, particularly with regards to ensuring the health and safety of employees. The Group has been able to keep large parts of the business fully operational with a maximum of 755 employees furloughed to date during this period of uncertainty and the Group also secured the necessary PPE to protect the workforce. Operational practices have been adapted to meet the guidelines on social distancing and minimising contacts. Reduced volumes of work have been noted and appropriate actions have been taken to utilise the various UK

Government initiatives to assist the economy.

In the first part of 2020, the Group has been responding to the impact of the pandemic on its operations and cash flows. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million.

The main variables considered to quantify the range of £30 to £50m range of pandemic impact have been the extent of operational disruption, the potential for diminished volumes, contract modifications (changes in the economic activity caused by the pandemic causing the renegotiation of the terms of existing contracts and arrangements) and the impact of lower performance on the gain-share mechanisms of the contracts. The operational disruption and potential diminished volumes have been assessed in a moderate and severe scenario. In the moderate scenario, we have seen a 20-30% reduction in volumes during lock down period and then gradual recovery of the business activity. In the severe scenario, a 50%-60% reduction of the labour force would be out of action during lock down period impacting volumes, then gradual recovery of the business activity. The analysis of the contract modifications and gain-share impacts has been performed on a contract by contract basis. The pandemic has also delayed the disposal processes for our held for sale businesses which are now likely to complete over the next 12 months as the transaction markets reopen

Overlaid on these scenarios the Directors have incorporated the various UK Government initiatives that have been enacted or announced over the last few weeks, which have been set out below:

(i) The funding by Government of 80% of the wages of employees that have been furloughed (subject to a cap of £2,500 per employee)

(ii) Procurement Policy Note 02/20: Supplier relief due to COVID-19 which ensures stability of revenue over the next three months. This envisages that contracting authorities continue to pay suppliers at risk due to COVID-19 on a continuity and retention basis. Contracting authorities can make advance payments to suppliers if necessary and contracting authorities should pay suppliers as quickly as possible to maintain cash flow and protect jobs. Procurement Policy Note 04/20 follows 02/20 and will similarly be relied upon.

(iii) The ability to defer VAT and PAYE payments with repayments of this deferral to be made prior to the end of the 2020/21 tax year. The Group has agreement to defer VAT payments due for the period March to June 2020 until 31 March 2021 and also deferred PAYE payments due from March onwards until the end of June 2020.

(iv) The Guidance note issued by Government regarding PFIs which states that PFI contractors should consider themselves to be part of the public sector in response to the current COVID-19 emergency.

(v) The additional liquidity provided by the above initiatives have given the Board assurance that the Group will have sufficient resources to cope with the worst-case scenario above without breaching covenant limits.

Directors

The Directors of the Company during the year, and up to the date of this report, were as follows:

I Tyler
Chairman
Appointed 1 January 2018

A Fisher
Appointed 22 January 2020

A García

F Gonzalez de Canales Moyano

F Lopez

A Nelson

J Pérez
Appointed 31 March 2020

In addition to the Directors shown, the following served as Directors during the year: Andres Camacho (resigned 25 March 2020, Carol Hui (resigned 15 March 2019), Alan Lovell (appointed 29 April 2019, resigned 13 July 2019), and Andy Milner (resigned 12 December 2019).

Company Secretary - Jayne Bowie

Directors' indemnity

Directors and Officers of the Company benefit from directors' and officers' liability insurance cover in respect of legal actions brought against them. In addition, Directors are indemnified under the Company's articles of association to the extent permitted by law, such indemnities being qualified third party indemnities.

Report of the Directors

Stakeholder engagement

Employee engagement and employment policies

The Group's policy is to have open and regular communication with all employees through both formal and informal methods that are regularly reviewed and developed. Employees are provided with information about Amey through: our intranet, internal social channel Yammer, Chief Executive Officer telephone briefings, 'Hub' (the employee magazine) and 'Need to Know', a twice-monthly e-newsletter for all online employees and, for those offline, via their people managers. These are in addition to communications direct to employees on specific matters or initiatives, which included thematic initiatives to embed the Health and Safety Zero Code which was launched in 2018 and further development of employee well-being initiatives. Springboard, our continuous improvement programme, empowers employees to suggest and implement improvements to the business.

The Group also regularly reviews and updates its intranet, AmeyWorld, which provides a wealth of information accessible across the Group including daily news, process documents and results. In addition, 'Toolbox Talks' provide regular communications to operatives with updates on health and safety and contract or site information together with corporate messages.

Members of the Group pension schemes also receive regular reports and communications on matters relating to their pensions.

The Directors align the Investment in People priorities with an annual employee engagement survey to bring simplicity and focus which everyone can see and understand. This year's survey again showed an engagement score of 77% and very high agreement (92%) that Amey takes health and safety in the workplace seriously, among the 55% who responded. In an affirmation of our culture of improvement that encourages everyone to stay alert and take responsibility, the same percentage said they felt empowered to speak up if they saw anything potentially unsafe in the workplace. A large majority (84%) also agreed that Amey puts the customer first, a rise of 4% compared to the previous year.

During 2019, Slido, an interactive question and answer facility, was incorporated in the intranet site to encourage employees to engage directly with and ask questions of the Chief Executive. There are also business unit initiatives which are aimed at enhancing employee engagement, one being the availability of a weekly hotline which is answered by the senior leadership team of the business unit.

More formal employee engagement is conducted through employee appointed representatives, as was the case when the Group's registered office was relocated during the year. The Group also engages at national, regional and local level with a number of trade unions.

Rewards, recognition and performance

Reward at Amey covers all aspects of compensation and benefits including pay planning, bonus structure and pay-out market benchmarking, flexible benefits, employee preferential discounts and recognition tools.

All reward policies and practices support the Group's business goals and are commercially focused in order that it remains competitive, fair and consistent across the business and that it attracts, retains and motivates employees to ensure everyone can perform to the best of their ability.

The Investors in People Silver Award places the Group in the top five per cent of UK employers within the IiP's new revised and elevated standard. The award recognises that a strong learning culture is promoted across Amey. Managers are required to provide performance management support to every employee in the form of annual objectives setting and end-of-year performance appraisal. Employees are encouraged to be actively involved in setting their objectives and work projects for the year ahead.

Diversity and inclusion

The Board is committed to making Amey a leader in its sector for inclusion and wants to make sure that the services it carries out are inclusive of the wide range of people in the communities they serve. An inclusion steering group is responsible for developing and cascading Amey's inclusion strategy, for acting on feedback from inclusion network groups, sharing lessons learnt about inclusion throughout its business and for championing inclusion issues.

Amey strives for fairness, respect and equality of opportunity for all of its people, from when they join Amey, and throughout their employment lifecycle with regards to: training and development; payment and benefits; appraisal and promotion, through to retirement.

Amey complies with the Equality Act 2010 and Public Sector Equality Duty. The aspiration is that Amey's services help eliminate unlawful discrimination, harassment and victimisation; advance equality and foster good equality relations. The Group promotes an inclusive environment, free from discrimination, harassment and victimisation. Action is taken against any employee or person contracted to Amey who breaches this policy. The Group aims for its employees and customers to receive fair treatment regardless of equality characteristic or social background.

Amey has the prestigious 'Leaders in Diversity Accreditation' following an independent survey by National Centre for Diversity of over 1,500 Group employees, senior leaders and suppliers which assessed the focus on diversity and inclusion.

Disabled employees

Harnessing the talents, skills and experiences of people with disabilities will help Amey to create a stronger, more diverse business that reflects the communities it serves.

To show its commitment, the Group has signed up to the UK Government's Disability Confident campaign. This not only helps people with disabilities or health conditions to get into full time employment, but also gives them the support they need whilst they are at work. As part of its commitment to this, Amey makes reasonable adjustments where required for customers and employees, guarantees job interviews for people with disabilities who meet essential requirements, and audit our sites systems and communications to ensure that they are accessible.

In addition, the Group has established a partnership with Scope, the UK's Disability Charity, the first such partnership in our sector. Through this partnership, assurance will be gained that the Group's services to its employees and communities are not just accessible but are enabling of the wide range of disabilities in the UK.

Engagement with clients and suppliers

(a) Supplier engagement

The Group aims to build, manage, develop and maintain a supply chain comprising the best partners and suppliers who will work safely and collaboratively, improve efficiency, innovate, provide value for money and realise our customers' aspirations.

The supply chain strategy embeds Amey Values and behaviours with strongly led, socially responsible, responsive and collaborative organisations that reflect this in their own organisations. Amey's supplier selection and procurement management processes are inclusive, objective and rigorous to ensure it works with the right organisations for the long term. Performance data from annual 360° supplier reviews is used to maintain and continually develop to improve supply chain performance, build relationships and to ensure the right behaviours consistently to achieve the Board's business goals.

The diverse nature of Amey's business creates relationships with many suppliers of all sizes and a significant amount of money is spent every year with our suppliers on goods and services supporting our activities. Amey's suppliers are fundamental to the performance of its business and as such they are expected to have a total commitment to working safely, be capable, socially responsible, quality driven, innovative and efficient; and to provide Amey with value at competitive cost and in full compliance with legal requirements, regulations and the highest ethical practices – all in a collaborative environment.

A consistent and clear, best practice procurement process is intended to build long-term sustainable relationships with suppliers, treating them fairly and embracing them as part of our organisation to enhance Amey's capability in delivering great service competitively to our customers.

(b) Client engagement
The Board has engaged with a number of key clients during the year in order to maintain sustainable relationships and client satisfaction remains a priority for the Board. This year, the Group launched the ADEPT Excellence in Place Leadership programme to form a network of 'thought leaders' from local authorities to stimulate industry conversations on key topics such as future business models, Green Finance and climate change.

Through a Customer Maturity Matrix, which has been developed and rolled out across Amey contracts, we can now benchmark our performance and work with our clients to improve our services further.

Engagement with other stakeholders

The Directors have had regular dialogue and meetings with the Cabinet Office Crown Representative at which Amey's work on social impact and supplier payment and reporting have been discussed.

There is also close engagement with the Group's lenders and pension trustees.

Modern Slavery Act
The Group recognises that it has a responsibility to take a robust approach to slavery and human trafficking and takes a zero-tolerance approach to non-compliance with the Act in any part of its business or its supply chain. This abridged statement sets out the steps the Group has taken to address the risk of slavery and human trafficking within its operations and supply chain. The full Slavery and Human Trafficking Statement, which is the fourth such statement which Amey has produced, can be found on the Amey web site www.amey.co.uk.

The Group's supply chains include:

- Plant, vehicles and equipment suppliers
- Subcontractors and various service providers
- Suppliers of contingent labour
- Manufacturers of goods and materials

All procurement of services and supplies is undertaken by trained procurement specialists. The Group aims to build long-term sustainable relationships with its suppliers encouraging collaborative working and exchange of innovative and good industry practices. The Group has in place systems to evaluate new suppliers as part of the on-boarding process and to identify, assess and monitor potential risk areas in its supply chain. During 2019, there was continued engagement with the supply chain extending communications on Group values and specifically in relation to the Act. We renewed our supply chain modern slavery risk assessment and are now reviewing the onward actions.

Policy on slavery and human trafficking:
The Group remains committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business with a zero tolerance for non-compliance. This statement reflects that commitment to acting ethically and with integrity in all its business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in the Group's supply chains.

The Group operates under policies which ensure that business is conducted to the highest ethical standard and all Amey employees are provided with a copy of the Company's Code of Ethics.

Due diligence processes for slavery and human trafficking:
During 2019, we continued to engage with our supply chain extending communications on our values and specifically around the Act. The Group's risk-based analysis on its own operations and within its supply chain have special regard for the location of those operations and type of service. Further risk analysis is ongoing as part of the Group's risk management system to ensure compliance.

Training:
Building on the training to procurement teams last year, we continued to use our web-based training to ensure a high level of understanding of the risks of modern slavery and human trafficking. This is accessible to our employees via the AmeyWorld intranet site and, as part of a two-year cycle, this training will be refreshed and cascaded to employees in 2020. The web-based training will also be made available to our supply chain partners to promote awareness of, to identify and address potential modern slavery risks.

Our measures to combat modern slavery are in constant review and the pro-active regime of training and auditing shall continue to both maintain compliance and prevent it from occurring.

Key performance indicators:
Our measures to combat modern slavery are in constant review and the pro-active regime of training and internal and external audits shall continue and will be stepped up to maintain compliance. Our main KPI is the number of incidents raised. During 2019 no incidents of modern slavery were raised through out any of the channels provided.

In 2019, we completed the Cabinet Office's Modern Slavery Assessment Tool and scored 87%. We are now reviewing and working on the assessment recommendations.

Corporate Governance

Amey is committed to high standards of corporate governance. During the year the Board reviewed governance to ensure compliance with the Companies (Miscellaneous Reporting) Regulations 2018 and this resulted in the adoption of the Wates Corporate Governance Principles for Large Private Companies.

Operation of the Board
The Board is responsible for the strategic direction, effective management, development and control of the Company and the Group as a whole.

The Board's strategy is implemented via the Executive Committee, comprising senior executives, who assist the Chief Executive Officer in the management of the operations and development of the Group as a whole. Chaired by the Chief Executive Officer, the Executive Committee meets on a monthly basis including strategy sessions. Detailed operational activity is the focus of Operational Review meetings and Business Unit Management Boards. Recently, and in particular during the early stages of the COVID-19 pandemic, the Executive Committee increased the frequency of its meetings.

An Investment and Approvals Committee has been established as a sub-committee of the Board to review all approval requests in accordance with the Approvals Policy, with the remit and powers delegated to it by the Board.

Report of the Directors

System of internal control and risk management

The Board has well-established risk management policy and procedures, reporting mechanisms and regular formal reviews which together provide transparency of risk throughout all tiers of management. Amey seeks to manage risk proactively to reduce the likelihood of occurrence and/or the impact should it happen. Reporting mechanisms allow for risks identified at contract or function level that meet set criteria, to be elevated through the business structure. Those that meet the required criteria are reported to the Risk Management Committee, the operational boards and ultimately the Executive Committee.

Amey manages and monitors risk in two ways.

- Amey identifies and evaluates potential risks to the business. Recording currently established methods of managing that risk and importantly developing risk treatment plans to enhance our opportunity to reduce the likelihood of occurrence and/or the extent of impact should the risk crystalise.
- When a risk event occurs, focus turns to managing the impacts.

Both corporate risks and risk events are reported through the governance process.

The Executive Committee formally reviews the risk management reports at its meetings. In addition, all Board meetings conduct a full review of financial performance. Financial reporting is against budget and previous forecast. The period to date financial position is reviewed by the Board at each meeting together with the latest full year forecast.

During 2019, the Executive Committee reviewed the risk management architecture and the composition and terms of reference for the Risk Management Committee. As a result of this review, revised systems are being integrated into the risk management process and the Terms of Reference updated.

The Directors acknowledge that the Company operates in a complex and changing business environment with many areas of judgment that it has not always got right. To try to lessen the variability in eventual outcome of those judgments, the Board, at the beginning of 2020, revisited the findings from the internal audits going back several years and summarised them into nine key areas of focus including but not limited to the company's bidding process, contract management, cost control and estimation of margins, risks, provisions & claims. Each area of focus has an executive sponsor who is responsible for ensuring that actions, which may include policy updates, system updates and governance changes, are completed during 2020 such that the risks going forward continue to be mitigated. Many of the bids which have led to contract wins during 2020 were submitted within this new framework.

IT systems

Controls and procedures are in place to maintain integrity of system access and data content. The use of IT is a core part of the way Amey operates. Investment in IT ensures that there is constant development to deliver least cost, improved performance and to ensure a safe workplace.

Internal audit

The scope of the Internal Audit function includes reporting on operational, commercial, and financial controls across the whole Group, including mobilisation monitoring. Health, safety and quality audits are also in place as a fundamental part of the risk management process. In addition to Amey's Internal Audit function, the Group's parent company carries out audits to assess the adequacy and effectiveness of internal controls over the key risks faced by the Group and reports its findings to management.

Going concern

The Group is financed through a mixture of shareholder equity, other equity instruments issued to Ferrovial companies, intercompany debt from Ferrovial companies, finance leases, non-recourse project-related bank term loans, other bank loans and overdrafts. Details of all bank loans and their maturity are set out in note 23 to the financial statements whilst details of finance risks are set out in note 16.

The Group's key external banking facilities are through five five-year bilateral facility agreements of £32 million with each of HSBC Bank plc, Lloyds Bank plc, Royal Bank of Canada, The Royal Bank of Scotland plc and Santander (Abbey National Treasury Services plc). These agreements total £160 million with £32 million maturing in July 2021 and £128 million maturing in July 2022. A subsidiary company of the Group also has an additional facility of £23 million with The Royal Bank of Scotland plc which matures in June 2021 following an increase from £12 million and renewal for a further year.

At 31 December 2019, £96 million of these facilities were undrawn and the Group also held £58 million of unrestricted cash on the Group balance sheet. Although the average net debt balance of the Group during 2019 was £30 million, the payments made to Birmingham in the latter half of last year has meant that the headroom available to the Group has reduced.

Since the year end, the financial strength of the Group has been strengthened by the conversion of £169.0 million of existing loans from Ferrovial to equity loan on 26 February 2020 with no fixed repayment date, and by the deferral of the repayment of £85.0million of other loans from Ferrovial for a further year to 31 July 2021.

In light of this reduced headroom, the Directors of the Group have reviewed a number of factors including:

- the future business plans of the Group (comprising the budget for 2020 and the strategic plan for 2021 to 2024);
- the availability of core and ancillary financing facilities including those provided by Ferrovial;
- the compliance with the related net debt/EBITDA banking covenant which must remain under 3.00x;
- the projected drawn positions and headroom available on the core committed financing facilities; and
- the projected future cash flows of the Group comprising:
  - a Base Case forecast built up from the budget for 2020; and
  - a Reasonable Worst Case ('RWC') forecast which applies sensitivities against the Base Case forecast for the implications arising from the assets held for sale status of the non-core business units, various Group restructuring plans, reasonably possible adverse variations in performance, reflecting the ongoing volatility in UK trading performance and sector dynamics.

The RWC forecast looks at the following key sensitivities:

- a reduction to the Group's EBITDA of £15 million per quarter for the 2021 financial year ;
- additional sensitivity around the timing of receipts;
- assumption allowing for a more pessimistic view of trade payables
- a delay in the dates budgeted for the sale of the non-core businesses; and
- repayment of up to £55 million of the Group's banking facilities.

The Group's cash flow forecasts show that there is sufficient liquidity to enable it to continue trading should the above sensitivities materialise. Management has also modelled the impact of several additional one-off sensitives such as the implication arising from contractor failures, treatment plant stability, lower sale proceeds and COVID-19 and concluded that it has enough headroom to manage these events. There are also a number of actions that management can take in order to mitigate any significant reduction in headroom from these one-off sensitivities, including delaying Ferrovial management fees and interest and also payments to suppliers.

The Board has also considered the implications behind the continued strategic decision of Ferrovial to divest its Services portfolio, recently reconfirmed in February 2020. This decision does not impact Amey's day-to-day operations and, in any event, as the Group does not rely on Ferrovial contractual guarantees there are no implications to the ongoing trading operations of the Group. The impact on Amey's financing arising from a change of control would be as follows:

- Amey's external facilities totalling £160 million may become due for repayment subject to the change of control requirements which require the buyer to be of equivalent credit rating to our ultimate parent company;
- The £55 million consideration still outstanding to Amey Birmingham Highways Limited would be immediately payable under the terms of the settlement agreement; and
- Amey's facilities due to our parent company, Ferrovial, as described earlier in this report, would be due for repayment if this debt was not transferred or extinguished on sale.

Notwithstanding the above, the Board no longer consider that there is material uncertainty in its going concern status in the event of a sale. In making this decision the Board has assessed the following points.

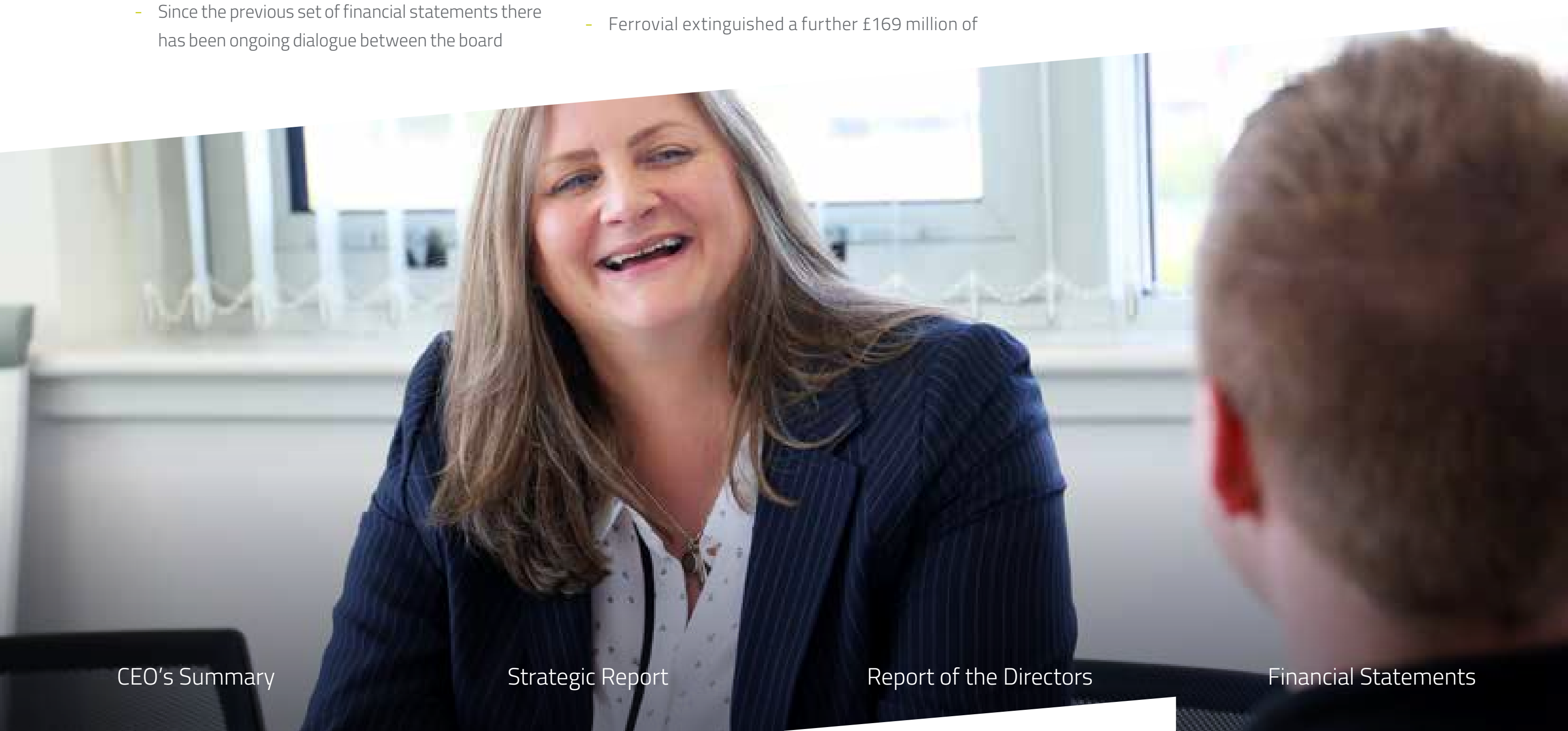
- As forecast, in the second half of 2019 the Group has paid the £160 million to Birmingham City Council. £75 million was provided by Ferrovial and the balance was from its own resources.
- Since the previous set of financial statements there has been ongoing dialogue between the board members of Amey and board members and senior executives of Ferrovial. These conversations have given the Board comfort that Ferrovial is committed to an orderly sale process to a reputable buyer with appropriate financial standing. Ferrovial's actions, such as the recent conversion of additional debt to equity have been evidence of Ferrovial's support to Amey and consistent with these verbal assurances. Given the 20-year association between Ferrovial and Amey, the £135 million of additional funding in the last two years, the existing investments that Ferrovial has in the UK outside of Amey and Ferrovial's strong social and business values, the Board consider it to be highly improbable that Ferrovial would do anything to jeopardise its reputation such as a fire-sale at undervalue.
- Ferrovial is also fully aware of the powers of the trustees under the governing documents of the defined benefit pension schemes and of the regulatory regime operated by the Pension Regulator and would have regard, as appropriate, to factors relating to the defined benefit pension schemes on any sale.
- Ferrovial's chief executive has stated that Ferrovial will only sell Amey for full value. The implication of this is that the successful buyer would stand to lose its full investment if it had not arranged for suitable refinancing, waivers or other alternative plans for the business. The Board believes, based on evidence gained during the sale process in 2019, that a sale to a buyer that could not demonstrate its capability to ensure Amey remains appropriately funded to be highly improbable and the Board therefore expects Amey to be a going concern, with suitable financing after such sale.

The Directors have also noted the evidence of Ferrovial's continuing commitment as set out below.

- Ferrovial extinguished a further £169 million of its loans to the Group on 26 February 2020 which were replaced with an equity loan with no fixed repayment date.
- Ferrovial have agreed to the deferment of the remaining loans of £85 million for a further year to 31 July 2021.
- Ferrovial has provided the Board with confirmation that it will continue to defer payment of management fees.
- Ferrovial supports Amey in its decision to dispose of its non-core business in order to simplify and de-risk the Group.
- Ferrovial confirmed to the Board that if it is unable to find a buyer it can demonstrate has plans to ensure that the Amey will continue to be able to meet its liabilities under its external financing facilities and under the settlement agreement with Birmingham City Council as they fall due during the period of 12 months from the date of approval of these financial statements, and Ferrovial will maintain its shareholding in Amey for that period.

In summary, since Amey's last set of financial statements for the year ended 2018 signed in July 2019, Ferrovial has provided additional equity, additional funding and a letter of comfort to the Board regarding the outcome of any sale process. The Group has also settled all the sums due in 2019 in respect of the Birmingham contract.

This is a material change to the position that existed at the time of the approval of the previous set of financial statements. The Directors believe that Amey is in a stable operating environment with clear evidence that Ferrovial continues to be a supportive shareholder who will ensure that Amey continues to operate successfully for the foreseeable future.



Report of the Directors

Going concern (continued)

Over the last few weeks, the Group has been updating the RWC forecast to incorporate the potential impact of COVID-19 on its cash flows. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million. The main variables considered to quantify the range of £30 to £50m range of pandemic impact have been the extent of operational disruption, the potential for diminished volumes, contract modifications (changes in the economic activity caused by the pandemic causing the renegotiation of the terms of existing contracts and arrangements) and the impact of lower performance on the gain-share mechanisms of the contracts. The operational disruption and potential diminished volumes have been assessed in a moderate and severe scenario. In the moderate scenario, we have seen a 20-30% reduction in volumes during lock down period and then gradual recovery of the business activity. In the severe scenario, a 50%-60% reduction of the labour force would be out of action during lock down period impacting volumes, then gradual recovery of the business activity. The analysis of the contract modifications and gain-share impacts has been performed on a contract by contract basis.

The pandemic has also delayed the disposal processes for our held for sale businesses which are now likely to complete over the next 12 months as the transaction markets reopen. Our modelled RWC cash flows include full consideration for any cash outflows associated with these businesses in our 2020 budget and we have included a £45 million sensitivity against our 2021 strategic plan in respect of the risk of any additional cash outflows if any disposals have still not been completed. The impact of the pandemic on our revenue at the end of May 2020 was £59 million (associated profit impact: £14 million loss) representing 6.7% of budgeted sales highlighting the relatively limited impact on our volume through the lockdown period. During this period, we have also won new work valued at £620 million.

Overlaid on these scenarios the Directors have incorporated the various UK Government initiatives that have been enacted or announced over the last few weeks, which have been set out below:

- The funding by Government of 80% of the wages of employees that have been furloughed (subject to a cap of £2,500 per employee)
- Procurement Policy Note 02/20: Supplier relief due to COVID-19 which ensures stability of revenue over the next three months. This envisages that contracting authorities continue to pay suppliers at risk due to COVID-19 on a continuity and retention basis. Contracting authorities can make advance payments to suppliers if necessary and contracting authorities should pay suppliers as quickly as possible to maintain cash flow and protect jobs. Procurement Policy Note 04/20 follows 02/20 and will similarly be relied upon.
- The ability to defer VAT and PAYE payments with repayments of this deferral to be made prior to the end of the 2020/21 tax year. The Group has agreement to defer VAT payments due for the period March to June 2020 until 31 March 2021 and also deferred PAYE payments due from March onwards until the end of June 2020.
- The Guidance note issued by Government regarding PFIs which states that PFI contractors should consider themselves to be part of the public sector in response to the current COVID-19 emergency.

The additional liquidity provided by the above initiatives have given the Board assurance that the Group will have sufficient resources to cope with the worst-case scenario above without breaching covenant limits (all of which have been calculated before considering whether any impact of COVID-19 would be excluded as an exceptional item).

Political donations

No contributions were made to any political parties during the current or prior period.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor. In accordance with s487 of the Companies Act 2006, Deloitte LLP will be reappointed as auditor to the Company for the year ending 31 December 2020.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of Amey UK plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019 (see Corporate Governance statement above and summary of decisions below).

The Board has approved a strategic plan which is designed to have a long-term beneficial impact on the Group and to contribute to its success in delivering better quality and more innovative services to clients and end customers to 2024 and beyond. We will continue to operate our business within tight budgetary controls and in line with our client's expectations. (see Strategic Report).

Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations in the way we do business (see Chief Executive Officer's review and Strategic Report).

Our core values are the building blocks of how Amey conducts its business and they help forge strong relationships with customers, partners and supply chain, to keep improving our services every day. The Directors are vigilant in monitoring feedback from customers and stakeholders and encourage opportunities to effect improvements.

The Going Concern statement details those factors underlying the Directors' viability assessment and opportunities and risk to the future successes of the business are detailed on page 18 of the Strategic Report.

Discharge of Director's duties

In discharging their duties in relation to s172(1) of the Companies Act 2006, Directors have paid regard to the following matters:

(a) The likely consequences of any decision in the long-term, for instance in relation to:

- The Strategic Plan adopted in January 2019 and a strategic review of the Group portfolio
- Contingency planning in relation to the Birmingham Highways PFI project
- Brexit contingency planning
- Review of and approval to key bids and business development opportunities

(b) Interests of the Group's employees including

- Review of health and safety activities and incidents with approval to thematic campaigns to support the Target Zero initiative
- Potential impacts and outcomes from the Birmingham Highways PFI project disputes
- Actions arising from responses to the employee survey
- Employee consultation including relocation of the corporate head office from Oxford to London
- Employee well-being initiatives

- Diversity and inclusion, led by an Executive sponsor
- Reviewing and approving the gender pay gap report for 2018 which included taking active steps to improve the attractiveness of the sector to women by targeted promotion of careers in engineering, technical and managerial roles
- Critical talent and resource review
- Investment in learning systems and employee development

(c) The need to foster relationships with suppliers, customers and others

- The adoption of a Social Value Supply Chain Charter as a means to engage and work with all our suppliers on their commitment and contribution to social impact. The commitment is to place 5% of our addressable spend with social enterprises – businesses which use their profits to create positive, social change – by 2023. This will amount to around £40 million in the next four years
- Development of a social value plan
- Regular meetings and dialogue with the Crown representative, including an annual supplier assessment
- Supplier evaluation and engagement
- Review of data for payment practices reporting

(d) To act fairly between members of the Company

- Amey is owned by Ferrovial, which is one of the world's leading infrastructure management and investment groups. Ferrovial has appointed four directors to the Board of the Company and all Directors ensure that shareholder interests are represented fairly.

(e) Impact of operations on community and the environment

- Carbon management and commitment to carbon management reduction
- Creating the Amey VTOL joint venture enabling long-range hybrid drones to transform the industry, making it safer, quicker and easier to survey and assess vital civil infrastructure such as bridges and railways
- Establishing the Amey Breathe joint venture to maximise energy saving opportunities for contracts in the FMDJ business
- Adoption of the Social Value policy in response to the social, environmental and economic challenges faced by customers, further details of the application of which can be found on page 15 of the Strategic Report.

(f) Reputation for high standards of business conduct:

- All Directors in the Group receive training on director duties and conflicts and refresher training for Directors and the senior leadership team is being arranged for 2020.
- During the year the Board conducted reviews of whistleblowing reports and allegations of unethical behaviour

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 the Parent Company financial statements Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors as to disclosure of information to auditor

In accordance with the provisions of s418 of the Companies Act 2006, each of the Directors 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 of the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Jayne Bowie
Company Secretary
29 June 2020

Financial Statements

Independent auditor's report to the members of Amey UK plc

Opinion

In our opinion:

- the financial statements of Amey UK plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related notes 1 to 51.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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.

Peter Gallimore FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor,
London, United Kingdom
29 June 2020

Group income statement for the year ended 31 December 2019

	Note	Before exceptional items 2019 £'000	Exceptional items (note 4) 2019 £'000	Total 2019 £'000	Before exceptional items 2018 *(re-presented)* £'000	Exceptional items (note 4) 2018 *(re-presented)* £'000	Total 2018 *(re-presented)* £'000
Continuing operations:							
Total revenue		**2,135,116**	**-**	**2,135,116**	1,883,354	-	1,883,354
Less: share of revenue of joint ventures		**(264,769)**	**-**	**(264,769)**	(337,681)	-	(337,681)
Group revenue	3	**1,870,347**	**-**	**1,870,347**	1,545,673	-	1,545,673
Cost of sales		**(1,740,951)**	**13,773**	**(1,727,178)**	(1,404,576)	(98,173)	(1,502,749)
Gross profit (loss)		**129,396**	**13,773**	**143,169**	141,097	(98,173)	42,924
Administration expenses		**(79,268)**	**-**	**(79,268)**	(76,243)	-	(76,243)
Share of profit (loss) after tax of joint ventures	3	**13,373**	**-**	**13,373**	4,733	(4,626)	107
(Loss) profit on disposal of joint venture investments		**(33)**	**-**	**(33)**	-	34,286	34,286
Impairment of assets		**-**	**(4,000)**	**(4,000)**	-	(179,316)	(179,316)
Operating profit (loss)	3,5	**63,468**	**9,773**	**73,241**	69,587	(247,829)	(178,242)
Finance income		**5,130**	**-**	**5,130**	9,457	-	9,457
Finance costs		**(20,098)**	**(4,757)**	**(24,855)**	(19,605)	-	(19,605)
Net finance expense	8	**(14,968)**	**(4,757)**	**(19,725)**	(10,148)	-	(10,148)
Profit (loss) before tax		**48,500**	**5,016**	**53,516**	59,439	(247,829)	(188,390)
Tax (charge) credit	9	**(14,513)**	**-**	**(14,513)**	(23,880)	35,008	11,128
Profit (loss) after tax from continuing operations		**33,987**	**5,016**	**39,003**	35,559	(212,821)	(177,262)
Loss from discontinued operations, net of tax	2	**(97,235)**	**-**	**(97,235)**	(30,461)	(180,296)	(210,757)
Impairment provision, net of tax	2	**-**	**(158,929)**	**(158,929)**	-	-	-
Net loss after tax from discontinued operations		**(97,235)**	**(158,929)**	**(256,164)**	(30,461)	(180,296)	(210,757)
(Loss) profit after tax for the year		**(63,248)**	**(153,913)**	**(217,161)**	5,098	(393,117)	(388,019)
Attributable to:							
Equity holders of the Company				**(186,340)**			(382,575)
Non-controlling interests				**(30,821)**			(5,444)
				(217,161)			(388,019)

Comparative information has been re-presented for discontinued activities (see note 1(b)).

The notes on pages 42 to 102 form part of these Group financial statements.

Group statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Loss after tax for the year		**(217,161)**	(388,019)
Other comprehensive (expense) income			
Items not subject to recycling:			
Actuarial (losses) gains and adjustments on pension schemes	24	**(12,402)**	35,464
Deferred tax on pension schemes	9	**2,108**	(6,028)
Items subject to recycling:			
(Loss) gain on change in fair value of derivatives	16	**(797)**	1,809
Deferred tax on derivatives	9	**136**	(315)
Share of joint ventures' other comprehensive (expense) income			
- (loss) gain on change in fair value of derivatives	16	**(480)**	6,344
- deferred tax on derivatives		**82**	(1,077)
- derivatives recycled through profit and loss	16	**7,581**	15,989
- deferred tax on recycled amounts		**(1,289)**	(2,718)
Other comprehensive (expense) income for the year after tax		**(5,061)**	49,468
Total comprehensive expense for the year		**(222,222)**	(338,551)
Attributable to:			
Equity holders of the Company		**(194,267)**	(334,205)
Non-controlling interests		**(27,955)**	(4,346)
		(222,222)	(338,551)

The notes on pages 42 to 102 form part of these Group financial statements.

Group balance sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Goodwill on acquisition of subsidiary undertakings	10	**305,319**	421,490
Other intangible assets	11	**24,655**	114,830
Property, plant and equipment	13	**57,888**	52,205
Investments in joint ventures	14	**36,386**	47,002
Deferred tax assets	9	**43,308**	57,067
PFI/PPP Financial assets	15	**-**	70,165
Trade and other receivables	19	**26,043**	30,387
		493,599	793,146
Current assets			
Assets classified as held for sale and from discontinued operations	18	**330,259**	-
Inventories	20	**6,071**	21,914
PFI/PPP Financial assets	15	**-**	4,196
Derivative financial instruments		**-**	121
Trade and other receivables	19	**324,712**	491,256
Current tax assets		**12,934**	17,367
Cash and cash equivalents	21	**86,322**	164,330
		760,298	699,184
Total assets		**1,253,897**	1,492,330
Current liabilities			
Liabilities classified as held for sale and from discontinued operations	18	**(350,976)**	-
Trade and other payables	22	**(473,907)**	(693,351)
Ferrovial, S.A. group loans	22	**(253,661)**	(80,000)
Current tax liabilities		**-**	(1,330)
Provisions for other liabilities and charges	25	**(26,199)**	(217,323)
External borrowings	23	**(13,959)**	(2,905)
		(1,118,702)	(994,909)
Non-current liabilities			
Trade and other payables	22	**(5,172)**	(5,725)
Ferrovial, S.A. group loans	22	**-**	(319,107)
Derivative financial instruments		**-**	(16,965)
Deferred tax liabilities	9	**(11,978)**	(34,541)
Retirement benefit obligations	24	**(11,788)**	(13,512)
Provisions for other liabilities and charges	25	**(59,102)**	(86,016)
External borrowings	23	**(102,201)**	(54,379)
		(190,241)	(530,245)
Total liabilities		**(1,308,943)**	(1,525,154)
Net liabilities		**(55,046)**	(32,824)
Capital and reserves			
Share capital	26	**203,677**	203,677
Share premium account		**153,134**	153,134
Other reserve		**61,887**	61,887
Other equity instruments	27	**263,032**	61,198
Hedge reserve		**(6,008)**	(8,375)
Retained deficit		**(694,211)**	(495,743)
Equity attributable to equity holders of the Company		**(18,489)**	(24,222)
Non-controlling interests	28	**(36,557)**	(8,602)
Total equity		**(55,046)**	(32,824)

The notes on pages 42 to 102 form part of these Group financial statements. The financial statements on pages 36 to 38 and 40 to 102 were approved and authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by:

A L Nelson
Director
29 June 2020

Unaudited proforma Group balance sheet at 31 December 2019

	2019 Audited £'000	Conversion of Ferrovial, S.A. Group loans £'000	2019 Proforma £'000
Non-current assets	**493,599**	**-**	**493,599**
Current assets	**760,298**	**-**	**760,298**
Total assets	**1,253,897**	**-**	**1,253,897**
Current liabilities	**(1,118,702)**	**169,000**	**(949,702)**
Non-current liabilities			
Other non-current liabilities	**(190,241)**	**-**	**(190,241)**
	(190,241)	**-**	**(190,241)**
Total liabilities	**(1,308,943)**	**169,000**	**(1,139,943)**
Net liabilities	**(55,046)**	**169,000**	**113,954**
Capital and reserves			
Share capital	**203,677**	**-**	**203,677**
Share premium account	**153,134**	**-**	**153,134**
Other reserve	**61,887**	**-**	**61,887**
Other equity instruments	**263,032**	**169,000**	**432,032**
Hedge reserve	**(6,008)**	**-**	**(6,008)**
Retained deficit	**(694,211)**	**-**	**(694,211)**
Equity attributable to equity holders of the Company	**(18,489)**	**169,000**	**150,511**
Non-controlling interests	**(36,557)**	**-**	**(36,557)**
Total equity	**(55,046)**	**169,000**	**113,954**

Non-adjusting post balance sheet event – third issue of Other equity instrument: on 26 February 2020, Landmille Limited converted £169.0 million of its existing loans to Amey plc into an Other equity instrument issued to Landmille Limited. Landmille Limited is a fellow Ferrovial, S.A. group company. See note 37 for more information.

In light of this new financing arrangement, the Group has elected to present a proforma balance sheet at 31 December 2019 incorporating this intercompany and equity change.

Group statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Hedge reserve £'000	Retained deficit £'000	Non-controlling interests £'000	Total equity £'000
At 31 December 2017	203,677	153,134	61,887	-	(27,309)	(140,937)	(4,189)	246,263
Impact of transition to IFRS 9	-	-	-	-	-	(469)	(67)	(536)
At 1 January 2018	203,677	153,134	61,887	-	(27,309)	(141,406)	(4,256)	245,727
First issue of Other equity instrument (note 27)	-	-	-	60,000	-	-	-	60,000
Reserves transfer in respect of Other equity instruments	-	-	-	1,198	-	(1,198)	-	-
Loss after tax for the year	-	-	-	-	-	(382,575)	(5,444)	(388,019)
Other comprehensive income	-	-	-	-	18,934	29,436	1,098	49,468
At 31 December 2018	203,677	153,134	61,887	61,198	(8,375)	(495,743)	(8,602)	(32,824)
At 1 January 2019	**203,677**	**153,134**	**61,887**	**61,198**	**(8,375)**	**(495,743)**	**(8,602)**	**(32,824)**
Second issue of Other equity instrument (note 27)	**-**	**-**	**-**	**200,000**	**-**	**-**	**-**	**200,000**
Reserves transfer in respect of Other equity instruments	**-**	**-**	**-**	**1,834**	**-**	**(1,834)**	**-**	**-**
Loss after tax for the year	**-**	**-**	**-**	**-**	**-**	**(186,340)**	**(30,821)**	**(217,161)**
Other comprehensive expense	**-**	**-**	**-**	**-**	**2,367**	**(10,294)**	**2,866**	**(5,061)**
At 31 December 2019	**203,677**	**153,134**	**61,887**	**263,032**	**(6,008)**	**(694,211)**	**(36,557)**	**(55,046)**
Non-adjusting post balance sheet event: Third issue of Other equity instrument (note 37)	***-***	***-***	***-***	***169,000***	***-***	***-***	***-***	***169,000***
Proforma equity at 31 December 2019	***203,677***	***153,134***	***61,887***	***432,032***	***(6,008)***	***(694,211)***	***(36,557)***	***113,954***

Non-adjusting post balance sheet event – third issue of Other equity instrument: on 26 February 2020, Landmille Limited converted £169.0 million of its existing loans to Amey plc into an Other equity instrument issued to Landmille Limited. Landmille Limited is a fellow Ferrovial, S.A. group company. In light of this new financing arrangement, the Group has elected to present a proforma statement of equity showing conversion at 31 December 2019.

The Other reserve relates to a capital contribution made by Ferrovial Servicios, S.A., a fellow group undertaking, in 2003.

The notes on pages 42 to 102 form part of these Group financial statements.

Group cash flow statement for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Cash flows absorbed by operating activities	29	**(171,639)**	(130,476)
Income tax (paid) received		**(7,407)**	7,555
		(179,046)	(122,921)
Cash flows from investing activities			
Additions of property, plant and equipment		**(9,616)**	(2,342)
Additions of other intangible assets		**(86)**	(11,233)
Disposal of property, plant and equipment and other intangible assets		**6,074**	1,710
Acquisition of subsidiary undertakings	12	**-**	(11,090)
Acquisition of equity in and loan advances made to joint ventures		**(3,790)**	(35,154)
Repayment of loan advances made to joint ventures		**708**	2,887
Disposal of investments in joint ventures, cash received (see note 4)		**10,500**	63,180
Interest received		**4,694**	8,519
Dividends received from joint ventures		**9,708**	5,714
		18,192	22,191
Cash flows from financing activities			
Advances of bank loans with recourse		**64,000**	-
Loans advanced by non-controlling interest shareholders		**-**	100
Repayment of bank loans		**(642)**	(930)
Movements on loans with Ferrovial, S.A. subsidiary undertakings		**(111,809)**	365
Repayment of finance leases		**(20,987)**	(2,794)
Interest paid		**(27,227)**	(25,657)
Proceeds from issue of Other equity instruments		**200,000**	60,000
		103,335	31,084
Cash and cash equivalents in acquired subsidiary undertakings	12	**-**	18,095
Net decrease in cash and cash equivalents		**(57,519)**	(51,551)
Cash and cash equivalents at 1 January		**164,330**	215,881
Cash and cash equivalents at 31 December		**106,811**	164,330
Cash and cash equivalents held as part of assets held for sale	18	**20,489**	-
Cash and cash equivalents held in remainder of the Group	21	**86,322**	164,330
Cash and cash equivalents at 31 December		**106,811**	164,330

Included in the Group cash flow statement above are the following totals in respect of discontinued operations:

	2019 £'000	2018 £'000
Cash flows from operating activities	**(91,849)**	(60,005)
Cash flows from investing activities	**200**	(6,626)
Cash flows from financing activities	**(22,122)**	(10,861)

The notes on pages 42 to 102 form part of these Group financial statements.

Notes forming part of the Group financial statements for the year ended 31 December 2019

1 Accounting policies

These consolidated financial statements have been prepared on a going concern basis using the historic cost convention as modified for the fair value of non-current assets held for sale, pension liabilities and financial instruments. The suitability of the going concern basis is considered in the Report of the Directors and in paragraph (c) below.

The significant accounting policies applied in preparing the consolidated financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU, relevant to its operations and effective for accounting periods beginning 1 January 2019.

(b) Discontinued operations

With effect from 31 December 2019 it has been decided to reclassify all assets, liabilities and results linked to the Environmental Services Treatment and Collections divisions, and also those for the Utilities division, as discontinued operations. Each of these divisions represents a separate major line of business. A strategic review of the Group has been undertaken by the Directors and concluded with the decision to divest these business lines as part of a single co-ordinated plan. Accordingly the terms established in IFRS 5 (Non-current assets and discontinued operations) have been met.

Given the assets also meet the criteria as being classified as held for sale they are valued at the lower of their book value and their fair value less cost of sale. The Group has measured the fair value of the business divisions put on sale and an impairment charge of £158.9 million has been recorded in 2019 in relation to the assets and liabilities of those business divisions (see notes 2 and 18).

(c) Going concern

The Group is financed through a mixture of shareholder equity, other equity instruments issued to Ferrovial companies, intercompany debt from Ferrovial companies, finance leases, non-recourse project-related bank term loans, other bank loans and overdrafts. Details of all bank loans and their maturity are set out in note 23 to the financial statements whilst details of finance risks are set out in note 16.

The Group's key external banking facilities are through five five-year bilateral facility agreements of £32 million with each of HSBC Bank plc, Lloyds Bank plc, Royal Bank of Canada, The Royal Bank of Scotland plc and Santander (Abbey National Treasury Services plc). These agreements total £160 million with £32 million maturing in July 2021 and £128 million maturing in July 2022. A subsidiary company of the Group also has an additional facility of £23 million with The Royal Bank of Scotland plc which matures in June 2021 following an increase from £12 million and renewal for a further year.

At 31 December 2019, £96 million of these facilities were undrawn and the Group also held £58 million of unrestricted cash on the Group balance sheet. Although the average net debt balance of the Group during 2019 was £30 million, the payments made to Birmingham in the latter half of last year has meant that the headroom available to the Group has reduced.

Since the year end, the financial strength of the Group has been strengthened by the conversion of £169.0 million of existing loans from Ferrovial to equity loan on 26 February 2020 with no fixed repayment date, and by the deferral of the repayment of £85.0million of other loans from Ferrovial for a further year to 31 July 2021.

In light of this reduced headroom, the Directors of the Group have reviewed a number of factors including:

- the future business plans of the Group (comprising the budget for 2020 and the strategic plan for 2021 to 2024);
- the availability of core and ancillary financing facilities including those provided by Ferrovial;
- the compliance with the related net debt/EBITDA banking covenant which must remain under 3.00x;
- the projected drawn positions and headroom available on the core committed financing facilities; and
- the projected future cash flows of the Group comprising:
    - a Base Case forecast built up from the budget for 2020; and
    - a Reasonable Worst Case ('RWC') forecast which applies sensitivities against the Base Case forecast for the implications arising from the assets held for sale status of the non-core business units, various Group restructuring plans, reasonably possible adverse variations in performance, reflecting the ongoing volatility in UK trading performance and sector dynamics.

1 Accounting policies *(continued)*

(c) Going concern *(continued)*

The RWC forecast looks at the following key sensitivities:

- a reduction to the Group's EBITDA of £15 million per quarter for the 2021 financial year
- additional sensitivity around the timing of receipts;
- assumption allowing for a more pessimistic view of trade payables;
- a delay in the dates budgeted for the sale of the non-core businesses; and
- repayment of up to £55 million of the Group's banking facilities.

The Group's cash flow forecasts show that there is sufficient liquidity to enable it to continue trading should the above sensitivities materialise. Management has also modelled the impact of several additional one-off sensitives such as the implication arising from contractor failures, treatment plant stability, lower sale proceeds and COVID-19 and concluded that it has enough headroom to manage these events. There are also a number of actions that management can take in order to mitigate any significant reduction in headroom from these one-off sensitivities, including delaying Ferrovial management fees and interest and also payments to suppliers.

The Board has also considered the implications behind the continued strategic decision of Ferrovial to divest its Services portfolio, recently reconfirmed in February 2020. This decision does not impact Amey's day-to-day operations and, in any event, as the Group does not rely on Ferrovial contractual guarantees there are no implications to the ongoing trading operations of the Group. The impact on Amey's financing arising from a change of control would be as follows:

- Amey's external facilities totalling £160 million may become due for repayment subject to the change of control requirements which require the buyer to be of equivalent credit rating to our ultimate parent company;
- The £55 million consideration still outstanding to Amey Birmingham Highways Limited would be immediately payable under the terms of the settlement agreement; and
- Amey's facilities due to our parent company, Ferrovial, as described earlier in this report, would be due for repayment if this debt was not transferred or extinguished on sale.

Notwithstanding the above, the Board of Amey no longer consider that there is material uncertainty in its going concern status in the event of a sale. In making this decision the Board has assessed the following points.

- As forecast, in the second half of 2019 the Group has paid the £160 million to Birmingham City Council. £75 million was provided by Ferrovial and the balance was from the Group's own resources.

- Since the previous set of financial statements there has been ongoing dialogue between the board members of Amey and board members and senior executives of Ferrovial. These conversations have given the Board comfort that Ferrovial is committed to an orderly sale process to a reputable buyer with appropriate financial standing. Ferrovial's actions, such as the recent conversion of additional debt to equity have been evidence of Ferrovial's support to Amey and consistent with these verbal assurances. Given the 20-year association between Ferrovial and Amey, the £135 million of additional funding in the last two years, the existing investments that Ferrovial has in the UK outside of Amey and Ferrovial's strong social and business values, the Board consider it to be highly improbable that Ferrovial would do anything to jeopardise its reputation such as a fire-sale at undervalue.

- Ferrovial is also fully aware of the powers of the trustees under the governing documents of the defined benefit pension schemes and of the regulatory regime operated by the Pension Regulator and would have regard, as appropriate, to factors relating to the defined benefit pension schemes on any sale.

- Ferrovial's chief executive has stated that Ferrovial will only sell Amey for full value. The implication of this is that the successful buyer would stand to lose its full investment if it had not arranged for suitable refinancing, waivers or other alternative plans for the business. The Board believes, based on evidence gained during the sale process in 2019, that a sale to a buyer that could not demonstrate its capability to ensure Amey remains appropriately funded to be highly improbable and the Board therefore expects Amey to be a going concern, with suitable financing after such sale.

The Directors have also noted the evidence of Ferrovial's continuing commitment as set out below.

- Ferrovial extinguished a further £169 million of its loans to the Group on 26 February 2020 which were replaced with an equity loan with no fixed repayment date.
- Ferrovial have agreed to the deferment of the remaining loans of £85 million for a further year to 31 July 2021.
- Ferrovial has provided the Board with confirmation that it will continue to defer payment of management fees.
- Ferrovial supports Amey in its decision to dispose of its non-core business in order to simplify and de-risk the Group.
- Ferrovial confirmed to the Board that if it is unable to find a buyer it can demonstrate has plans to ensure that the Amey will continue to be able to meet its liabilities under its external financing facilities and under the settlement agreement with Birmingham City Council as they fall due during the period of 12 months from the date of approval of these financial statements, and Ferrovial will maintain its shareholding in Amey for that period.

1 Accounting policies *(continued)*

(c) Going concern *(continued)*

In summary, since Amey's last set of financial statements for the year ended 2018 signed in July 2019, Ferrovial has provided additional equity, additional funding and a letter of comfort to the Board regarding the outcome of any sale process. The Group has also settled all the sums due in 2019 in respect of the Birmingham contract. This is a material change to the position that existed at the time of the approval of the previous set of financial statements. The Directors believe that Amey is in a stable operating environment with clear evidence that Ferrovial continues to be a supportive shareholder who will ensure that Amey continues to operate successfully for the foreseeable future.

Over the last few weeks, the Group has been updating the RWC forecast to incorporate the potential impact of COVID-19 on its cash flows. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million. The main variables considered to quantify the range of £30 to £50m range of pandemic impact have been the extent of operational disruption, the potential for diminished volumes, contract modifications (changes in the economic activity caused by the pandemic causing the renegotiation of the terms of existing contracts and arrangements) and the impact of lower performance on the gain-share mechanisms of the contracts. The operational disruption and potential diminished volumes have been assessed in a moderate and severe scenario. In the moderate scenario, we have seen a 20-30% reduction in volumes during lock down period and then gradual recovery of the business activity. In the severe scenario, a 50%-60% reduction of the labour force would be out of action during lock down period impacting volumes, then gradual recovery of the business activity. The analysis of the contract modifications and gain-share impacts has been performed on a contract by contract basis.

The pandemic has also delayed the disposal processes for our held for sale businesses which are now likely to complete over the next 12 months as the transaction markets reopen. Our modelled RWC cash flows include full consideration for any cash outflows associated with these businesses in our 2020 budget and we have included a £45 million sensitivity against our 2021 strategic plan in respect of the risk of any additional cash outflows if any disposals have still not been completed. The impact of the pandemic on our revenue at the end of May 2020 was £59 million (associated profit impact: £14 million loss) representing 6.7% of budgeted sales highlighting the relatively limited impact on our volume through the lockdown period. During this period, we have also won new work valued at £620 million.

Overlaid on these scenarios the Directors have incorporated the various UK Government initiatives that have been enacted or announced over the last few weeks, which have been set out below:

- The funding by Government of 80% of the wages of employees that have been furloughed (subject to a cap of £2,500 per employee)
- Procurement Policy Note 02/20: Supplier relief due to COVID-19 which ensures stability of revenue over the next three months. This envisages that contracting authorities continue to pay suppliers at risk due to COVID-19 on a continuity and retention basis. Contracting authorities can make advance payments to suppliers if necessary and contracting authorities should pay suppliers as quickly as possible to maintain cash flow and protect jobs. Procurement Policy Note 04/20 follows 02/20 and will similarly be relied upon.
- The ability to defer VAT and PAYE payments with repayments of this deferral to be made prior to the end of the 2020/21 tax year. The Group has agreement to defer VAT payments due for the period March to June 2020 until 31 March 2021 and also deferred PAYE payments due from March onwards until the end of June 2020.
- The Guidance note issued by Government regarding PFIs which states that PFI contractors should consider themselves to be part of the public sector in response to the current COVID-19 emergency.

The additional liquidity provided by the above initiatives have given the Board assurance that the Group will have sufficient resources to cope with the worst-case scenario above without breaching covenant limits (all of which have been calculated before considering whether any impact of COVID-19 would be excluded as an exceptional item).

1 Accounting policies *(continued)*

(d) New accounting standards

(i) IFRS 16 (Leases)

This standard establishes one sole accounting model for lessors, where the amounts in the balance sheet will be increased by the recognition of right-of-use assets and the corresponding financial liabilities increased for the future payment obligations relating to leases classified previously as operating leases.

The modified retrospective approach has been applied at the transition date, recognising the same amount in both assets as in liabilities, for the cumulative effect of first-time adoption of the standard at 1 January 2019, without restating the information for comparative periods. In addition, the standard has not been applied on transition to contracts that were previously carried as operating where they did not meet the definition of a lease under IFRS 16 or if they come under the exceptions allowed by the standard with respect to the recognition of short-term (less than twelve months remaining at time of recognition) or low-value leases (less than €5,000).

The Group has identified £68.6 million of right-of use assets at 1 January 2019 which are now included in property, plant and equipment. A corresponding finance lease liability of £68.6 million has been recognised as part of external borrowings, using an implicit interest rate of 3.9% for leasehold property and 4.1% for plant and machinery to determine the present value of remaining payments of in-scope finance leases. As the modified retrospective approach has been applied, there is no impact on previously reported earnings or on shareholders' funds. In addition, the Group has chosen to present right-of-use assets as part of property, plant and equipment with the corresponding finance lease liability presented as part of external borrowings rather than reporting these as separate line items on the Group balance sheet.

The impact of adoption of IFRS 16 on the balance sheet as at 1 January 2019 was as follows:

	Balance at 31 December 2018 £'000	Transition to IFRS 16 £'000	Balance at 1 January 2019 post IFRS 16 £'000
Property, plant and equipment	52,205	68,644	120,849
Other non-current assets	740,941	-	740,941
Total current assets	699,184	-	699,184
Total assets	1,492,330	68,644	1,560,974
Current external borrowings	(2,905)	(16,219)	(19,124)
Other current liabilities	(992,004)	-	(992,004)
Non-current external borrowings	(54,379)	(52,425)	(106,804)
Other non-current liabilities	(475,866)	-	(475,866)
Total liabilities	(1,525,154)	(68,644)	(1,593,798)
Net liabilities	(32,824)	-	(32,824)
Total equity	(32,824)	-	(32,824)

(ii) Other new standards, amendments and interpretations adopted by the European Union mandatorily applicable for the first time in 2019

On 1 January 2019, the following additional standards which might have had an impact on the consolidated financial statements came into force in the European Union, and have subsequently been approved for use in the United Kingdom:

Amendments to IAS 28	Long-term interests in associates and joint ventures
IFRIC Interpretation 23	Uncertainty over income tax treatments
Amendments to IFRS 9	Prepayment features with negative compensation
Annual Improvements	2015-2017 cycle
Amendments to IAS 19	Plan amendment, curtailment or settlement

No significant impact on the Group's consolidated financial statements has been identified because of these additional standards and amendments.

1 Accounting policies *(continued)*

(d) New accounting standards *(continued)*

(iii) New standards, amendments and interpretations mandatorily applicable in annual reporting periods after 2019

The other new standards, amendments and interpretations approved by the IASB and approval status for use in the United Kingdom at 31 December 2019 and which are not expected to have an impact for the Group are as follows:

New standards, amendments and interpretations		Commencement date	Approval status
Conceptual framework	Amendments to references to the conceptual framework in IFRS standards	1 January 2020	Approved
Amendments to IFRS 3	Definition of business	1 January 2020	Not approved
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020	Approved
IFRS 17	Insurance contracts	1 January 2021	Not approved
Amendments to IFRS 7, IFRS 8, IFRS 9 and IAS 39	Interest rate benchmark reform	1 January 2021	Approved

The Group will not adopt these new standards, amendments and interpretations early for the year ended 31 December 2019 but will adopt them in line with the commencement date stated above.

(e) Basis of consolidation

The Group financial statements include the financial statements of Amey UK plc and its subsidiary undertakings using uniform accounting policies and exclude all intra-group transactions and balances. The results of subsidiary undertakings acquired during the year are consolidated from the date on which control in the subsidiary undertaking passed to the Group. The results and cash flows of subsidiary undertakings which have been disposed of are consolidated up to the date control was lost. Where subsidiary undertakings do not adopt accounting periods that are coterminous with the Group's, their results and net assets are based on interim financial statements drawn up to the Group's accounting reference date. The profit attributable to members of the Company is stated after deducting the proportion attributable to non-controlling shareholders.

(f) Critical accounting estimates and judgements

In the consolidated financial statements for 2019, estimates have been made to measure certain assets, liabilities, income, expenses and obligations reported herein. These estimates relate to the following:

(i) Estimates taken into consideration for the purpose of recognising revenue from contracts with customers including most notably those associated with:

- determining whether enforceable rights exist, in order to recognise revenue;
- determining whether a contract modification has been approved;
- establishing whether the conditions for recognising revenue for variable consideration are met;
- recognising revenue in relation to a claim or a dispute;
- establishing whether the contract includes one or several performance obligations, and determining the price allocable to each of them;
- defining for each performance obligation the applicable method for recognising revenue over time, taking into account that, based on the accounting policy established by the Group, the preferred method is the 'survey of performance completed to date' output method (units of production or based on time elapsed), and the 'stage of completion measured in terms of costs incurred' input model is applied in those cases in which the services provided are not routine and recurring services, and in which the unit price of the units of work to be performed cannot be determined;
- in the case of contracts recognised using the survey of performance completed to date method, measuring the units completed and the price that can be allocated thereto;
- in the case of contracts recognised using the 'percentage of completion method' input method, defining the costs incurred relative to total contract costs, and the expected profit margin for the contract;
- determining whether to capitalise bidding costs and mobilisation costs; and
- making estimates relating to the calculation of the provision for expected losses and deferred expenses

1 Accounting policies *(continued)*

(f) Critical accounting estimates and judgements *(continued)*

(ii) The assessment of possible legal contingencies
(iii) Estimates regarding the valuation of derivatives and the expected flows associated with them in order to determine the existence of hedging relationships
(iv) The assessment of possible impairment losses on certain assets
(v) Business performance projections that affect the estimates of the recoverability of tax assets and the expected period over which it is probable such assets can be recovered
(vi) The assumptions used in the actuarial calculation of pension and other obligations to employees
(vii) The recognition for accounting purposes of the subordinated guaranteed hybrid bond as an Other equity instrument (see note 27)
(viii) Estimates relating to the fair value of assets and liabilities acquired in the business combination detailed in note 12
(ix) Estimates relating to the fair value of assets and liabilities held as part of assets and liabilities held for sale in note 18 including the application of the accounting policy choice not to recognise any write down that exceeds the carrying amounts of non-current assets. The assessment that the Disposal Groups should be classified as 'Held for Sale' is a critical accounting judgement in itself and has been taken based on the disclosure provided in note 18 that means we are satisfied at the balance sheet date that the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such disposal groups and that their sale is highly probable. In making this assessment, we have relied upon the work of our M&A and legal advisors who have been advising on these transactions.

Although these estimates were made on the basis of the best information available at 31 December 2019 on the events analysed, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

(g) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Held for sale assets

The fair value of the Utilities division has been estimated based on multiples of the EBITDA anticipated for 2020. For Waste Treatment and Collections, the methodology applied used discounted cash flows approved by management. Both valuations have been adjusted by the net debt and other adjustments which could be considered to give rise to an adjustment to debt.

For Utilities, the judgement is sensitive to the estimate of EBITDA for 2020 and the performance which will be achieved on existing contracts in the first year of the AMP7 period as an indicator of future performance and the multiple used to apply to this EBITDA.

The fair value of the Utilities division has been calculated at (£7.6m) based on the EBITDA multiple valuation. The range of the valuation based on the reasonably possible range of multiples that could be applied is (£17m) to £39.8m.

For Waste Treatment and Collections, the judgement is sensitive to the improved operational performance impacting the future cash flows of both divisions. For Treatment, this is associated with certain plants becoming fully operational and achieving forecast levels of productivity. For Collections, whether performance improvement plans can reduce cost and improve contract margins. Both judgements are then also impacted by the choice of discount rate.

However, given there is very limited non-current asset value remaining in these disposal groups, these represent a limited source of estimation uncertainty as no further impairment can be booked. This is explained more fully in the accounting policy under Assets Held for Sale below.

1 Accounting policies *(continued)*

(g) Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Contract loss provisioning assessment

The assessment of future contract profitability especially for contracts within the Environmental Services and Highway divisions is a key judgement when considering if contract loss provisions should be established. On a number of contracts, the level of profitability is marginal meaning a small change in future performance could trigger the need for the recognition of a future contract loss. In addition, these considerations have to be made over very long periods up to 30 years reflective of the length of contracts agreed on long-term PFI arrangements in the Highways and Waste Treatment sector together with long-term collection contracts and therefore relatively low levels of annual losses can have a potentially material impact if these are deemed likely to recur over the contract life.

Following the exit from the Birmingham City Council Highways PFI contract, the Group has one other significant long-term PFI contract in the Highways sector. This is currently loss making but cost actions within the Group's control are anticipated to return this contract to profitability in the next three years. Linked to this assessment is the recoverability of material amounts performed under the terms of the contract for which payment is scheduled over the contract life.

The Collections business presents structurally difficult conditions due to the fragmented base of local authorities and low margins due to the low value-added nature of the market. Certain contracts are currently loss making with measures to turnaround or exit these contracts being taken in the short term. Future loss provisions have been recognised under IAS 37 when assessing the carrying value of the 'Held for Sale' disposal group. These are sensitive to the achievement of the profit improvement plans being successful. Only the impact of those plans which have been implemented at the balance sheet date have been included within the assessment of future contract performance.

Treatment plants can be impacted by operational issues due to the new technology being implemented requiring additional spend to ensure the plants are commissioned in line with committed deadlines. Assessment needs to be made whether these costs are recoverable against the future profits the plants are expected to generate when they are operational.

The Waste Collections and Treatment plant assets are now held within Disposal Groups that are classified as Held for Sale at their fair value. Note 25 reports the future contract losses that have been recognised in the continuing business primarily relating to the discounted exit settlement payments on the Birmingham City Council Highways PFI Contract of £50.5 million together with an £8.5 million provision for settlement of a contract dispute with a Ferrovial owned Company. Both amounts are fixed based on settlement agreements.

Intangible asset impairments

The Directors consider the recoverable amount of goodwill allocated to the Consulting and Rail division of £218.6 million to be most sensitive to the level of gross margin that can be achieved on existing and new contracts within this division. Budgets comprise forecasts of revenue, staff costs and overheads based on current and anticipated market conditions that have been considered and approved by the Board. The future forecasts are particularly dependent on recovery in the gross margins on major rail contracts which suffered in 2019 together with securing new contracts in the rail sector.

The new Network Rail Control Period (CP6) commenced in 2019 and will run through to 2024. As a result a number of existing projects have been completed in the year and volumes of work are in a transition phase as we tender for a number of new pieces of work at the start of the new Control Period. We have considered our order book, our historical bid success rates, the volume of work and associated margins in previous Control Periods and our Contract Delivery Scores in developing and challenging our budget and strategic plan for the division.

Within the Utilities and Rail sectors in particular, outcomes are often dependent on the assumptions made in respect of final accounting at the end of the contract. In line with our revenue policy below on contract modifications, claims and disputes, certain revenues will not be recognised but the estimation of the final contract outcome remains an uncertainty impacting on the level of profit recognised.

1 Accounting policies *(continued)*

(h) Other principal accounting policies

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the target and the equity interest issued by the Group in exchange for control of the target. Acquisition-related costs are recognised in the income statement when incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 (Income Taxes) and IAS 19 (Employee Benefits) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) are measured in accordance with that standard.

Discontinued operations

Discontinued operations are those that have been sold or otherwise disposed of or have been classified as held for sale and represent a full segment for the consolidated Group, or form part of a single plan or relate to a subsidiary acquired solely for resale. The results generated from discontinued operations, both for the current financial year, as well as those presented alongside it, are presented in a specific line in the income statement after tax, with the total comprising the follow amounts: result after tax of the activities of discontinued operations and the result after tax recognised for the fair value measurement.

Assets held for sale

Assets or disposal groups are reclassified as assets held for sale if it is considered that their carrying amount will be recovered when sold, rather than via continuing use. This condition is only met when where they are available for immediate sale in their current condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and the sale is highly probable. The total of these assets is registered on one line and valued at the lower value of their carrying amount and their fair value, less the costs to sell. They are not subject to depreciation from the moment they are reclassified as held for sale. The contribution of these assets to the Group's consolidated results is registered in the income statement, classified by type. An entity that is committed to a sale plan that entails the loss of control of a subsidiary will classify all of that subsidiary's assets and liabilities as held for sale when the requirements indicated in the previous paragraph are met, irrespective of whether or not the entity retains a non-controlling interest in its former subsidiary following the sale.

The impairment loss recognised for a disposal group may reduce the carrying amount of the non-current assets in the group. In certain cases, the impairment loss identified for a disposal group may exceed the carrying amount of the scoped-in non-current assets within that disposal group. IFRS 5 does not provide any guidance regarding how to account for this excess and a number of approaches might be possible. Accordingly, as an accounting policy choice, to the extent that the write-down exceeds the carrying amount of scoped-in non-current assets, that excess has not been recognised at all.

The fair value of the Utilities division has been estimated based on multiples of the EBITDA anticipated for 2020. For Environmental Services Treatment and Collections, the methodology applied used discounted cash flows approved by management. Both valuations have been adjusted by the net debt and other adjustments which could be considered to give rise to an adjustment to debt.

The net assets (liabilities) are valued as held for sale as follows:

Utilities	(£7.6 million)
Environmental Services – Treatment	£15.4 million
Environmental Services – Collections	(£26.5 million)

For Utilities, the value is sensitive to the estimate of EBITDA for 2020 and the performance which will be achieved on existing contracts in the first year of the AMP7 period as an indicator of future performance and the multiple used to apply to this EBITDA.

The fair value of the Utilities division has been calculated at (£7.6m) based on the EBITDA multiple valuation. The range of the valuation based on the reasonably possible range of multiples that could be applied is (£17m) to £39.8m.

For Waste Treatment and Collections, the value is sensitive to the improved operational performance impacting the future cash flows of both divisions. For Treatment, this is associated with certain plants becoming fully operational and achieving forecast levels of productivity. For Collections, whether performance improvement plans can reduce cost and improve contract margins. Both judgements are then also impacted by the choice of discount rate.

However, given there is very limited non-current asset value remaining in these disposal groups, these represent a limited source of estimation uncertainty as no further impairment can be booked.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Goodwill

Goodwill, being the excess of the fair value of the purchase consideration over the fair value of the identifiable net assets of a subsidiary undertaking, is capitalised on the date that control is acquired. Goodwill is not amortised but is tested for impairment at least annually with goodwill allocated against each of the Group's cash-generating units (CGU). If the recoverable amount of a CGU is less than the carrying amount, the impairment loss is allocated first to the allocated goodwill and then to other assets pro-rata to the carrying amount of each asset in the CGU. Any impairment loss recognised is not reversed in a subsequent period.

Other intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less amortisation on a straight-line basis and less accumulated impairment losses. Other acquired intangible fixed assets are included in the balance sheet at cost less accumulated impairment losses and amortised over their useful economic finite lives on a straight-line basis.

Amortisation is included in cost of sales in the income statement. Details of the amortisation rates used are included in the note on other intangible assets.

Joint ventures where the Group exercises joint control

In accordance with IFRS 11 (Joint Arrangements), joint ventures are included in the financial statements under the equity method of accounting. The results of stakes in joint ventures acquired are included from the date on which the Group acquires joint control in the joint venture, or until the date on which the Group disposes of its joint control in the joint venture.

In accordance with IAS 28, the Group limits the recognition of share of joint venture losses where those losses exceed the investment made in those joint ventures and no obligation arises on the investor to make good those losses. Any losses recognised are held as a provision on the balance sheet.

The results, assets and liabilities of joint ventures are stated in accordance with Group accounting policies. Where joint ventures do not adopt Group accounting policies, their reported results, assets and liabilities are restated to comply with Group accounting policies. Where joint ventures do not adopt accounting periods that are coterminous with the Group's, their results and net assets are based on interim financial statements drawn up to the Group's accounting reference date. The Group includes the share of joint venture profit after tax in its operating profit as those profits are principally operating in nature and any non-operating element is not considered material to the financial statements.

Jointly controlled operations

Where the Group executes contracts through jointly controlled operations, the Group accounts for its share of the results, assets, liabilities and cash flows using the proportional consolidation method.

Revenue

All revenue is accounted for under the requirements of IFRS 15 (Revenue from Contracts with Customers). Set out below are specific details of the methods applied as part of this policy.

(i) General revenue recognition criterion

The first step for revenue recognition purposes is to identify the contracts and the performance obligations contained therein. The number of performance obligations that a contract has will depend on the type of contract and the activity. In general, the performance obligations that the Group engages in are satisfied over time and not at a specific point in time, since the customer simultaneously receives and consumes the benefits provided by the entity's performance as the service is performed.

With respect to the method for recognising revenue over time (i.e. the method for measuring progress towards complete satisfaction of a performance obligation), the Group has established certain criteria that are applied consistently for similar performance obligations. In this regard, the method chosen by the Group to measure the value of goods or services for which control is transferred to the customer over time is the output method; this method is applied provided that the progress of the work performed can be measured on the basis of the contract and during its performance.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Revenue *(continued)*

(i) General revenue recognition criterion *(continued)*

In contracts to provide different highly interrelated goods or services in order to produce a combined output, which is habitually the case in contracts with a construction activity, the applicable output method is that of surveys of performance completed to date (or measured unit of work), according to which revenue is recognised corresponding to the units of work performed and on the basis of the price allocated thereto. Under this method, on a regular basis, the units of work completed under each contract are measured and the corresponding output is recognised as revenue. Costs of work or services projects performed are recognised on an accrual basis, and the costs actually incurred in completing the units performed are recognised as an expense, together with those which, even though they are expected to be incurred in the future, have to be allocated to the units of work completed to date.

Also, in routine or recurring service contracts (in which the services are substantially the same), such as maintenance and cleaning services, which are transferred with the same pattern of consumption over time and whose remuneration consists of a recurring fixed amount over the term of the contract (e.g. monthly or annual payment), in such a way that the customer receives and consumes the benefits of the services as the entity provides them, the method selected by the Group to recognise revenue is the time elapsed output method. Under this method, revenue is recognised on a straight-line basis over the term of the contract and costs are recognised on an accrual basis.

Lastly, only in those contracts that are not for routine or recurring services and for which the unitary price of the units to be performed cannot be determined, use of the stage of completion measured in terms of the costs incurred (input method) is permitted. Under this method, the entity recognises revenue based on the proportion that costs incurred to date bear to the total costs expected to be incurred to complete the work, taking into account the expected margins of the whole project per the latest updated budget. This method involves measuring the proportion of the costs incurred in the work completed to date to the total costs envisaged, and recognising revenue in proportion to total expected revenue. Under this method, the proportion that contract costs incurred bear to the estimated total contract costs is used to determine the revenue to be recognised, by reference to the estimated margin for the entire term of the contract. As indicated above, this method is only applied to complex construction or service contracts with a fixed price ('lump sum') in which it is not possible to break down the units produced and measure them.

(ii) Recognition of revenue from contract modifications, claims and disputes

Contract modifications are defined as changes in the scope of the work, other than changes envisaged in the original contract, that may result in a change in the revenue associated with that contract. Modifications to the initial contract require the customer's technical and financial approval before billings can be issued and the amounts relating to the additional work can be collected. The Group does not recognise the revenue from such additional work until the customer's approval has been obtained. In cases where the additional work has been approved but the corresponding change in price has not been determined, the requirement described below for variable consideration is applied: namely, to recognise revenue for an amount with respect to which it is highly probable that a significant reversal will not occur. The costs associated with these additional units or services performed are recognised when incurred, irrespective of whether or not the modification has been approved.

A claim is a request for payment or compensation from the customer (for example, for compensation, reimbursement of costs, or a legally compulsory inflation review) that is made directly to the customer. The method followed by the Group with respect to claims is to apply the method described above for modifications, when the claims are not covered by the contract, or the method used for variable consideration, when the claims are covered by the contract but need to be quantified.

A dispute is the result of a disconformity or rejection following a claim made to the customer under the contract, the resolution of which is dependent on a procedure conducted directly with the customer or a court or arbitration proceeding. Per the criteria followed by the Group, revenue relating to disputes in which the enforceability of the amount claimed is questioned is not recognised, and previously recognised revenue is derecognised, since the dispute demonstrates the absence of the customer's approval of the work completed. If the customer only questions the price, revenue recognition is based on the criterion applied in cases of variable consideration discussed below.

Only in those cases in which there is a legal report confirming that the rights under dispute are clearly due and enforceable and that, therefore, at least the costs directly associated with the related service will be recovered, may revenue be recognised up to the limit of the amount of the costs incurred.

(iii) Variable consideration

If the consideration promised in a contract includes a variable amount, this amount is recognised only to the extent that it is highly probable that a significant reversal in the amount recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Revenue *(continued)*

(iv) Balance sheet items relating to revenue recognition

Amounts recoverable on contracts/payments received on account

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on achievement of the various milestones established in the contract and on acknowledgement thereof by the customer, which takes the form of a contractual document called 'certificate of completion' or 'work order'. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to or certified by the customer. In the case of contracts in which the goods or services transferred to the customer exceed the related amount billed or certified, the difference is recognised (as a contract asset) in an asset account called 'Amounts recoverable on contracts' under 'Trade and other receivables', whereas in contracts in which the goods or services transferred are lower than the amount billed to or certified by the customer, the difference is recognised (as a contract liability) in a liability account called 'Deferred income' under 'Trade and other payables'.

Bidding costs and mobilisation costs

In addition to the aforementioned balance sheet balances, the Group also recognises assets relating to the costs of obtaining a contract (bidding costs) and to the costs incurred to fulfil a contract or setup costs (mobilisation costs) that are directly related to the principal contract, provided they will be recovered through performance of the contract. These balances are presented in a separate account under 'Inventories'.

Bidding costs are only capitalised when they are directly related to a contract and it is probable that they will be recovered in the future and the contract has been awarded to the Group or the Group has been selected as the preferred bidder.

Costs incurred that would have been incurred regardless of whether the contract was obtained are recognised as an expense, unless those costs are explicitly chargeable to the customer in any case (whether or not the contract is obtained). The capitalised costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Costs required to set up the contract, mobilisation costs, are capitalised provided that it is probable that they will be recovered in the future and that they do not include expenses that would normally have been incurred by the Group if the contract had not been obtained. They are gradually recognised as an expense on the basis of the proportion of actual output to estimated output under each contract. If the above conditions are not met, these costs are taken directly to profit or loss.

(v) Provisions relating to contracts with customers

The main provisions relating to contracts with customers are provisions for deferred expenses and for budgeted losses.

- Provisions for deferred expenses. These provisions cover the expenses that will foreseeably arise on completion of a contract as well as the estimated repairs to be carried out within the guarantee period. These provisions relate to a present obligation stipulated in the contract that is based on the fact that in order to settle the obligation there will probably be an outflow of resources from the Group, the amount of which can be estimated reliably. Provisions are recognised on the basis of the best possible estimates of the total expenditure required to settle the obligations. They can be determined as a percentage of the total expected revenue from the contract if historical information on similar contracts is available.

  The guarantee obligations included in this type of provision are not considered to be a separate performance obligation unless the customer has the option of arranging the guarantee separately, and, accordingly, they are recognised as indicated in IAS 37 on provisions and contingent assets and liabilities.

- Provisions for budgeted losses. These provisions are recognised as soon as it becomes evident that the total costs expected to be incurred in a contract exceed the total expected revenue from that contract. For the purpose of determining, if appropriate, the amount of the related provision, the criterion established in IAS 37.14 (b) is applied. Thus, the estimate of the total budget for the contract includes the expected revenue that is considered to be probable. This criterion is different from that established in IFRS 15, discussed above, on the basis of which such revenue is only recognised to the extent that it is deemed to be highly probable. Also, if the total expected profit on a contract is less than that recognised under the aforementioned revenue recognition rules, the difference is recognised as a provision for budgeted losses.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Revenue *(continued)*

(vi) Financing component

In general, in order to calculate the price of a performance obligation, an implicit financing component is calculated in those cases in which the period between when the entity transfers a promised good or service to a customer and when the customer will foreseeably pay for that good or service is more than one year. This component is accounted for as finance income.

With respect to performance obligations for which the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service is less than one year, the Group applies the practical expedient permitted by IFRS 15 and does not adjust the promised amount of consideration for the effects of a significant financing component.

In those cases in which there is a contractual or legal right to charge late-payment interest owing to the delay in collection with respect to the contractually established periods, such interest is only recognised when it is highly probable that it will actually be collected.

(vii) Sales taxes

All revenue excludes valued added tax.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment is determined in accordance with IAS 16 (Property, Plant and Equipment) and includes only those costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost of each asset, less its estimated residual value, evenly over its expected useful life, as follows:

Leasehold property	initial lease period
Leasehold improvements	remaining lease period
Plant and machinery	5% to 33% per annum

The Group reviews the carrying value of property, plant and equipment in the light of developments in its business and makes provision for any impairment in value as the need arises.

Finance costs have not been capitalised as the Group does not have any qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using either the weighted average method or the first-in, first-out method, as appropriate.

Service concession arrangements

PFI/PPP revenue is accounted for using the financial asset model, where it has been determined that the Group has an unconditional right to receive cash for the construction or upgrade service. Revenue is determined by the fair value of consideration received or receivable in respect of goods and services provided in the same way as for other long-term contracts. Revenue is adjusted for the expected payment date at the time of providing the services in accordance with the principles of IAS 39 (Financial Instruments: Recognition and Measurement). The amounts recoverable from the capital enhancement element of PFI/PPP contracts are shown separately on the face of the balance sheet as PFI/PPP Financial assets.

Deferred tax

Deferred tax is recognised on all temporary differences where the transaction or events that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred tax assets are recognised when it is more likely than not that they will be recovered in the foreseeable future. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset realised.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Leasing and hire purchase contracts

Assets held under finance leases and hire purchase contracts are included in property, plant and equipment and are depreciated over the shorter of the contract term or their useful life. The net obligation relating to finance leases and hire purchase contracts is included as a liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease. Costs in respect of other lease commitments leases are charged to the income statement on a straight-line basis over the lease period.

Following the adoption of IFRS 16 (Leases) on 1 January 2019, the distinction between operating and finance leases has been removed with all leases now considered to be finance leases except for short-term leases of less than twelve months duration or for leases with low value assets. These exceptions will continue to be accounted for as other lease commitments.

Trade payables

Amounts owing under supply chain finance arrangements are included within trade payables rather than bank debt. The purpose of supply chain finance is purely to grant subcontractors and suppliers access to credit and improve their cashflows. The designation in trade payables is due to the assignment of invoice rather than a novation, with the Group acting as an agent with fees related to supply chain finance being borne by the supplier and the final payment date to the bank being set by the Group with interest accrued for any late payments.

Pension costs – defined benefit schemes

The Group accounts for pension costs in accordance with IAS 19.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return that the Directors consider would be available on a high-quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The net return on the scheme assets and the increase during the year in the present value of the scheme liabilities arising from the passage of time is included in finance costs. The Group recognises actuarial gains and losses directly in other comprehensive income and these are therefore shown in the statement of comprehensive income (SOCI).

Pension scheme deficits or surpluses, to the extent that they are considered payable or recoverable, are recognised in full and presented on the face of the balance sheet.

Pension costs – defined contribution schemes

The amount recognised in the income statement is equal to the contributions payable to the schemes during the year.

Share-based payments

Share award plans are measured initially using the value of the share price at that time of award after discounting for the present value of expected dividends during the maturity period. This value is recognised in staff costs over the period of the award.

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement as part of finance costs.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Financial instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is de-recognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component, and which are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for applicable transaction costs. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: amortised cost; fair value through profit or loss (FVTPL); or fair value through other comprehensive income (FVOCI). The classification is determined by both the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

(a) *Financial assets at amortised cost* – financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL): they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest.

(b) *Financial assets at FVTPL* – financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

(c) *Financial assets at FVOCI* – the Group accounts for financial assets at FVOCI if the assets meet the following conditions: they are held under a business model whose objective it is 'hold to collect' the associated cash flows and the contractual terms of financial assets give rise to cash flows that are solely payments of principal and interest. Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset.

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the requirements include loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL. Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between: Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk; Stage 2 - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low; and Stage 3 - financial assets that have objective evidence of impairment at the reporting date. Twelve-month expected credit losses are recognised for the first category while lifetime expected credit losses are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

(a) *Trade and other receivables* - trade receivables are originally recognised at fair value, and then subsequently measured at amortised cost less an allowance for expected credit losses. The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses historical experience, external indicators and forward-looking information to calculate the expected credit losses. The Group assesses impairment of trade receivables on a collective basis. Where they possess shared credit risk characteristics, they have been grouped based on industry sector global default rates.

(b) *Intercompany loans receivable* - intercompany advances to other Group companies are all held to maturity, neither parties have an option to call or prepay the loan before the contracted maturity date. Such assets are held under a business model to hold and collect contractual cash flows and therefore meet the 'solely payments of principal and interest' test. No embedded derivatives are currently recognised in these advances, and the amortised cost classification is not impacted. All intercompany advances are assessed for impairment under the ECL model.

Classification and measurement of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all other liabilities.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL. Subsequently, financial liabilities are measured at amortised cost using the effective interest rate (EIR) method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

(a) *Borrowings* - borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless they form part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

(b) *Trade and other payables* - trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the EIR method.

(c) *Derivative financial instruments and hedging activities* - derivatives are initially recognised at fair value on the date a derivative contract is entered and are subsequently re-measured at their fair value. Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet the following requirements: there is an economic relationship between the hedged item and the hedging instrument; and the effect of credit risk does not dominate the value changes that result from that economic relationship. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives either as fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability or as cash flow hedges, where they hedge exposure to variability in cash flows that are attributable to a risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair value of a derivatives is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months.

1 Accounting policies *(continued)*

(h) Other principal accounting policies *(continued)*

Financial instruments ***(continued)***

Classification and measurement of financial liabilities (continued)

(d) *Fair value hedge* - all hedging relationships that were hedging relationships under IAS 39 at the 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the EIR method is used is amortised in the income statement over the period to maturity.

(e) Cash flow hedge - the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in OCI and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(f) Derivatives at fair value through profit and loss - certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement. When derivatives are designated in a hedge relationship, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gains or losses on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their net amount in finance costs in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks. Bank overdrafts are shown within borrowings in current liabilities.

Exceptional items

Material items of income and expense are disclosed separately in the financial statements where it is necessary to do so in order to provide further understanding of the financial performance of the Group due to their nature or amount.

2 Loss from discontinued operations

As stated in note 1(b), the Group has undertaken a strategic review and concluded that the Environmental Services' Treatment and Collection divisions, and the Utilities division, will be divested. As the requirements of IFRS 5 have been met, the results of those businesses are now presented as discontinued operations, with the impact on the income statement now reported on a single line item 'net loss after tax from discontinued operations'. 2018 comparative figures have been re-presented using the same approach.

As the assets meet the criteria as being classified as held for sale they are valued at the lower of their book value and their fair value less cost of sale. The Group has measured the fair value of the business divisions put on sale and an impairment charge of £158.9 million has been recorded in 2019 in relation to the assets and liabilities of those business divisions.

The following table gives a breakdown by item of the discontinued operations, including the impact of impairment adjustments:

	Dis-continued operations 2019 £'000	**Impairment adjustment (see note 4) 2019 £'000**	**Total 2019 £'000**	Dis-continued operations Total 2018 £'000
Total revenue	**598,400**	**-**	**598,400**	784,464
Less: share of revenue of joint ventures	**(5,983)**	**-**	**(5,983)**	(7,050)
Group revenue	**592,417**	**-**	**592,417**	777,414
Cost of sales	**(654,440)**	**-**	**(654,440)**	(789,801)
Gross loss	**(62,023)**	**-**	**(62,023)**	(12,387)
Administration expenses	**(29,273)**	**-**	**(29,273)**	(36,338)
Share of profit (loss) after tax of joint ventures	**633**	**-**	**633**	(6,264)
Impairment of non-current assets	**-**	**(159,783)**	**(159,783)**	(180,347)
Operating loss	**(90,663)**	**(159,783)**	**(250,446)**	(235,336)
Finance income	**3,939**	**-**	**3,939**	3,654
Finance expense	**(7,232)**	**(7,581)**	**(14,813)**	(7,896)
Net finance expense	**(3,293)**	**(7,581)**	**(10,874)**	(4,242)
Loss before tax	**(93,956)**	**(167,364)**	**(261,320)**	(239,578)
Tax (charge) credit	**(3,279)**	**8,435**	**5,156**	28,821
Net loss after tax from discontinued operations	**(97,235)**	**(158,929)**	**(256,164)**	(210,757)

The net loss after tax from discontinued operations attributable to equity holders of the Company was £229.5 million (2018: £205.3 million) and that attributable to non-controlling interests was £26.7 million (2018: £5.5 million).

3 Divisional analysis

The Group's divisions and their activities are described in more detail in the Strategic Review on pages 4 to 18.

As stated in note 1(b), the Group has undertaken a strategic review and concluded that the Environmental Services' Treatment and Collection divisions, and the Utilities division, will be divested. As the requirements of IFRS 5 have been met, the results of those businesses are now presented as discontinued operations, with the impact on the income statement now reported on a single line item 'net loss after tax from discontinued operations'. 2018 comparative figures have been re-presented using the same approach. These results also include the impairment loss equal to the difference between the estimated fair value of the assets and their carrying amount.

The information disclosed in this note is presented in accordance with the Companies Act 2006 and any additional information presented is on a voluntary basis only. It does not represent segment information based on IFRS 8 (Operating Segments) as the Group is exempt from the requirements of that standard.

	Group revenue 2019 £'000	**Share of joint ventures' revenue 2019 £'000**	**Total revenue 2019 £'000**	Group revenue 2018 £'000 *(re-presented)*	Share of joint ventures' revenue 2018 £'000 *(re-presented)*	Total revenue 2018 £'000 *(re-presented)*
Revenue – by division						
Continuing operations:						
Highways	**395,758**	**-**	**395,758**	363,558	-	363,558
Consulting and Rail	**540,932**	**185,485**	**726,417**	711,593	62,092	773,685
Facilities Management, Justice and Defence	**953,504**	**73,606**	**1,027,110**	489,706	249,124	738,830
Rest of Group and Central Services (including interdivisional eliminations)	**(19,847)**	**5,678**	**(14,169)**	(19,184)	26,465	7,281
	1,870,347	**264,769**	**2,135,116**	1,545,673	337,681	1,883,354
Discontinued operations:						
Environmental Services – Treatment	**87,323**	**5,983**	**93,306**	115,344	7,050	122,394
Environmental Services – Collections	**111,150**	**-**	**111,150**	148,575	-	148,575
Utilities	**393,944**	**-**	**393,944**	513,495	-	513,495
	592,417	**5,983**	**598,400**	777,414	7,050	784,464
	2,462,764	**270,752**	**2,733,516**	2,323,087	344,731	2,667,818
Revenue – by geographical location						
United Kingdom	**2,425,033**	**270,752**	**2,695,785**	2,280,454	344,731	2,625,185
Rest of Europe	**5,860**	**-**	**5,860**	6,912	-	6,912
Australasia	**28,265**	**-**	**28,265**	33,129	-	33,129
North America	**3,606**	**-**	**3,606**	2,592	-	2,592
	2,462,764	**270,752**	**2,733,516**	2,323,087	344,731	2,667,818

Comparative information has been re-presented for discontinued activities (see note 1(b)).

All of the revenue above arises on contracts for the provision of services.

3 Divisional analysis *(continued)*

	Group operating profit excluding joint ventures 2019 £'000	**Share of profit after tax of joint ventures 2019 £'000**	**Total operating profit 2019 £'000**	Group operating loss excluding joint ventures 2018 £'000 *(re-presented)*	Share of profit after tax of joint ventures 2018 £'000 *(re-presented)*	Total operating loss 2018 £'000 *(re-presented)*
Divisional operating profit (loss) – before exceptional items						
Continuing operations:						
Highways	**443**	**-**	**443**	(2,635)	-	(2,635)
Consulting and Rail	**6,121**	**4,250**	**10,371**	47,778	2,995	50,773
Facilities Management, Justice and Defence	**38,468**	**8,871**	**47,339**	26,854	(3,221)	23,633
Rest of Group and Central Services	**5,063**	**252**	**5,315**	(7,143)	4,959	(2,184)
	50,095	**13,373**	**63,468**	64,854	4,733	69,587
Discontinued operations:						
Environmental Services – Treatment	**(33,647)**	**633**	**(33,014)**	(40,766)	(6,264)	(47,030)
Environmental Services – Collections	**(24,310)**	**-**	**(24,310)**	(8,338)	-	(8,338)
Utilities	**(33,339)**	**-**	**(33,339)**	379	-	379
	(91,296)	**633**	**(90,663)**	(48,725)	(6,264)	(54,989)
	(41,201)	**14,006**	**(27,195)**	16,129	(1,531)	14,598
Divisional operating profit (loss) – exceptional items (note 4)						
Continuing operations:						
Highways	**13,773**	**-**	**13,773**	(233,714)	-	(233,714)
Consulting and Rail	**(4,000)**	**-**	**(4,000)**	(3,984)	-	(3,984)
Facilities Management, Justice and Defence	**-**	**-**	**-**	(2,736)	-	(2,736)
Rest of Group and Central Services	**-**	**-**	**-**	(2,769)	(4,626)	(7,395)
	9,773	**-**	**9,773**	(243,203)	(4,626)	(247,829)
Discontinued operations:						
Environmental Services – Treatment	**(36,104)**	**-**	**(36,104)**	(7,639)	-	(7,639)
Environmental Services – Collections	**(31,690)**	**-**	**(31,690)**	(103,021)	-	(103,021)
Utilities	**(91,989)**	**-**	**(91,989)**	(69,687)	-	(69,687)
	(159,783)	**-**	**(159,783)**	(180,347)	-	(180,347)
	(150,010)	**-**	**(150,010)**	(423,550)	(4,626)	(428,176)
Divisional operating profit (loss) – after exceptional items						
Continuing operations:						
Highways	**14,216**	**-**	**14,216**	(236,349)	-	(236,349)
Consulting and Rail	**2,121**	**4,250**	**6,371**	43,794	2,995	46,789
Facilities Management, Justice and Defence	**38,468**	**8,871**	**47,339**	24,118	(3,221)	20,897
Rest of Group and Central Services	**5,063**	**252**	**5,315**	(9,912)	333	(9,579)
	59,868	**13,373**	**73,241**	(178,349)	107	(178,242)
Discontinued operations:						
Environmental Services – Treatment	**(69,751)**	**633**	**(69,118)**	(48,405)	(6,264)	(54,669)
Environmental Services – Collections	**(56,000)**	**-**	**(56,000)**	(111,359)	-	(111,359)
Utilities	**(125,328)**	**-**	**(125,328)**	(69,308)	-	(69,308)
	(251,079)	**633**	**(250,446)**	(229,072)	(6,264)	(235,336)
	(191,211)	**14,006**	**(177,205)**	(407,421)	(6,157)	(413,578)

Comparative information has been re-presented for discontinued activities (see note 1(b)).

4 Exceptional items

The following exceptional items have been charged (credited) in the Group income statement:

	2019 £'000	2018 £'000
Continuing activities:		
Birmingham contract dispute (i)		
- contract loss (credited) charged to cost of sales	**(22,273)**	95,000
- investment impairment loss	**-**	28,249
Impairment of goodwill (ii)	**-**	138,714
Impairment of other assets (iii)	**4,000**	12,353
Contract loss provision (iv)	**8,500**	-
Share of exceptional joint venture impairment of other intangible assets (vi)	**-**	4,626
Guaranteed minimum pension equalisation of past service charge (vii)	**-**	3,173
Profit on disposal of joint venture investments (viii)	**-**	(25,945)
Gain arising on pre-acquisition holding in Carillion Amey (note 12) (ix)	**-**	(8,341)
(Credited) charged as part of operating profit (loss) on continuing activities	**(9,773)**	247,829
Exceptional finance cost (x)	**4,757**	-
Exceptional tax credit (xi)	**-**	(35,008)
Total exceptional items on continuing activities	**(5,016)**	212,821
Discontinued activities:		
Impairment of goodwill (ii)	**91,989**	175,560
Impairment of other assets (iii) (v)	**67,794**	4,787
Charged as part of operating loss on discontinued activities	**159,783**	180,347
Recycling of derivative losses previously accounted through other comprehensive income (xii)	**7,581**	-
Exceptional tax credit (xiii)	**(8,435)**	(51)
Total exceptional items on discontinued activities, net of tax	**158,929**	180,296
Total exceptional items	**153,913**	393,117

(i) In 2018, the Group recorded an exceptional cost of £123.2 million as part of overall cost of exiting from the Birmingham City Council Highways PFI contract, which suffered from a high level of performance deductions and penalties applied by the council. Included in this amount was £95.0 million of additional provision for the cost of exiting the contract and £32.5 million in respect of impairment of loan balances plus accrued interest receivable from Birmingham Highways Holdings Limited, which is now in administration. A gain of £14.3 million is associated with a reduction to the provision for joint venture losses (including derivative losses) and a £10.1 million charge has been recognised in the income statement following the recycling of derivative losses previously accounted for through Other Comprehensive Income. In 2019, the additional provision for the cost of exiting the contract was reduced by £22.3 million primarily arising on the receipt of VAT not previously assumed to be recoverable and other changes in the provision estimate.

(ii) In 2018, the Group reviewed the carrying value of goodwill held on the balance sheet and concluded that impairments of £314.3 million had arisen in respect of the Highways, Utilities and Environmental Services divisions. The Highways and Environmental Services divisions' goodwill has been impaired in full. In 2019, a further impairment of £92.0 million was recognised to reduce the carrying balance of Utilities division goodwill to fair value, following the strategic decision to divest that division and discontinue that activity for the Group.

(iii) The Group has reviewed the carrying value of assets held on certain contracts and investments. An impairment charge of £4.0 million (2018: £12.4 million) arose on continuing activities for the anticipated under-recovery of those assets through future cash inflows. The 2018 cost included £6.1 million impairment of software and £0.3 million impairment of tangible fixed assets. In addition, a £6.0 million impairment charge arose in respect of the MTCnovo joint venture in 2018.

(iv) In 2019, the Group provided £8.5 million in respect of a contract liability arising in the Highways division as a result of a proposed settlement of a contract held jointly by Amey and a fellow Ferrovial group company.

(v) In 2019, a further impairment of £67.8 million was recognised to reduce the carrying balance to fair value, following the strategic decision to divest the Utilities and Environmental Services Treatment and Collections business and discontinue those activities for the Group. This amount included £42.0 million in respect of other intangible assets, £1.3 million in respect of property, plant and equipment and £24.5 million in respect of receivables impairments. In 2018, £4.8 million of impairments of other assets was recognised in those businesses in respect of £0.3 million impairment of contract rights and £4.4 million of receivables impairments.

(vi) In 2018, the Group incurred an exceptional impairment charge (after tax) of £4.6 million in respect of impairment of financial assets of its joint venture undertaking, AmeyCespa (MK) SPV Limited.

4 Exceptional items *(continued)*

(vii) In 2018, the Group recorded a past service pensions charge of £3.2 million arising on the historic equalisation of Guaranteed Minimum Pension benefits between men and women for the years from 1990 to 1997, following the result of a high court judgment.

(viii) In 2018, the Group completed the disposals of a 5% share of Amey Ventures Investments Limited, and a 90% share of both Amey Hallam Highway Holdings Limited and AmeyCespa (AWRP) Holding Co Limited, giving rise to a total profit on disposal of £25.9 million. In 2019, the Group completed the disposal of a 50% share in MTCnovo Limited with a minimal loss arising on the transaction. The consideration received on these disposals was £10.5 million (2018: 54.8 million).

(ix) In 2018, a gain of £8.3 million arose in respect of the valuation of existing holdings in Carillion Amey following the acquisition of the remaining shares in those companies. See note 12 for further details.

(x) In 2019, the exceptional finance cost relates to the unwind of discount interest on the provision arising in respect of exit from the Birmingham City Council Highways PFI contract.

(xi) For continuing activities: in 2018, a tax credit of £0.5 million was recognised on the Guaranteed Minimum Pension equalisation past service charge. The adjustments for the impairment of goodwill gave rise to a £34.5 million deferred tax credit in respect of that goodwill. No tax was attributed to the Birmingham contract loss in 2018 and 2019, or on the 2018 impairment of other intangible assets as the Group did not recognise in full a deferred tax asset on trading losses.

(xii) In 2019, a finance cost of £7.6 million arose in discontinued activities in respect of the recycling of derivative losses previously accounted for through other comprehensive income following the classification of the derivative as part of assets/liabilities held for sale.

(xiii) For discontinued activities: in 2019, a tax credit of £7.1 million arose on the impairment of other intangible assets which arose on consolidation and a £1.3 million tax credit arose in respect of the recycling of derivative losses previously accounted for through other comprehensive income. In 2018, a tax credit of £0.1 also arose on the impairment of other intangible assets which arose on consolidation.

The impact of exceptional items on the cash flow reported for the year is only in respect of the consideration received of £10.5 million (2018: £63.2 million) on the disposal of joint venture investments.

5 Operating profit (loss)

For both continuing and discontinued activities this is stated after charging (crediting):

		2019 £'000	2018 £'000
Deferred income (recognised) deferred in the year		**(7,467)**	4,122
Amortisation	- other intangible assets	**23,943**	30,382
Depreciation	- owned assets	**7,417**	6,318
	- leased assets	**20,247**	2,101
Amortisation of bid and mobilisation costs		**3,726**	7,534
Short-term and low value lease rentals	- land and buildings	**920**	9,547
	- hire of plant and machinery	**130,452**	179,293
	- IT licences and rentals	**38,716**	32,380
Cost of inventories recognised as an expense		**140,847**	164,797
Loss on disposal of property, plant and equipment		**295**	130
Loss on disposal of joint venture investment		**33**	-
Operating exceptional items (note 4)		**150,010**	428,176
Auditor's remuneration	- audit of Company and Group financial statements	**302**	222
	- audit of subsidiary undertakings	**1,364**	989
	- audit of joint venture undertakings	**7**	99
	- audit-related assurance services	**167**	165

6 Employees (including Directors)

Staff costs during the year consisted of:

	2019 £'000	2018 £'000
Wages and salaries	**535,976**	546,535
Social security costs	**50,394**	50,593
Other pension costs arising on defined benefit pension schemes (note 24)	**3,581**	3,938
Defined benefit pension schemes past service charge (note 24)	**-**	3,173
Other pension costs arising on defined contribution pension schemes	**29,240**	19,349
	619,191	623,588

The average number of employees during the year was as follows:

	2019 Number	2018 Number
Contract-based employees	**14,924**	15,753
Management and administration	**640**	723
	15,564	16,476

7 Directors and key management remuneration

Remuneration in respect of Directors (who were the key management) was as follows:

	2019 £'000	2018 £'000
Short-term employee benefits	**1,533**	1,229
Company contributions to defined contribution scheme	**39**	21
Performance based Ferrovial, S.A. share-based awards	**427**	328
Total emoluments	**1,999**	1,578
Included above are the following amounts in respect of the highest paid Director:		
Emoluments	**801**	773
Company contributions to defined contribution scheme	**37**	21

In addition to the amounts shown above, the services of one Director (2018: none) were procured indirectly through an employment agency at a cost of £24,000 (2018: £nil).

One Director (2018: none) received compensation for loss of office totalling £681,000 (2018: £nil).

During the year, one Director (2018: one) was a member of the Group's defined benefit pension scheme (which has been closed to future accrual) and two Directors (2018: two) were also members of the replacement defined contribution pension scheme.

Certain other Directors of the Group are paid directly by the Group's parent undertaking and are recharged to the Group as part of a general recharge of costs by those undertakings (see note 35) and included in net operating expenses.

8 Net finance expense

	2019 £'000	2018 £'000 (re-presented)
Finance income		
Interest receivable from bank deposits	**88**	71
Interest receivable on loans to joint ventures (note 35)	**781**	5,836
Other interest and similar income	**164**	55
Intercompany interest receivable in respect of discontinued operations	**2,156**	2,067
Interest receivable from Ferrovial, S.A. subsidiary undertakings (note 35)	**159**	1,399
Foreign exchange gains	**1,782**	29
Total finance income on financial assets at amortised cost	**5,130**	9,457
Finance costs		
Interest payable on borrowings	**(1,299)**	(1,904)
Interest payable on finance leases	**(2,031)**	(183)
Intercompany interest payable in respect of discontinued operations	**(116)**	(121)
Interest payable to Ferrovial, S.A. subsidiary undertakings (note 35)	**(13,611)**	(14,607)
Foreign exchange losses	**(1,890)**	(441)
Other interest and similar charges	**(1,017)**	(1,145)
Total finance costs on financial liabilities at amortised cost	**(19,964)**	(18,401)
Finance expense from defined benefit schemes (note 24)	**(134)**	(1,204)
Provision discount unwind finance expense (note 25)	**(4,757)**	-
Total finance costs	**(24,855)**	(19,605)
Net finance expense	**(19,725)**	(10,148)

Comparative information has been re-presented for discontinued activities (see note 1(b)).

Finance income relates to items classified as loans and receivables. Derivatives that are not designated in an IAS 39 compliant hedging relationship are classified as held for trading and are measured at fair value through the income statement. Finance costs relate to items classified as other financial liabilities measured at amortised cost and also relate to the net finance cost on defined benefit pension scheme liabilities and on the unwind of interest on discounted long-term provisions.

9 Tax (charge) credit

		2019 £'000	2018 £'000 (re-presented)
Current tax			
UK		**(572)**	(12,424)
Overseas		**5,642**	5,605
Adjustment in respect of prior years	– UK	**(3,217)**	5,050
	– Overseas	**(4,226)**	1,977
Current tax (charge) credit		**(2,373)**	208
Deferred tax			
(Charge to) credit from deferred tax provision		**(6,752)**	30,013
Charge to deferred tax asset		**(2,987)**	(17,822)
Deferred tax charge relating to employee benefit obligations		**(2,401)**	(1,271)
Deferred tax (charge) credit		**(12,140)**	10,920
Tax (charge) credit		**(14,513)**	11,128

9 Tax charge (credit) *(continued)*

	2019 £'000	2018 £'000 *(re-presented)*
Reconciliation of variances from standard rate of UK corporation tax		
Profit (loss) on ordinary activities before tax on continuing activities	**53,516**	(188,390)
Add: share of tax of joint ventures	**3,137**	25
	56,653	(188,365)
Loss before tax at the standard rate of corporation tax in the UK of 19% (2018: 19.0%)	**10,764**	(35,789)
Adjusted for:		
Expenses not deductible for tax purposes	**10,773**	1,666
Overseas rate differences	**8,479**	(8,258)
Foreign permanent establishment exemption	**(4)**	(29)
Adjustment in respect of prior years	**(11,090)**	15,468
Utilisation of unrecognised losses	**(218)**	(440)
Current year losses not recognised	**-**	24,225
Recognition of deferred tax on prior year losses not previously recognised	**(4,203)**	(6,921)
Other temporary differences in respect of foreign exchange on goodwill	**2,948**	(862)
Impact of change in tax rate	**201**	(163)
	17,650	(11,103)
Less: share of tax of joint ventures	**(3,137)**	(25)
Tax charge (credit)	**14,513**	(11,128)

Comparative information has been re-presented for discontinued activities (see note 1(b)).

The weighted average applicable tax rate was 27.1% (2018: 5.9%). The adverse change in the effective tax rate is attributable to the partial recognition of previously unrecognised trade losses, adjustments to prior years and the tax impact of both allowable and non-allowable goodwill.

Deferred tax is calculated in full on temporary differences under the liability method using an expected tax rate for the UK of 17% (2018: 17%) on short-term timing differences and 17% (2018: 17%) on long-term timing differences. For balances arising in Spain, an expected tax rate of 25% (2018: 25%) is used. These are the tax rates that have been substantively enacted at the balance sheet date.

The UK Finance Act 2017 included provision for the main rate of corporation tax to reduce from 19% to 17% from 1 April 2020. A Budget Resolution passed on 17 March 2020 included provision for the main rate of corporation tax to remain at 19% from 1 April 2020 and not reduce to 17% as previously legislated. The anticipated decrease in the Group's tax charge will now not materialise. As the rate change will be enacted after the balance sheet date, it is a non-adjusting post balance sheet event. However, the impact of recognising deferred tax at 19% would be to increase the net deferred tax asset by £3.6 million at 31 December 2019.

The Group has benefitted from the current year effect of losses and other temporary differences in certain companies which reduce the tax charge to the extent that no deferred tax asset was recognised when they arose.

Deferred tax summary

	2019 £'000	2018 £'000
Deferred tax assets recognised	**43,308**	57,067
Deferred tax liabilities	**(11,978)**	(34,541)
	31,330	22,526

9 Tax charge (credit) *(continued)*

Deferred tax assets

	Accelerated depreciation £'000	Retirement benefit obligations £'000	Tax allowable goodwill £'000	Tax losses £'000	Other temporary differences £'000	Total £'000
At 1 January 2018	6,264	9,595	1,925	44,280	6,870	68,934
On acquisition	-	-	-	-	3,577	3,577
Income statement	6,991	(1,271)	(267)	(17,360)	2,948	(8,959)
SOCI	-	(6,028)	-	-	(457)	(6,485)
At 31 December 2018	**13,255**	**2,296**	**1,658**	**26,920**	**12,938**	**57,067**
Income statement	**4,175**	**(2,401)**	**(177)**	**(4,032)**	**(426)**	**(2,861)**
SOCI	**-**	**2,108**	**-**	**-**	**115**	**2,223**
Reclassed as assets held for sale (see notes 1(b) and 18)	**(8,132)**	**-**	**-**	**(890)**	**(4,099)**	**(13,121)**
At 31 December 2019	**9,298**	**2,003**	**1,481**	**21,998**	**8,528**	**43,308**

Deferred tax liabilities

	Accelerated capital allowances £'000	Accelerated tax relief on goodwill £'000	Intangible assets acquired £'000	Other temporary differences £'000	Total £'000
At 1 January 2018	9,723	28,958	9,155	13,971	61,807
On acquisition	-	-	7,077	-	7,077
Income statement	(8,868)	(28,958)	1,345	2,280	(34,201)
SOCI	-	-	-	(142)	(142)
At 31 December 2018	**855**	**-**	**17,577**	**16,109**	**34,541**
Income statement	**(842)**	**8,693**	**(7,471)**	**4,041**	**4,421**
SOCI	**-**	**-**	**-**	**(21)**	**(21)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**-**	**-**	**(6,834)**	**(20,129)**	**(26,963)**
At 31 December 2019	**13**	**8,693**	**3,272**	**-**	**11,978**

In 2019, the Group has reclassed deferred tax assets and liabilities as part of assets held for sale following the strategic review of the Group by the Directors and the decision to divest the Utilities and the Environmental Services' Treatment and Collections business areas (see note 1(b)).

Unrecognised deferred tax assets

	2019 £'000	2018 £'000
Capital losses	**2,632**	2,677
Trading losses	**61,060**	73,025
Accelerated tax relief on goodwill	**-**	5,322
Accelerated depreciation	**52**	52
Other temporary differences	**-**	65
	63,744	81,141

In addition to the amounts shown above, unrecognised deferred tax assets on trading losses of £27.6 million are attributable to the divisions now reclassed as assets held for sale (2018: £nil).

Deferred tax assets have been recognised in respect of timing differences where the reversal of the originating difference is certain to arise in future periods. Deferred tax assets have been recognised on trading losses carried forward to the extent that those losses are anticipated to be utilised via generation of future profits as based on the projections of the Group over a period of up to five years. A deferred tax asset has not been recognised where those losses cannot be utilised under existing tax rules. Capital losses can only be realised in the event of capital gains being realised in future periods. The tax losses do not have an expiry date.

10 Goodwill on acquisition of subsidiary undertakings

	Cost £'000	Provision for impairment £'000	Carrying value £'000
At 1 January 2018	735,764	-	735,764
Impairment charge for the year (see note 4)	-	(314,274)	(314,274)
At 31 December 2018	**735,764**	**(314,274)**	**421,490**
Reclassed as assets held for sale (see notes 1(b) and 18)	**(291,731)**	**175,560**	**(116,171)**
At 31 December 2019	**444,033**	**(138,714)**	**305,319**

The allocation of goodwill to groups of cash-generating units (CGU) is as follows:

	2019 £'000	2018 £'000
Utilities	**-**	116,171
Consulting and Rail	**218,567**	218,567
Facilities Management, Justice and Defence	**86,752**	86,752
	305,319	421,490

In 2018, the Group reviewed the carrying amount of goodwill on the balance sheet for each CGU and concluded that full impairments had arisen in respect of the Highways and Environmental Services divisions and a partial impairment had arisen on respect of the Utilities division. The write down reflected the difficulties being experienced in the market place for Amey's services in those divisions.

In 2019, the Group has reclassed the goodwill of the Utilities division as part of assets held for sale following the strategic review of the Group by the Directors and the decision to divest this business area (see note 1(b)).

The recoverable amounts of goodwill are based on value-in-use which reflects forecast cash flows as derived from approved budgets and plans for the next five years. The future cash flows are based on the completed Budget 2020 and the 2021-2024 Strategic Plan. Residual values have also been included which are based on the normalised activity cash flow plus a growth factor. The growth rate used has been 1.75% (2018: 1.75%). The underlying assumptions of these cash flows are based on the existing contract order book, management's past experience and on probability ratios for new business generation. The cash flows have been discounted using a risk-based discount rate of 10.5% (2018: 10.5%). This pre-tax discount rate is a measure based on the 10-year UK bond rate adjusted for a risk premium to reflect both the increased risk of investments generally in the sector and the systematic risk of the specific CGUs.

The dynamics of the Support Services sector has remained in line with the previous year, with a similar uncertainty and instability in the markets in which the Group operates. As a result of this, management decided to maintain the same assumptions as used in the previous year.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the Group of CGUs to which goodwill is allocated. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of Consulting and Rail and Facilities Management, Justice and Defence is based, would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

For Consulting and Rail, an additional sensitivity has been applied within the strategic plan by taking the average of the previous three years (2017 to 2019) and normalising this through the plan. In addition, no future growth was assumed and the gross margin applied was the average achieved for those three years.

11 Other intangible assets

	Order books £'000	Customer relationships £'000	Contracts £'000	Software £'000	Total £'000
Cost					
At 1 January 2018	37,787	61,100	41,963	25,506	166,356
On acquisition (see note 12)	27,753	13,876	-	5,082	46,711
Additions	2,053	-	-	9,180	11,233
Disposals	-	-	-	(1,868)	(1,868)
At 31 December 2018	**67,593**	**74,976**	**41,963**	**37,900**	**222,432**
Additions	**-**	**-**	**-**	**86**	**86**
Disposals	**-**	**-**	**-**	**(7,111)**	**(7,111)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**(35,500)**	**(61,100)**	**(37,200)**	**(10,320)**	**(144,120)**
At 31 December 2019	**32,093**	**13,876**	**4,763**	**20,555**	**71,287**
Amortisation					
At 1 January 2018	29,564	14,709	9,872	18,329	72,474
Charge for the year	13,690	6,180	1,750	8,762	30,382
Impairment (see note 4)	-	-	300	6,092	6,392
Disposals	-	-	-	(1,646)	(1,646)
At 31 December 2018	**43,254**	**20,889**	**11,922**	**31,537**	**107,602**
Charge for the year	**11,336**	**7,473**	**1,749**	**3,385**	**23,943**
Disposals	**-**	**-**	**-**	**(7,111)**	**(7,111)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**(35,500)**	**(20,902)**	**(11,081)**	**(10,319)**	**(77,802)**
At 31 December 2019	**19,090**	**7,460**	**2,590**	**17,492**	**46,632**
Carrying amount					
At 31 December 2019	**13,003**	**6,416**	**2,173**	**3,063**	**24,655**
At 31 December 2018	24,339	54,087	30,041	6,363	114,830

In 2018, the Group reviewed the carrying value of software and contracts and identified impairments of £6.4 million arising on anticipated under recovery of those assets through future cash inflows. These impairments were considered exceptional in nature (see note 4 for further detail).

In 2019, the Group has reclassed other intangible assets as part of assets held for sale following the strategic review of the Group by the Directors and the decision to divest the Utilities and the Environmental Services' Treatment and Collections business areas (see note 1(b)). The related order books have now been fully amortised and the customer relationships were being amortised over a period of twenty years. These assets originally arose on the acquisition of Enterprise in 2013.

Customer order books and relationships as at 31 December 2019 arose on the acquisition of Carillion Amey in 2018. These principally relate to the present value of future income streams expected to arise from secured and unsecured contracts with existing customers. Order books and customer relationships are both being amortised over a period of between 19 and 30 months depending on the end date of the underlying contracts held by Carillion Amey.

Additions to order books in 2018 relate to the Group taking over certain rail contracts following the liquidation of Carillion plc in January 2018. These assets are being amortised over the remaining life of those contracts.

Also included in other intangible assets on contracts are rights to third party revenue forming part of a 25-year contract which is being amortised over the remaining term.

Software is amortised over periods of up to five years.

12 Acquisition of subsidiary undertakings in 2018 – Carillion Amey

On 28 August 2018, the Group obtained control of CarillionAmey Limited and CarillionAmey (Housing Prime) Limited (together 'Carillion Amey') for a total consideration of £18.1 million. The companies have since been renamed Amey Defence Services Limited and Amey Defence Services (Housing) Limited.

Previously Carillion Amey had been a joint venture between the Group and Carillion plc. Following the liquidation of Carillion plc in January 2018, the Group exercised its pre-emption option to acquire the whole of the remaining share capital of the Carillion Amey companies from the liquidator. Accordingly, Carillion Amey was accounted for as a joint venture to 28 August 2018, the date when control was obtained, and thereafter as wholly-owned subsidiary undertakings.

No adjustments to the book values were made to amend the carrying amount of assets and liabilities held by Carillion Amey other than to reassess the contingent liabilities of the companies for sub-contractor claims of £7.8 million (less associated tax), to recognise a gain of £8.3 million on the pre-acquisition holding in Carillion Amey and to record Other intangible assets on consolidation of £41.6 million (less associated tax). No goodwill was recognised in respect of this acquisition. The contingent liabilities relate to subcontractor claims received by Carillion Amey before the date of acquisition and which were identified and open at that date.

	Book value £'000	**Fair value adjustments £'000**	**Intangible assets recognised £'000**	**Carrying amount £'000**
Cash and cash equivalents	18,095	-	-	18,095
Other intangible assets	5,082	-	41,629	46,711
Property plant and equipment	5,563	-	-	5,563
Deferred tax asset	2,252	1,325	-	3,577
Trade and other receivables	60,243	-	-	60,243
Current trade and other payables	(86,518)	-	-	(86,518)
Current tax liabilities	(1,041)	-	-	(1,041)
Deferred tax provision	-	-	(7,077)	(7,077)
Contingent liabilities	-	(7,795)	-	(7,795)
Net assets (liabilities) acquired	3,676	(6,470)	34,552	31,758
Value of pre-acquisition holding	(5,327)	(8,341)	-	(13,668)
Total purchase consideration				(18,090)
Goodwill arising on the acquisition				-
Total purchase consideration				18,090
Deferred consideration				(7,000)
Purchase consideration for remaining shares				11,090
Cash in the acquired companies				(18,095)
Net cash inflow on acquisition				(7,005)

Carillion Amey revenue for the full year in 2018 was £513 million and the profit after tax was £7 million. For the four months since acquisition to 31 December 2018, Carillion Amey revenue was £192 million and profit after tax was £29 million. Incidental acquisition costs incurred of £0.5 million were charged as part of administration expenses in 2018.

13 Property, plant and equipment

		Fixtures and fittings			
	Assets under construction £'000	Long leasehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2018	4,026	35,029	6,855	75,091	121,001
On acquisition (see note 12)	-	-	-	5,563	5,563
Additions	12	24	-	2,828	2,864
Disposals	-	(299)	(724)	(10,843)	(11,866)
At 31 December 2018	**4,038**	**34,754**	**6,131**	**72,639**	**117,562**
Additions arising from the adoption of IFRS 16 (see note 1(d)(i))	**-**	**-**	**26,454**	**42,190**	**68,644**
Additions	**2,909**	**-**	**5,299**	**31,031**	**39,239**
Disposals	**(2,708)**	**(239)**	**(2,144)**	**(22,148)**	**(27,239)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**(4,239)**	**(34,339)**	**(1,859)**	**(63,262)**	**(103,699)**
At 31 December 2019	**-**	**176**	**33,881**	**60,450**	**94,507**
Depreciation					
At 1 January 2018	-	7,586	4,654	54,631	66,871
Provided in year	-	-	1,057	7,362	8,419
Impairment (see note 4)	-	-	-	315	315
Disposals	-	(160)	(423)	(9,665)	(10,248)
At 31 December 2018	**-**	**7,426**	**5,288**	**52,643**	**65,357**
Provided in year	**-**	**221**	**6,932**	**20,511**	**27,664**
Disposals	**-**	**(207)**	**(624)**	**(14,202)**	**(15,033)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**-**	**(7,307)**	**(621)**	**(33,441)**	**(41,369)**
At 31 December 2019	**-**	**133**	**10,975**	**25,511**	**36,619**
Carrying amount					
At 31 December 2019	**-**	**43**	**22,906**	**34,939**	**57,888**
At 31 December 2018	4,038	27,328	843	19,996	52,205

At 31 December 2019, the Group has reclassed property, plant and equipment as part of assets held for sale following the strategic review of the Group by the Directors and the decision to divest the Utilities and the Environmental Services' Treatment and Collections business areas (see note 1(b)).

The net book value of property, plant and equipment held under finance leases and similar hire purchase contracts amounted to £49.6 million (2018: £8.9 million) of which £22.9 million (2018: £nil) was in respect of leasehold property and £26.7 million (2018: £8.9 million) was in respect of plant and machinery. Additions of property, plant and equipment held under finance leases and similar hire purchase contracts during the year included £68.6 million arising on the adoption of IFRS 16 (Leases) (£26.5 million in respect of leasehold property and £42.2 million in respect of plant and machinery) and £29.6 million arising since adoption (£5.1 million in respect of leasehold property and £24.6 million in respect of plant and machinery). The depreciation charge for the year for assets held under finance leases and similar hire purchase contracts was £20.2 million (2018: £2.1 million) of which £6.1 million (2018: £nil) was in respect of leasehold property and £14.1 million (2018: £2.1 million) was in respect of plant and machinery.

14 Investments in joint ventures

Investments in joint ventures comprise:

	2019 £000	2018 £'000
Cost of shares	**402**	419
Share of post-acquisition profits	**15,960**	21,226
Loan advances (see note 35)	**20,073**	54,310
Total	**36,435**	75,955
Provision for impairment – shares	**-**	(17)
Provision for impairment – profits	**-**	(5,991)
Provision for impairment – loans	**(49)**	(22,945)
Carrying value on the balance sheet	**36,386**	47,002

The movements during the year were as follows:

	Cost of shares £'000	Share of post-acquisition profits £000	Loan advances £'000	Total £'000
At 1 January 2018	87	34,488	61,993	96,568
Additions	360	-	-	360
Share of profit after tax for the year	-	(4,082)	-	(4,082)
Provision for impairment	-	117	(64)	53
Provision for impairment – exceptional (see note 4 (i) and (iii))	(17)	(5,991)	(22,854)	(28,862)
Dividends paid by joint ventures	-	(5,714)	-	(5,714)
Disposals	(28)	(2,657)	-	(2,685)
Reclassification of existing investment arising on acquisition of remaining shares	-	(5,327)	-	(5,327)
Share of movements in the SOCI:				
- derivatives	-	5,301	-	5,301
- deferred tax thereon	-	(900)	-	(900)
Loan advances	-	-	58,357	58,357
Loan repayments	-	-	(2,887)	(2,887)
Loan disposals	-	-	(63,180)	(63,180)
At 31 December 2018	**402**	**15,235**	**31,365**	**47,002**
Share of profit after tax for the year	**-**	**11,814**	**-**	**11,814**
Provision for impairment	**-**	**-**	**31**	**31**
Dividends paid by joint ventures	**-**	**(9,708)**	**-**	**(9,708)**
Disposals	**-**	**(533)**	**-**	**(533)**
Share of movements in the SOCI:				
- derivatives	**-**	**(1,023)**	**-**	**(1,023)**
- deferred tax thereon	**-**	**175**	**-**	**175**
Loan advances	**-**	**-**	**3,790**	**3,790**
Loan repayments	**-**	**-**	**(708)**	**(708)**
Loan disposals	**-**	**-**	**(10,000)**	**(10,000)**
Reclassed as assets held for sale (see notes 1(b) and 18)	**-**	**-**	**(4,454)**	**(4,454)**
At 31 December 2019	**402**	**15,960**	**20,024**	**36,386**

On 9 January 2019, the Group disposed of its investments in its joint venture company, MTCnovo Limited (since renamed Management & Training Corporation Limited), for a total cash consideration of £10.0 million, giving rise to a minimal loss on disposal of £0.03 million in 2019, after a provisional impairment provision of £6.0 million was made in 2018.

14 Investments in joint ventures *(continued)*

On 29 June 2019, the Group concluded an agreement with Amey Birmingham Highways Limited (since renamed Birmingham Highways Limited 'BHL') to exit from the contract to provide highways maintenance services to Birmingham City Council. Under the terms of this agreement, the Group disposed of its investment in the shares of Amey Birmingham Highways Holdings Limited (since renamed Birmingham Highways Holdings Limited 'BHHL'), the immediate parent undertaking of BHL, but retained its interest in the investment loan advances to BHHL. Full provision was made in the 2018 financial statements in respect of all investments in BHHL (see note 4 for further information).

At 31 December 2019, the Group has reclassed certain investments in joint ventures as part of assets held for sale following the strategic review of the Group by the Directors and the decision to divest the Environmental Services' Treatment business area (see note 1(b)).

The Group's joint venture investments, including the percentage of interest held, are set out in note 32.

The Group's aggregate share of the results and net assets of joint ventures was as follows:

	Continuing operations 2019 £'000	**Discontinued operations 2019 £'000**	**Total 2019 £'000**	Continuing operations 2018 £'000	Discontinued operations 2018 £'000	Total 2018 £'000
Share of revenue	**264,769**	**5,983**	**270,752**	337,681	7,050	344,731
Share of profit (loss) after tax for the year	**13,373**	**633**	**14,006**	107	(6,264)	(6,157)
Share of other comprehensive (expense) income	**(398)**	**-**	**(398)**	18,538	-	18,538
Dividends received from joint ventures	**9,708**	**-**	**9,708**	5,714	-	5,714
Share of gross assets			**186,926**			201,417
Share of gross liabilities			**(173,218)**			(189,522)
Share of net liabilities			**13,708**			11,895
Loan advances (note 35)			**20,073**			54,310
Provision for impairment			**(49)**			(28,953)
Net investment in joint ventures			**33,732**			37,252
Included in:						
Investments in joint ventures			**36,386**			47,002
Assets held for sale (see notes 1(b) and 18)			**492**			-
Provision for joint venture losses (note 25)			**(3,146)**			(9,750)
			33,732			37,252

None of the joint venture investments held by the Group are individually material to the reporting entity.

The share of gross liabilities includes financial instrument derivatives within joint ventures which relate to interest rate swaps entered into by the joint ventures concerned as a means of hedging interest rate risk. In accordance with IAS 39, these derivatives are accounted for as cash flow hedges by the joint ventures with the effective portion of movements in fair value each year recognised in the SOCI and in the hedge reserve.

15 PFI/PPP Financial assets

Financial assets result from the application of IFRIC 12 (Service Concession Arrangements) for PFI/PPP waste management contracts. They are measured initially at fair value of consideration paid and subsequently at amortised cost. The financial asset amounts may have corresponding items in PFI/PPP Non-recourse term-loans, which would be secured on the assets of the special purpose company in which the financial asset arises. These PFI/PPP Financial assets are fixed rate financial assets and bear interest at an average rate of 6.0% (2018: 6.0%). The Group's credit risk on these financial assets is mitigated by maintaining a strong relationship with the customers. The assets are neither past due nor impaired.

The Group holds one service concession arrangement on which PFI/PPP financial assets arise. This is in respect of a 28-year PFI waste management contract with Cambridgeshire County Council which runs until 2036. This contract is for the provision of waste collection and treatment services but the concession also includes the right to receive and process third party waste. The construction and development phase of this contract has been completed and the contract is now in the maintenance phase.

At 31 December 2019, the Group has reclassed all PFI/PPP Financial assets as part of assets held for sale, following the strategic review of the Group by the Directors and the decision to divest the Environmental Services' Treatment business area (see note 1(b)).

Under the terms of these concessions, the Group is required to meet certain key performance targets on waste collection and recycling rates. There were no changes to the terms of the concessions during the year.

16 Financial instruments

Financial risk

The financial risks affecting the Group are as follows:

Financial risk management – interest rate risk
The Group's main interest rate risk arises on bank borrowings where variable rate loans could expose the Group to cash flow interest rate risk. The Group has not taken out interest rate hedges in respect of borrowings with recourse to the Group's balance sheet. For PFI/PPP Non-recourse term loans, it is a condition of lending that interest rate hedges to fix the interest rate are used.

Financial risk management - credit risk
The Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. There are no significant concentrations of credit risk except for balances due from Ferrovial, S.A. group undertakings.

The Group's credit risk is mainly attributable to its non-public sector trade receivables. However, there are also significant amounts of trade receivables due from public sector clients and balances due from Ferrovial, S.A. group undertakings. The amounts are carried on the balance sheet net of bad debt provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic circumstances. Credit risk relating to investments in financial products is concentrated mainly on short-term investments. Counterparties are always financial institutions and a strict diversification policy is applied on the basis of credit ratings and maximum credit limits. The Group also actively monitors the risk that it assumes with its banks through credit quality studies for each of the financial institutions to which it is exposed.

Financial risk management - exchange rate risk
The Group's principal exchange rate risk is in respect of intercompany loan balances denominated in euros and the interest cost thereon. These risks have not been hedged against as, overall, there is no risk to the ultimate group.

Financial risk management - funding and liquidity risk
A key function of the Group Treasury department is to ensure that the Group has sufficient cost-effective facilities to meet its obligations in the short-term, medium-term and long-term.

Group Treasury monitors the following activities:
- regular cash flow forecasts prepared by the business units and aggregated at Group level
- budget and forecast cash flows
- actual trading results, debt and balance sheet positions
- capital expenditure requests
- forecast facility availability

16 Financial instruments *(continued)*

Financial risk *(continued)*

Special attention is paid to the liquidity of monetary assets. Group policy is to place any cash surpluses on short-term deposits with institutions with good quality credit ratings. Each credit institution is subject to a maximum level and deposits are spread across several institutions to mitigate risk.

IFRS 7 (Financial Instruments: Disclosures) requires the Group to analyse its financial assets and liabilities held at fair value according to the valuation basis applied. Level 1 represents fair values based on quoted prices in active markets; Level 2 represents fair values where the valuation uses inputs from quoted prices in active markets; Level 3 represents fair values where any significant valuation input is not based on observable market data. The Group has no Level 1 or Level 3 financial assets or liabilities. During the year, Level 2 financial assets were held by subsidiary undertakings and Level 2 financial liabilities were held by both subsidiary undertakings and the Group's joint venture undertakings. Derivative financial instruments are determined by discounting the future cash flows using the applicable period end yield curve. There have been no changes in the current year to the Level 2 valuation techniques previously applied.

Amounts recognised in respect of cash flow hedges (before related tax impact) were as follows:

	2019 **£'000**	2018 £'000
Profits (losses) included in the income statement:		
- in respect of gains arising from the de-recognition of liabilities and included in profit on disposal of joint venture investments	**-**	5,927
- in respect of gains arising from the de-recognition of liabilities and included in impairment of assets	**-**	10,062
- in respect of losses recycled to the income statement from reserves and included in the profit and loss on disposal of joint venture investments	**-**	(5,927)
- in respect of losses recycled to the income statement from reserves and included in impairment of assets	**-**	(10,062)
(Losses) gains included in the SOCI:		
- in respect of derivatives transferred from equity	**(797)**	1,809
- in respect of share of joint ventures change in fair value of derivatives	**(480)**	6,344
- in respect of losses recycled to the income statement from reserves	**7,581**	15,989

Profits (losses) included in the income statement relate to the Group's share of the ineffective portion of cash flow hedges held by the Group and joint ventures. The profit on disposal of joint venture investments and impairment of assets relate to the gain arising on part disposal or de-recognition, offset by fair value losses recycled to the income statement of losses previously charged to Other Comprehensive Income. Gains (losses) included in the SOCI relate to changes in the fair value of the effective portion of derivatives held by the Group and joint ventures that are designated and qualify as cash flow hedges, and also in respect of fair value losses recycled to the income statement.

As a condition of lending, the PFI/PPP subsidiaries and joint ventures are required to take out interest rate hedges to fix the interest rate to hedge effectively against the planned schedule of future interest and principal debt repayments. The hedge remains wholly effective whilst the plan of payments is adhered to. The last of these hedges expires in 2034 for subsidiaries and 2039 for joint ventures.

The maturity of the notional monetary amounts of interest rate hedges held by subsidiary undertakings and joint venture investments is as follows:

	Subsidiaries **2019** **£'000**	**Joint ventures** **2019** **£'000**	**Total** **2019** **£'000**	Subsidiaries 2018 £'000	Joint ventures 2018 £'000	Total 2018 £'000
Within 1 year	**-**	**117**	**117**	2,081	-	2,081
From 1 to 2 years	**-**	**121**	**121**	-	359	359
From 3 to 5 years	**-**	**-**	**-**	-	121	121
From 6 to 10 years	**-**	**730**	**730**	-	828	828
From 11 to 15 years	**49,150**	**3,161**	**52,311**	-	3,039	3,039
Over 15 years	**-**	**17,208**	**17,208**	49,830	18,204	68,034
Total	**49,150**	**21,337**	**70,487**	51,911	22,551	74,462

All Group financial assets, except for derivatives, are classified as loans and receivables and all financial liabilities, with the exception of derivatives, are classified as other financial liabilities measured at amortised cost. Of the maturity amounts shown above, only that held by subsidiaries is classed as part of liabilities held for sale at 31 December 2019.

16 Financial instruments *(continued)*

Interest and exchange rate risks

The Group has used a sensitivity analysis technique that measures the estimated change in fair value of the Group's financial instruments to both the income statement and equity of an instantaneous increase or decrease of 0.5% in interest rates. This exercise has been performed purely for illustrative purposes as, in practice, these changes rarely occur in isolation. In preparing this analysis, it has been assumed that changes in interest rates affect the interest payable or receivable on floating rate financial instruments.

Change in market interest rates	Decrease of 0.5% £'000	Increase of 0.5% £'000
Impact on income statement and equity from:		
- bank loans with recourse	**259**	**(259)**
- net payables with Ferrovial, S.A.	**343**	**(343)**
	602	**(602)**

The amounts generated from the sensitivity analysis are estimates of the impact of interest rate risk assuming that the specified changes occur. Clearly, developments in global markets may cause the actual changes to differ significantly from the changes specified above. Therefore, this analysis should not be considered a projection of likely future events and losses. The sensitivities above exclude any potential impact on the Group's retirement benefit obligations.

The Group is exposed to exchange rate risk in respect of a Euro denominated non-current receivable of £18.9 million due from Ferrovial Servicios, S.A., offset by the impact of cumulative Spanish tax receipts denominated in Euros on allowable goodwill of £47.8 million forming part of the deferred tax provision for accelerated tax relief on goodwill.

Capital structure

The Group manages its external borrowings, Ferrovial, S.A. group loans and equity as capital. The Group's principal objective is to ensure that the Group has sufficient capital to fund its operations. In developing business plans, management consider the likely capital requirements and how to fund these requirements. Additional capital is funded by using the least-cost source at the time of fund-raising. The Group is not subject to any externally-imposed capital requirements. At the year end, the Group's capital was as follows:

	2019 £'000	2018 £'000
Bank loans with recourse (note 23)	**64,000**	-
Finance lease liabilities (note 23)	**52,060**	7,206
PFI/PPP Non-recourse term loans (note 23)	**-**	49,978
Non-controlling interest shareholder loan (note 23)	**100**	100
Current Ferrovial, S.A. group loans (note 22)	**253,661**	80,000
Non-current Ferrovial, S.A. group loans (note 22)	**-**	319,107
Total external borrowings and Ferrovial, S.A. group loans	**369,821**	456,391
Total equity	**(55,046)**	(32,824)
	314,775	423,567

Non-adjusting post balance sheet event – issue of Other equity instrument: on 26 February 2020, Landmille Limited converted £169.0 million of its the non-current Ferrovial Group loans to Amey plc into equity. Landmille Limited is a fellow Ferrovial, S.A. group company. See note 37 for more information.

17 Financial assets and financial liabilities

The following financial assets and financial liabilities are held at amortised cost with the exception of derivative financial instruments which are measured at fair value with changes in fair value reflected in other comprehensive income:

	2019 **£'000**	2018 £'000
Financial assets:		
Loan advances to joint ventures	**20,024**	31,365
PFI/PPP financial assets	**-**	74,361
Trade receivables	**45,650**	115,524
Amounts recoverable on contracts	**229,692**	301,958
Amounts due from joint ventures	**6,738**	7,435
Amounts due from Ferrovial S.A. group undertakings	**42,376**	28,637
Derivative financial instruments	**-**	121
Cash and cash equivalents	**86,322**	164,330
	430,802	723,731
Financial liabilities:		
Trade payables	**105,158**	211,672
Payments received on account	**2,811**	4,010
Amounts due to Landmille Limited	**177,527**	369,031
Amounts due to Ferrofin, SL	**76,134**	-
Amounts due to Ferrovial S.A. group undertakings	**35,198**	31,595
Amounts due to joint ventures	**13**	13
External borrowings	**116,160**	57,284
Derivative financial instruments	**-**	16,965
	513,001	690,570

Further consideration on credit risk arising on financial assets is detailed in note 16.

18 Assets and liabilities held for sale

With effect from 31 December 2019 it has been decided to reclassify all assets, liabilities and results linked to the Environmental Services' Treatment and Collections divisions, and also those for the Utilities division, as discontinued operations and as assets held for sale in the income statement and balance sheet respectively given the criteria detailed in note 1 have been met. Each of these divisions represents a separate major line of business. A strategic review of the Group has been undertaken by the Directors and concluded with the decision to divest these business lines as part of a single co-ordinated plan. Accordingly, the terms established in IFRS 5 (Non-current assets and discontinued operations) have been met.

Given the assets also meet the criteria as being classified as held for sale they are valued at the lower of their book value and their fair value less cost of sale. The Group has measured the fair value of the business divisions put on sale and an impairment charge of £158.9 million has been recorded in 2019 in relation to the assets and liabilities of those business divisions (see note 2).

Towards the end of 2019 Amey received informal approaches about the possibility of acquiring its Utilities business and its Environmental Services business. The Directors discussed the approaches with Ferrovial, S.A. and the decision was taken to sell those two businesses. Financial advisers were appointed for both sale processes in November 2019 and negotiations continued with two possible buyers with completion envisaged at the end of March 2020.

Both buyers communicated their offers to Amey in December 2019. These offers were at the low range of the expected market value however it was increasingly clear that there was a wider universe of credible parties who were interested in both transactions. The Board therefore took the decision that value would be maximised if the timetable was extended to cater for a competitive M&A approach with eventual completion expected at the latest at the end of June 2020. The Board also concluded that enhanced value would be gained by splitting the sale of the Environmental Service business into separate sales namely the Waste Treatment and Collections businesses.

Late January 2020, the Amey Executive Committee became aware ongoing issues in the Utilities business would take longer to close than originally expected but it was concluded that sale would continue with some legacy contracts excluded from the sale perimeter.

All sale processes continued until the lockdown due to COVID-19 when it was agreed with our advisors that the process would pause until the implications of COVID-19 were more fully understood. The process was restarted at the beginning of June 2020 once it became clear that all the potential acquirers had confirmed their willingness to buy the assets during 2020.

The transactions will be subject to certain consents required by customers (especially for the sale of our waste treatment assets). Based on legal advice received, we assess that these are usual and customary and should be routinely achievable once any acquirer is known.

18 Assets and liabilities held for sale *(continued)*

Measurement of assets and recognition of impairment provision

The reclassification involves valuing the assets from now onwards at the lower of their carrying amount and fair value (estimated sale price) less costs to sell. This is a different approach to that followed to date, in which the basis to follow was the lower of the carrying amount or the usage value amount, which includes an estimated value that will be gained from using the asset, and which could differ from its estimated selling price. The fair value estimation of the group of assets held for sale has resulted in an asset impairment loss of £158.9 million, which has negatively affected the income statement for the year. The fair value of the business is affected by the current market context in the UK, including macroeconomic uncertainties, regulatory restraints and reduced public spending in the markets served by those divisions. The fair value of the Collections disposal group is below the value in use with all related non-current assets fully impaired. Under our accounting policy choice in Note 1, to the extent that the write-down exceeds the carrying amount of scoped-in non-current assets, that excess has not been recognised at all. The fair value of (£36 million) would mean an excess of £10 million for the Collections Disposal Group has not been recognised.

For the purposes of this impairment loss, the fair value of the Utilities division has been estimated based on multiples of the EBITDA anticipated for 2020. The Group has appointed a professional advisor who has supported this process and has given an indicative range based on listed company and relevant transaction data comparable in the infrastructure sector. This value has also been adjusted by the net debt and other adjustments which could be considered to give rise to an adjustment to debt.

For Waste Treatment and Collections, the methodology applied used discounted cash flows approved by management, after applying the WACC advised by the professional advisor appointed by the Group to support this process.

Impact on financial statements

The reclassification of the divestment businesses to discontinued operations has the following impact on these financial statements:

- the result after tax generated by the businesses is not reported in each line of the income statement, instead it is reported in one line 'net result after tax from discontinued operations' both for 2019 and 2018. The impairment loss noted above is included as part of this line. Note 2 includes the disclosures required in connection with net result after tax from discontinued operations, including a breakdown of the main reporting lines;
- for cash flow statement purposes, the portion of cash flows from operating, investing and financing activities related to the discontinued operations are included in the total amount reported;
- for the purposes of the balance sheet, all assets and liabilities attributable to the divestment businesses have been reclassified as 'assets and liabilities held for sale'. This reclassification was made from 31 December 2019 and, in accordance with IFRS 5, does not require the restatement of the comparative balance sheet for 2018.

18 Assets and liabilities held for sale *(continued)*

Impact on financial statements *(continued)*

The following table details the statement of financial position before and after reclassification as at 31 December 2019, including the different types of assets and liabilities that have been reclassified as discontinued operations.

	Previous balance sheet £'000	Reclassification and impairment adjustment £'000	Balance sheet with discontinued operations £'000
Non-current assets			
Goodwill on acquisition of subsidiary undertakings	421,490	(116,171)	305,319
Other intangible assets	90,973	(66,318)	24,655
Property, plant and equipment	120,218	(62,330)	57,888
Investments in joint ventures	40,840	(4,454)	36,386
Deferred tax assets	56,429	(13,121)	43,308
PFI/PPP Financial assets	69,185	(69,185)	-
Trade and other receivables	36,295	(10,252)	26,043
	835,430	(341,831)	493,599
Current assets			
Assets classified as held for sale and from discontinued operations	-	330,259	330,259
Inventories	19,207	(13,136)	6,071
PFI/PPP Financial assets	2,698	(2,698)	-
Trade and other receivables	427,157	(102,445)	324,712
Current tax assets	12,934	-	12,934
Cash and cash equivalents	106,811	(20,489)	86,322
	568,807	191,491	760,298
Total assets	1,404,237	(150,340)	1,253,897
Current liabilities			
Liabilities classified as held for sale and from discontinued operations	-	(350,976)	(350,976)
Trade and other payables	(645,440)	171,533	(473,907)
Ferrovial, S.A. group loans	(253,661)	-	(253,661)
Provisions for other liabilities and charges	(41,714)	15,515	(26,199)
External borrowings	(22,762)	8,803	(13,959)
	(963,577)	(155,125)	(1,118,702)
Non-current liabilities			
Trade and other payables	(5,172)	-	(5,172)
Ferrovial, S.A. group loans	(33,637)	33,637	-
Derivative financial instruments	(17,641)	17,641	-
Deferred tax liabilities	(38,941)	26,963	(11,978)
Retirement benefit obligations	(11,788)	-	(11,788)
Provisions for other liabilities and charges	(66,567)	7,465	(59,102)
External borrowings	(169,323)	67,122	(102,201)
	(343,069)	152,828	(190,241)
Total liabilities	(1,306,646)	(2,297)	(1,308,943)
Net assets	97,591	(152,637)	(55,046)
Capital and reserves			
Equity attributable to equity holders of the Company	121,039	(139,528)	(18,489)
Non-controlling interests	(23,448)	(13,109)	(36,557)
Total equity	97,591	(152,637)	(55,046)

In each of the notes to the financial statements relating to balance sheet items, the change caused by the reclassification made at 31 December 2019 are broken down to the line 'Reclassed as asset or liability held for sale'.

18 Assets and liabilities held for sale *(continued)*

The impairment adjustments made were reductions in respect of goodwill of £92.0 million, other intangible assets of £42.0 million, property, plant and equipment of £1.3 million and non-current trade and other receivables of £24.5 million. There was a consequential reduction to the deferred tax provision of £7.1 million arising in respect of the other intangible assets that originally arose on consolidation. In addition to the items above, the cumulative expense recognised in other comprehensive income relating to derivative financial instruments included in liabilities held for sale of £6.3 million (net of tax) has also been recycled to loss on discontinued activities for the year following the classification of the derivative as asset/liability held for sale.

Included in assets classified as held for sale and from discontinued operations is £20.5 million of cash and cash equivalents where the Group has restricted control. Cash and cash equivalents where the Group has no restriction on control have not been included in assets classified as held for sale.

Post balance sheet event – COVID-19 pandemic

For the Environmental Services Treatment business, prices of trade waste and commodities were lower since the pandemic started and are expected to remain depressed for the rest of the year. The pandemic has also resulted in delays to commissioning of treatment plants resulting in additional losses of £2 million to £4 million depending on when pandemic restrictions are lifted. The financial impact on the impairment of related assets would be approximately £1.0 million to £1.5 million.

For the Utilities business, a sensitivity of minus 10% has been applied to the earnings multiple. This would result in an additional impairment of £3.5 million arising from the pandemic.

Delays caused initial by weather conditions in 2020 and then by the pandemic have prevented the completion of works on a significant contract under which a settlement deed with a Utilities customer had committed works would be completed in March 2020 (with provision for the associated costs recognised accordingly). As a result, in 2020, a decision has been made to move this contract outside the perimeter of the disposal. The total additional costs of completing the contract in 2020 are now anticipated to be a further £8 million. This additional cost has not been recognised in the balance sheet as it is deemed to arise from a non-adjusting event caused by the delays associated with the pandemic.

In addition, a significant contract with one of our metering customers has been terminated by mutual agreement due to the inability to access customer homes during the pandemic. The exit costs are not deemed to be material. A 2020 decision has been taken to exclude the metering business from the perimeter of the disposal consequently.

The fair value of the Utilities business includes both this contract and the metering business as these were within the division held for sale at the balance sheet date and the decision to move these outside the perimeter represents a non-adjusting post balance sheet event.

The Environmental Services Collections business has not been impacted by the pandemic with no consequential impairment arising.

Given the COVID-19 pandemic occurred after the Balance sheet date in the UK, these valuation changes are a non-adjusting post balance sheet event and have not been reflected in the valuations at 31 December 2019.

The Directors remain committed to a sale and will market the assets at a price consistent with the market environment.

19 Trade and other receivables

	2019 £'000	2018 £'000
Current		
Trade receivables	**45,650**	115,524
Amounts recoverable on contracts	**222,549**	288,110
Amounts due from joint ventures (note 35)	**6,738**	7,435
Amounts due from Ferrovial, S.A. subsidiary undertakings (note 35)	**23,476**	12,098
Other debtors	**9,951**	26,429
Prepayments and accrued income	**16,348**	41,660
	324,712	491,256
Non-current		
Amounts recoverable on contracts	**7,143**	13,848
Amounts due from Ferrovial Servicios, S.A. subsidiary undertakings (note 35)	**18,900**	16,539
	26,043	30,387

In addition to the amounts shown above, the Group has a non-current other debtor of £35.4 million due from the Group's former joint venture, Birmingham Highways Holdings Limited (BHHL). This debtor is fully provided for in these financial statements. This debtor represents both the original loan advance and accrued interest receivable (which continues to accrue). Previously these amounts were included as part of loan advances and amounts due from joint ventures, but following disposal of BHHL in 2019, are now classed within non-current other debtors, albeit fully impaired.

There was no difference between the book value of the amounts due from Ferrovial, S.A. subsidiary undertakings and their equivalent fair values for 2019 and 2018. Fair value has been based on carrying amount.

As required by the disclosure requirements of IFRS 15, the amounts of current and non-current amounts recoverable on contracts at 31 December 2017 were £211.3 million and £22.5 million respectively. The Group operates a large number of contracts where the payment terms and conditions vary between those contracts. There will also be contracts starting and completing in any financial year. Significant changes in amounts recoverable on contracts arise in the reporting period, but no single contract is individually significant enough to explain year on year changes in the balance sheet amounts reported.

A provision for expected credit losses was included within trade receivables as follows:

	2019 £'000	2018 £'000
At 1 January	**9,110**	7,093
Impact of adoption of IFRS 9	**-**	122
Utilised	**(872)**	(978)
Charged to income statement	**3,133**	2,873
Reclassed as assets held for sale (see notes 1(b) and 18)	**(3,547)**	-
At 31 December	**7,824**	9,110

The ageing of trade receivables that are past due but not impaired was as follows:

	2019 £'000	2018 £'000
Not past due	**34,573**	73,094
Up to 2 months past due	**4,813**	27,453
More than 2 months past due	**6,264**	14,977
	45,650	115,524

20 Inventories

	2019 **£'000**	2018 £'000
Raw materials and consumable stocks	**6,067**	11,035
Bid and mobilisation costs	**4**	10,879
	6,071	21,914

21 Cash and cash equivalents

	2019 **%**	**2019** **£'000**	2018 %	2018 £'000
Cash balances held at floating rate	**0.1**	**86,322**	0.1	164,330

Included within cash balances is £28.1 million (2018: £45.9 million) relating to jointly controlled and other operations in which the Group has restricted control. These balances may only be utilised by the Group with the consent of the partners to those operations that are jointly controlled, or with agreement of any non-controlling interest shareholder under the terms of a shareholder agreement or, in the case of a special purpose company, with the consent of the holders of any non-recourse debt held by those companies. Individual bank balances and overdrafts have been offset where cash pooling and set-off arrangements are in place.

Of the cash balances held above, £72,767,000 (2018: £152,065,000) is held in the UK, £27,000 (2018: £23,000) is held in Spain and £13,528,000 (2018: £12,241,000) is held elsewhere overseas.

22 Trade and other payables

	2019 **£'000**	2018 £'000
Current		
Trade payables	**105,158**	211,672
Payments received on account	**2,811**	4,010
Amounts due to Landmille Limited (note 35)	**177,527**	80,000
Amounts due to Ferrofin, SL (note 35)	**76,134**	-
Amounts due to Ferrovial Servicios, S.A. subsidiary undertakings (note 35)	**35,198**	1,519
Amounts due to joint ventures (note 35)	**13**	13
Other creditors	**49,945**	63,970
Deferred income	**39,797**	71,303
Accruals	**240,985**	340,864
	727,568	773,351
As presented on the balance sheet:		
Trade and other payables	**473,907**	693,351
Ferrovial, S.A. group loans (note 35)	**253,661**	80,000
	727,568	773,351
Non-current		
Amounts due to Landmille Limited (note 35)		
- in more than 1 year but not more than 2 years	**-**	289,031
Amounts due to other Ferrovial, S.A. subsidiary undertakings (note 35)		
- in more than 1 year but not more than 2 years	**-**	30,076
Other creditors		
- in more than 1 year but not more than 2 years	**-**	825
Deferred income		
- in more than 1 year but not more than 2 years	**211**	4,036
- in more than 2 years but not more than 5 years	**4,288**	864
- in more than 5 years	**673**	-
	5,172	324,832
As presented on the balance sheet:		
Trade and other payables	**5,172**	5,725
Ferrovial, S.A. group loans (note 35)	**-**	319,107
	5,172	324,832

Included within the Group's trade creditors balance is £27.2 million (2018: £63.6 million) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. The Group settles these amounts in accordance with each supplier's agreed payment terms.

22 Trade and other payables *(continued)*

As required by the disclosure requirements of IFRS 15, the amounts of current and non-current deferred income at 31 December 2017 were £4.0 million and £nil respectively.

The amounts shown above due to Landmille Limited, Ferrofin, SL and to other Ferrovial, S.A. group undertakings were subordinated in favour of any amounts due to the Group's banks under the five five-year bilateral facility agreements in place and which have recourse to the Group balance sheet.

On 8 July 2019, £200.0 million of the amounts due to Landmille Limited were converted to Other equity instruments (see note 27). The proceeds of this loan were used to reduce the existing loans of £369.0 million from Landmille Limited. The remaining loans of £169.0 million were consolidated into a new sterling revolver facility from Landmille Limited which bore interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. The sterling revolver facility was available until 31 July 2020.

On 29 June 2019, the Group received a new intercompany loan of £75.0 million from Ferrofin, SL which was received in cash. This loans bears interest at 1-month LIBOR plus 227 basis points which can be rolled up into the principal and was due to repaid by 31 July 2020.

Post balance sheet event (see note 37)

On 26 February 2020, £169.0 million of the amounts due to Landmille Limited were converted into Other equity instrument (see note 27). The remaining balance of £8.5 million on the sterling revolver facility continue to be held on the same terms. The sterling revolver facility was available until 31 July 2020. Existing loans due from Landmille Limited and Ferrofin, SL have also been confirmed as not due within one year since the balance sheet date or the date of signing of these financial statements. Landmille Limited and Ferrofin, SL are fellow Ferrovial, S.A. group companies. See note 37 for more information.

23 External borrowings

	Current 2019 £'000	**Non-current 2019 £'000**	Current 2018 £'000	Non-current 2018 £'000
Bank loans with recourse	**-**	**64,000**	-	-
Finance lease liabilities	**13,959**	**38,101**	2,078	5,128
PFI/PPP Non-recourse term loans	**-**	**-**	827	49,151
Non-controlling interest shareholder loan	**-**	**100**	-	100
	13,959	**102,201**	2,905	54,379

	Expiry date	**Interest rate**	**2019 £'000**	2018 £'000
Bank loans with recourse	2021	Floating	**32,000**	-
	2022	Floating	**32,000**	-
PFI/PPP Non-recourse term loans	2034	Fixed	**-**	49,978
Non-controlling interest shareholder loan	2020	Floating	**100**	100
			64,100	50,078

At 31 December 2019, the Group has drawn down floating rate bank loans under its bilateral facility agreements with recourse to the balance sheet of £64.0 million (2018: £nil) with £32.0 million maturing in July 2021 and £32.0 million maturing in July 2022. The Group also has additional undrawn floating rate bilateral facility agreements with recourse to the balance sheet totalling £96.0 million which mature in July 2022, with a further facility of £12 million being held by a subsidiary undertaking.

23 External borrowings *(continued)*

External borrowing facilities mature as follows:

	Bank loans with recourse 2019 £'000	Finance lease liabilities 2019 £'000	PFI/PPP Non-recourse term loans 2019 £'000	Non-controlling interest shareholder loan 2019 £'000	Total 2019 £'000
Due within 1 year	**-**	**13,959**	**-**	**-**	**13,959**
Due within 1 to 2 years	**32,000**	**11,317**	**-**	**-**	**43,317**
Due within 2 to 5 years	**32,000**	**19,533**	**-**	**100**	**51,633**
Due after more than 5 years	**-**	**7,251**	**-**	**-**	**7,251**
	64,000	**52,060**	**-**	**100**	**116,160**

	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Due within 1 year	-	2,078	827	-	2,905
Due within 1 to 2 years	-	2,272	619	-	2,891
Due within 2 to 5 years	-	2,649	5,727	100	8,476
Due after more than 5 years	-	207	42,805	-	43,012
	-	7,206	49,978	100	57,284

PFI/PPP Non-recourse term loans have been secured on the assets of AmeyCespa WM (East) Limited and these are now classed within assets held for sale following the strategic review of the Group by the Directors and the decision to divest the Environmental Services' Treatment business area (see note 1(b)).

The weighted average interest rate for bank loans with recourse was 1.1% (2018: nil) and for PFI/PPP Non-recourse term loans was 1.8% (2018: 1.8%). The interest rate on the finance lease liabilities are fixed at a weighted average rate of 4.0% (2018: 3.1%). The interest rate on the non-controlling interest shareholder loan is fixed at three-month LIBOR plus margin of 3.0%. (2018: 3.0%).

There was no difference between the external borrowings shown above and their equivalent fair values for 2019 and 2018. Fair value has been based on carrying amount.

Liquidity risk

Liquidity risk is defined as the risk that the Group would not be able to settle or meet its obligations on time or at a reasonable price. Group Treasury is responsible for liquidity, funding and settlement management. In addition, liquidity and funding risks, as well as related processes and policies, are overseen by management. The Group manages its liquidity risk on a Group basis based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility. In accordance with IFRS 7, the table below contains both the repayment of principal and associated interest payments.

	Bank loans with recourse 2019 £'000	Finance lease liabilities 2019 £'000	PFI/PPP Non-recourse term loans 2019 £'000	Non-controlling interest shareholder loan 2019 £'000	Total 2019 £'000
Due within 1 year	**-**	**14,352**	**-**	**4**	**14,356**
Due within 1 to 2 years	**32,030**	**12,093**	**-**	**4**	**44,127**
Due within 2 to 5 years	**32,030**	**22,345**	**-**	**12**	**54,387**
Due after more than 5 years	**-**	**9,582**	**-**	**135**	**9,717**
Total	**64,060**	**58,372**	**-**	**155**	**122,587**
Less: impact of future finance costs	**(60)**	**(6,312)**	**-**	**(55)**	**(6,427)**
As reported on the balance sheet	**64,000**	**52,060**	**-**	**100**	**116,160**

	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Due within 1 year	-	2,263	1,736	4	4,003
Due within 1 to 2 years	-	2,386	1,517	4	3,907
Due within 2 to 5 years	-	2,752	8,438	12	11,202
Due after more than 5 years	-	210	48,217	139	48,566
Total	-	7,611	59,908	159	67,678
Less: impact of future finance costs	-	(405)	(9,930)	(59)	(10,394)
As reported on the balance sheet	-	7,206	49,978	100	57,284

23 External borrowings *(continued)*

Bank loans with recourse are drawn down periodically in accordance with business requirements under facilities that are due to expire in 2021 and 2022.

Finance leases relate to many small agreements throughout the Group, none of which are deemed significant enough for separate disclosure.

24 Retirement benefit schemes

The Group operates a number of pension schemes for the benefit of employees and Directors. Trustees or product providers administer the assets of the funded schemes in funds independent from those of the Group. Pension costs in respect of schemes offering defined benefits are assessed in accordance with the advice of independent, qualified actuaries. External professional pension administrators normally conduct the administration of these schemes. In addition, the Group provides unfunded unapproved retirement benefits to a small number of former employees.

Defined contribution schemes

The principal defined contribution schemes are as follows:

- *Amey Group Flexible Retirement Plan*, offered to new employees at Amey and for current employees previously in various legacy defined contribution schemes which have now closed
- *The People's Pension,* a workplace pension utilised as Amey's primary automatic enrolment solution

The pension expense recognised in the income statement in respect of defined contribution schemes was £29.2 million (2018: £19.3 million).

Defined benefit schemes

The Group sponsors a number of defined benefit pension schemes, offering benefits based on an employee's final salary. The assets for these schemes are held in separate, trustee administered funds. The principal defined benefit schemes are as follows:

- *Amey OS Pension Scheme*
  - *APS section* - previously offered to eligible staff that had not been transferred into the Group via acquisition or outsourcing. However, this scheme does include staff that transferred out of the Ministry of Defence at the time the Comax business separated from the Defence Evaluation and Research Agency. This scheme is closed to new entrants and future accrual ceased for existing members with effect from 5 April 2012
  - *Amey section* - offered historically to former public sector employees who transferred into the Group under a variety of public sector outsourcing contracts. This is now essentially closed to new members
  - *Accord section* - provided historically for those eligible employees who worked principally within Accord Limited, a subsidiary of Enterprise acquired in 2013. This is now essentially closed to new members
- *Railways Pension Scheme*, provides for those eligible employees who are working within Amey Rail Limited, Amey OWR Limited or elsewhere in the Group. Amey has two shared-cost sections; the Amey Rail Section and Owen Williams Section. The Group accounts for its share of the separately identified assets and liabilities of these Sections
- *Citrus Pension Scheme,* this scheme is now closed to new entrants and future accrual ceased for existing members with effect from 31 October 2016. The Group accounts for its share of the separately identified assets and liabilities of this scheme
- *West Yorkshire Pension Fund,* the Group has a liability to this scheme for former eligible Wakefield Council employees who transferred into the Group under TUPE transfer arrangements
- *West Midlands Pension Fund,* the Group has a liability to this scheme for former eligible Walsall Council employees who transferred into the Group under TUPE transfer arrangements

For schemes that are closed to new entrants, the current service costs as a percentage of pay are expected to rise significantly as members approach retirement.

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2019 on a basis consistent with the requirements of IAS 19. In particular, scheme liabilities have been discounted using the rate of return on high quality bonds rather than the expected rate of return on the assets used in the scheme funding valuations. The latest scheme funding valuations were carried out on the dates indicated below.

	Date of latest valuation
Amey OS Pension Scheme – all sections	30 September 2017
Railways Pension Scheme	31 December 2016
Citrus Pension Scheme	31 March 2018
West Yorkshire Pension Fund	31 March 2019
West Midlands Pension Fund	31 March 2019

24 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

The principal actuarial assumptions used are as follows:

	2019 **%**	2018 %
Rate of increase in salaries	**1.85 – 3.35**	1.90 – 3.55
Rate of increase in pensions in payment	**1.60 – 3.65**	2.25 – 5.00
Discount rate	**2.05**	2.85
Inflation assumption – RPI	**3.05**	3.25
Inflation assumption – CPI	**2.05**	2.25

The mortality assumptions have been updated in the year and life expectancies are as follows:

	2019 **Years**	2018 Years
Remaining life of members aged 65		
- men	**19.7 – 23.5**	21.6 – 23.4
- women	**23.3 – 26.2**	22.9 – 26.1
Remaining life of members aged 45		
- men	**21.1 – 26.3**	23.0 – 26.2
- women	**24.8 – 28.6**	24.5 – 28.5

The duration of a scheme is an indicator of the weighted-average time until benefit payment will be made. For the schemes in aggregate, the duration is around 18.0 years reflecting the appropriate split of the defined benefit obligation between current employees, deferred members and pensioners.

The amount recognised in the balance sheet was as follows:

	2019 **£'000**	2018 £'000
Present value of funded obligations	**(939,737)**	(853,691)
Fair value of plan assets	**928,434**	840,638
Deficit	**(11,303)**	(13,053)
Present value of unfunded obligations	**(485)**	(459)
Liability on the balance sheet	**(11,788)**	(13,512)

Any surpluses in the schemes have been recognised on the basis that the Group has determined that it has a right to a refund of a surplus from all schemes under IFRIC 14.

The amount recognised in the income statement was as follows:

	2019 **£'000**	2018 £'000
Current service cost (note 6)	**3,581**	3,938
Past service charge (note 6)	**-**	3,173
Total included under staff costs	**3,581**	7,111
Pension scheme administration costs	**962**	1,320
Finance expense (note 8)	**134**	1,204
Total income statement charge	**4,677**	9,635

In 2018, the Group recorded a past service charge of £3.2 million following a High Court ruling relating to the equalisation of Guaranteed Minimum Pension (GMP) benefits.

24 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

Pension expense, excluding interest, is charged to contracts or overhead based on a share of scheme members and is included in cost of sales: net operating expenses. The best estimate of the contributions expected to be paid to the defined benefit schemes for the next financial year is £3.0 million for regular payments and £15.8 million for additional top-up payments.

The amount recognised in other comprehensive income was as follows:

	2019 £'000	2018 £'000
Actuarial losses (gains)	**12,402**	(35,464)
Total expense (income) recognised in the SOCI	**12,402**	(35,464)

Actuarial gains and losses have been reported in the SOCI. The Group's share of the actual performance of fund assets was a increase of £97.6 million (2018: £11.5 million decrease).

The movements in the balance sheet liability were as follows:

	2019 £'000	2018 £'000
At 1 January	**13,512**	56,450
Total income statement charge	**4,677**	9,635
Total expense (income) recognised in the SOCI	**12,402**	(35,464)
Employer contributions – regular payments	**(2,935)**	(2,971)
Employer contributions – additional top-up payments	**(15,868)**	(14,138)
At 31 December	**11,788**	13,512

The movements in the present value of fund obligations were as follows:

	2019 £'000	2018 £'000
At 1 January	**854,150**	921,737
Service cost, including employees' share	**3,704**	7,258
Interest cost	**23,948**	22,203
Actuarial losses (gains)	**86,228**	(68,005)
Benefits paid	**(27,808)**	(29,043)
At 31 December	**940,222**	854,150

The movements in the fair value of fund assets were as follows:

	2019 £'000	2018 £'000
At 1 January	**840,638**	865,287
Interest on assets	**23,814**	20,999
Actuarial gains (losses)	**73,826**	(32,541)
Administration expenses	**(962)**	(1,320)
Contributions from employees	**123**	147
Employer contributions – regular payments	**2,935**	2,971
Employer contributions – additional top-up payments	**15,868**	14,138
Benefits paid	**(27,808)**	(29,043)
At 31 December	**928,434**	840,638

24 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

The fair values of the assets held by the various schemes were as follows:

	2019 £'000	2018 £'000
Equities	**254,426**	192,090
Corporate bonds	**144,324**	123,649
Government bonds	**416,046**	444,680
Property	**50,564**	45,355
Cash and cash equivalents	**63,074**	34,864
	928,434	840,638

The sensitivity of the balance sheet position to changes in the key assumptions based on a reasonable approximation of possible changes is set out below:

Assumption	**Increase in liability on the balance sheet £'000**
+0.5% change to the RPI assumption	**62,300**
-0.5% change to discount rate assumed	**80,500**
Members' life expectancy increases by one year	**32,800**

The key risks impacting the Group's pension schemes are set out below:

Investment Risk: The Schemes' accounting liabilities are calculated using a discount rate set with reference to the yield available on high-quality corporate bonds as required by the standard. If the Schemes' assets underperform this yield, this will cause a deficit to emerge in the Schemes over time. The Schemes hold growth assets, such as equities, property and hedge funds. These asset classes are expected to outperform corporate bonds over the long-term but are more volatile and generate risk for the Schemes in the short-term. However, the Schemes hold a diversified portfolio of assets to minimise this risk. The Schemes also hold insurance policies in respect of some pensioner members for the sections of the Amey OS Pension Scheme. These policies broadly match the benefits provided by the Schemes in respect of the covered members, and therefore act to reduce investment risk. The Group has ensured that a robust investment management framework is in place to mitigate as much as possible the risks associated with the investment strategy.

Changes in bond yields: A decrease in corporate bond yields will increase the value placed on the Schemes' liabilities. This will be partially offset by an increase in the value of the Schemes' holdings in Liability-Driven Investments (LDI), gilts, corporate bonds and insurance policies, which the Schemes hold in order to match some of the movement in their liabilities. However, some of the assets held to match movements in liabilities are held to match movements in gilt yields. This will match movement in the accounting liabilities to the extent that the corporate bond yields move alongside gilt yields. As such the Schemes are exposed to movement in the spread between gilt yield and corporate bond yields.

Inflation risk: Many of the Schemes' benefits are linked to inflation so higher expectations of future inflation leads to a higher value being placed on the liabilities. However, there are caps on the level of inflationary increases which protect the Schemes in the extent of extreme inflation. The Schemes each hold assets to match a specified proportion of movements in inflation. The remainder of the assets are unaffected by (i.e. fixed interest bonds) or loosely correlated with (i.e. equities and property) inflation, meaning that an increase in inflation will also increase the deficit. The extent to which the Schemes' liabilities move due to inflation varies on a scheme by scheme basis, influenced by the benefits provided by the individual pension schemes. Liabilities will also increase should actual inflation be higher than expected in the liability valuation. No account has been taken of the UK Government's proposed change in the inflation RPI to CPIH. As at 31 December 2019, this was only a proposal and was not certain.

Life expectancy: The Schemes' obligations are to provide benefits for the life of the member after retirement and their spouse following the member's death. As a result, higher life expectancies will lead to a higher value being placed on the liabilities. This is particularly relevant where the Schemes have significant inflationary increases, as this results in a higher sensitivity to changes in life expectancy. The Group notes that this is a risk to which any defined benefit pension scheme is exposed, and that, alongside the Trustee of the Amey OS Pension Scheme, it has taken steps to mitigate risk through purchasing insurance policies in respect of a portion of the Amey OS Pension Scheme's membership. Holding insurance policies in respect of some pensioner members reduces the sensitivity to changes in life expectancies, but this remains a risk in respect of non-pensioner members of the Schemes whose obligations are more sensitive to increases in future improvements in life expectancies and are not covered by the insurance policies.

24 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

Post balance sheet event – COVID-19 pandemic

The impact of the COVID-19 pandemic has caused a degree of volatility in the Group's net retirement benefit obligation with a temporary beneficial impact during March which has since reverted to pre-pandemic levels and stabilised.

At 31 December 2019, the obligation stood at a funding level of 98.8% with a deficit of £11.8 million. By early March the funding level had dropped to 95.6%, as equity markets started to fall in reaction to the onset of the pandemic. However, as the crisis deepened, the funding level increased to 107.5%, despite stock markets and gilt yields falling. The pension scheme assets are diversified and not heavily invested in equities, whilst some schemes are significantly hedged (90%+) against interest rate and inflation risks (through derivative and insurance products). This protected the assets from the full impact of the downturn. As for obligations, liabilities are measured using AA corporate bond yields which increased significantly due to tightening liquidity and the markedly higher default risk. This reduced the liabilities by a greater amount than the reductions noted on assets. By the end of April, the markets had re-aligned and the funding level reduced to 98.3% and stabilised since that date.

25 Provisions for other liabilities and charges

	Onerous lease provision £'000	Insurance reserve £'000	Contract loss and claims provision £'000	Joint venture loss provision £'000	Landfill site provision £'000	Total £'000
At 1 January 2018	1,733	15,632	309,847	35,720	4,710	367,642
Income statement	1,068	6,263	44,320	(12,106)	174	39,719
Utilisation	-	(5,076)	(84,993)	-	(89)	(90,158)
Share of movements of joint ventures in the SOCI	-	-	-	(866)	-	(866)
Disposals	-	-	-	(12,998)	-	(12,998)
At 31 December 2018	**2,801**	**16,819**	**269,174**	**9,750**	**4,795**	**303,339**
Income statement – cost of sales	**981**	**7,038**	**42**	**(2,192)**	**26**	**5,895**
Income statement – finance costs (discount unwind)	**-**	**-**	**4,757**	**-**	**-**	**4,757**
Utilisation	**(263)**	**(5,994)**	**(197,685)**	**-**	**(1,318)**	**(205,260)**
Share of movements of joint ventures in the SOCI	**-**	**-**	**-**	**(450)**	**-**	**(450)**
Reclassed as assets held for sale (see note 1(b) and 18)	**-**	**-**	**(15,515)**	**(3,962)**	**(3,503)**	**(22,980)**
At 31 December 2019	**3,519**	**17,863**	**60,773**	**3,146**	**-**	**85,301**
As presented on the balance sheet:						
Current liabilities	**738**	**5,445**	**20,016**	**-**	**-**	**26,199**
Non-current liabilities	**2,781**	**12,418**	**40,757**	**3,146**	**-**	**59,102**
At 31 December 2019	**3,519**	**17,863**	**60,773**	**3,146**	**-**	**85,301**
Current liabilities	425	5,752	211,146	-	-	217,323
Non-current liabilities	2,376	11,067	58,028	9,750	4,795	86,016
At 31 December 2018	2,801	16,819	269,174	9,750	4,795	303,339

At 31 December 2019, the Group has reclassed provisions for other liabilities and charges as part of liabilities held for sale following the strategic review of the Group by the Directors and the decision to divest the Utilities and the Environmental Services' Treatment and Collections business areas (see note 1(b)).

The onerous lease provision is in respect of property leases and also includes provision for dilapidations. This is expected to be utilised over and at the end of the remaining lease terms. The insurance reserve represents claims made for which the Group is considered liable and will be utilised as the claims are settled. The contract loss and claims provision represents estimated losses arising from disputes and future contract losses, which will both be utilised as the losses arise. The contract loss provision includes discounted exit settlement payments on the Birmingham City Council Highways PFI Contract of £50.5 million together with an £8.5 million provision for settlement of a contract dispute with a Ferrovial owned Company. Both amounts are fixed based on settlement agreements and expected to be paid in the next 5 years. The joint venture loss provision represents the Group's share of losses recognised which principally arise from deficits on fair value of derivatives and will reverse over the period over which those derivatives are held, which can be for up to a further 20 years. The landfill site provision represents the Group's post-closure cost for site restoration and aftercare for up to sixty years. The timing of future utilisation of provisions can be uncertain, particularly with regard to insurance claims, but there is more certainty with regards to the timing of utilisation on the other categories of provisions.

26 Share capital

Ordinary shares of £1 each	Number	£'000
Authorised		
At 1 January 2018, 31 December 2018 and at 31 December 2019	**204,000,000**	**204,000**
Issued, allotted, called up and fully paid		
At 1 January 2018, 31 December 2018 and at 31 December 2019	**203,676,768**	**203,677**

27 Other equity instruments

	£'000
At 1 January 2018	-
First issue of Other equity instrument	60,000
Accrued dividend for the year	1,198
At 31 December 2018	**61,198**
Second issue of Other equity instrument	**200,000**
Accrued dividend for the year	**1,834**
At 31 December 2019	**263,032**

On 30 April 2018, Ferrofin SL (a Ferrovial, S.A. group company), granted a subordinated loan facility to the Group for an amount of £60.0 million. This Other equity instrument is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points which rises to 12-month LIBOR plus 500 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold.

On 8 July 2019, £200.0 million of the Group's existing subordinated loans from Landmille Limited and held by a subsidiary undertaking, Amey plc, were converted into a second Other equity instrument with Landmille Limited. This loan is a perpetual loan that is initially interest free but bears interest at 12-month LIBOR plus 700 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold.

These loans have no specified maturity date but can be redeemed by the Group at any time. The Group also has the power to delay timing of the interest payment at its sole discretion which cannot be claimed by the lender.

As it is at the Group's discretion to decide both the repayment of the principal and the possibility of deferring the payment of interest, the loans do not satisfy the condition to be accounted for as a financial liability since they do not include a contractual obligation to pay cash or other financial assets to discharge the liability. Accordingly, they are classified as equity instrument and are recognised as 'Other equity instruments'. The accrued interest is recognised in reserves and treated in the same way as dividends.

Post balance sheet event (see note 37)

On 26 February 2020, a further £169.0 million of the Group's remaining subordinated loans from Landmille Limited and held by a subsidiary undertaking, Amey plc, were converted into a third Other equity instrument with Landmille Limited. The terms and conditions of this loan are the same as for the second Other equity instrument.

28 Non-controlling interests

The aggregate share of non-controlling interests in the results and net assets of the Group was as follows:

	AmeyCespa Limited and subsidiary companies 2019 £'000	**Other group companies 2019 £'000**	**Total 2019 £'000**	AmeyCespa Limited and subsidiary companies 2018 £'000	Other group companies 2018 £'000	Total 2018 £'000
Share of revenue	**41,348**	**9,191**	**50,539**	43,301	7,243	50,544
Share of (loss) profit after tax	**(30,970)**	**149**	**(30,821)**	(5,517)	73	(5,444)
Share of other comprehensive (expense) income	**2,866**	**-**	**2,866**	1,098	-	1,098
Share of gross assets	**97,525**	**2,296**	**99,821**	113,139	619	113,758
Share of gross liabilities	**(134,335)**	**(2,043)**	**(136,378)**	(121,845)	(515)	(122,360)
Share of net (liabilities) assets	**(36,810)**	**253**	**(36,557)**	(8,706)	104	(8,602)

The non-controlling interest in AmeyCespa Limited and subsidiary companies is held by a fellow Ferrovial, S.A. group company. Details of all subsidiary companies, and the percentage interest held in those subsidiaries, are shown in note 32.

29 Cash flow generated from operating activities

	Continuing operations 2019 £'000	**Discontinued operations 2019 £'000**	**Total 2019 £'000**	Continuing operations 2018 £'000	Discontinued operations 2018 £'000	Total 2018 £'000
Profit (loss) before tax	**53,516**	**(261,320)**	**(207,804)**	(188,390)	(239,578)	(427,968)
Adjustment for net finance expense						
Finance income	**(5,130)**	**(3,939)**	**(9,069)**	(9,457)	(3,654)	(13,111)
Finance costs	**24,855**	**14,813**	**39,668**	19,605	7,896	27,501
	19,725	**10,874**	**30,599**	10,148	4,242	14,390
Adjustment for non-cash movements						
Depreciation of property, plant and equipment			**27,664**			8,419
Amortisation of intangible assets			**23,943**			30,382
Impairment of assets			**163,783**			359,663
Non-cash pension credit			**(14,260)**			(8,678)
Share of (profit) loss after tax of joint ventures			**(14,006)**			6,157
Loss on disposal of property, plant and equipment			**295**			130
Loss (profit) on disposal of joint venture investments			**33**			(34,286)
Non-cash provisions movement			**8,087**			51,825
			195,539			413,612
Movement in working capital						
Decrease in inventories			**2,707**			11,637
Decrease in receivables			**61,044**			16,463
Decrease in payables			**(48,464)**			(68,452)
Utilisation of provisions			**(205,260)**			(90,158)
			(189,973)			(130,510)
Cash flow absorbed by operating activities			**(171,639)**			(130,476)

30 Changes in financial liabilities arising from financing activities

The following financial liabilities form part of the overall financing of the Group:

	2019 £'000	2018 £'000
Bank loans with recourse	**64,000**	-
Finance lease liabilities	**52,060**	7,206
PFI/PPP Non-recourse term loans	**-**	49,978
Non-controlling interest shareholder loan	**100**	100
Amounts due to Landmille Limited (current)	**177,527**	80,000
Amounts due to Landmille Limited (non-current)	**-**	289,031
Amounts due to Ferrofin, SL (current)	**76,134**	-
Amounts due to Ferrovial, S.A. group undertaking (non-current)	**-**	30,076
Total external borrowings and Ferrovial, S.A. group loans	**396,821**	456,391
Derivative financial instrument liabilities	**-**	16,965
Total finance liabilities forming part of financing	**396,821**	473,356

The changes in financial liabilities arising from financial activities are set out below:

	2019 £'000	2018 £'000
Total financial liabilities forming part of financing at the start of the year	**473,356**	478,321
Cash movements on financial liabilities:		
Advances of bank loans with recourse	**64,000**	-
Repayment of finance leases	**(20,987)**	(2,794)
Repayment of PFI/PPP Non-recourse term loans	**(642)**	(930)
Advance of non-controlling interest shareholder loan	**-**	100
Advance of Ferrofin, SL loan	**75,000**	-
Repayment of Landmille Limited loans	**-**	(581)
	117,371	(4,205)
Non-cash movements on financial liabilities:		
Conversion of Landmille Limited loan to Other equity instrument	**(200,000)**	-
Impact of adoption of IFRS 16 (Leases) – recognition of finance leases	**68,644**	-
Inception of new finance leases	**29,623**	522
Early release from existing finance leases	**(5,837)**	-
Roll up of unpaid interest on amounts due to Ferrovial, S.A. group undertaking	**10,926**	926
Foreign exchange loss (gain) on Landmille Limited loan	**-**	439
Change in fair value of derivative financial instrument liabilities	**676**	(2,647)
Financial liabilities classed as part of liabilities held for sale	**(124,938)**	-
	(220,906)	(760)
Total reduction in financial liabilities arising from financial activities	**(103,535)**	(4,965)
Total financial liabilities forming part of financing at the end of the year	**369,821**	473,356

31 Finance leases – additional disclosures

The changes in financial lease liabilities are set out below:

	2019 £'000	2018 £'000
At 1 January	**7,206**	9,478
Impact of adoption of IFRS 16 (Leases) – recognition of finance leases	**68,644**	-
Inception of new finance leases	**29,623**	522
Interest payable on finance leases	**2,326**	183
Repayment of finance lease principal	**(20,987)**	(2,794)
Payment of finance lease interest	**(2,326)**	(183)
Early release from existing finance leases	**(5,837)**	-
Reclassed as part of liabilities held for sale	**(26,589)**	-
At 31 December	**52,060**	7,206

The Group's leasing activities comprise rentals of property, vehicles and IT infrastructure. Short-term rentals of less than twelve months and low value assets of less than €5,000 are treated as other lease commitments rentals with all long-term and high value assets accounted for as finance leases. All future cash flows arising on leases are considered when measuring finance leases and are based on the contractual terms of the lease agreed. The Group's leasing arrangements do not have any variable payment mechanisms and no residual values have been ascribed to the leases. The Group has not entered into any sale or leaseback type of transaction. As at 31 December 2019, there were no leases not yet commenced to which the Group was committed (2018: none).

The average interest rate applied on finance leases both on adoption of IFRS 16 and during the year was 3.9% for leasehold property and 4.1% for plant and machinery. The Group has taken advantage of the practical expedients available in IFRS 16 to apply a single discount rate to a portfolio of leases and to apply accounting for short-term leases for leases where the lease term ends within twelve months of the date of transition to IFRS 16.

32 Subsidiary undertakings, joint venture undertakings and jointly controlled operations

All subsidiary undertakings are incorporated in England and Wales and operate principally in the UK (unless otherwise indicated). Amey Power Services Limited has a branch in The Republic of Ireland. The Group's voting rights and the interest in their equity shares are 100% (unless otherwise indicated). All interests are held through another subsidiary undertaking with the exception of Amey Holdings Limited, which is held directly by Amey UK plc. All subsidiary undertakings have been consolidated.

Active subsidiary undertaking	Nature of business
Amey Holdings Limited	Holding company
Amey plc	Holding company
Accord Limited	Holding company
Amey (IOW) SPV Limited	Waste management
Amey Community Limited	Building support services
Amey Construction Limited	Highway management and maintenance
Amey Consulting Australia Pty Limited *(Australia)*	Highway management and maintenance *(Australia)*
Amey Consulting USA, Inc. *(USA)*	Highway management and maintenance *(USA)*
Amey Defence Services Limited	Facilities management and buildings maintenance
Amey Defence Services (Housing) Limited	Housing maintenance on behalf of the MOD
Amey Environmental Services Limited	Waste management
Amey Finance Services Limited	Group insurance activities
Amey Fleet Services Limited	Specialist fleet support services
Amey Group Information Services Limited	Group IT services
Amey Group Services Limited	Group central services
Amey Highways Limited	Highway management and maintenance
Amey Investments Limited	Investment holdings
Amey Keolis Infrastructure/Seilwaith Amey Keolis Limited (90%)	Rail services, management and maintenance
Amey LG Limited	Highway management and maintenance
Amey LUL 2 Limited	Sub-surface rail management services
Amey Mechanical and Electrical Services Limited	Building support services
Amey Metering Limited	Metering services
Amey OW Limited	Professional services to highways market
Amey OWR Limited	Professional services to rail market
Amey Power Services Limited	Power network maintenance
Amey Programme Management Limited	Building support services
Amey Public Services LLP (67%)	Highway management and maintenance
Amey Rail Limited	Rail services, management and maintenance
Amey Roads (North Lanarkshire) Limited (67%)	Highway management and maintenance
Amey Services Limited	Payroll services
Amey TPT Limited	Professional services to rail market
Amey Utility Services Limited	Utilities network maintenance
Amey Ventures Limited	Bid management
Amey Ventures Asset Holdings Limited	Investment holdings
Amey Ventures Management Services Limited	Investment management
Amey Wye Valley Limited (80%)	Highways maintenance and other services
AmeyCespa Limited (50%)	Waste management
AmeyCespa (AWRP) ODC Limited (50%)	Waste management
AmeyCespa (East) Limited (50%)	Waste management
AmeyCespa (East) Holdings Limited (50%)	Holding company
AmeyCespa (MK) ODC Limited (50%)	Waste management
AmeyCespa Services (East) Limited (50%)	Waste management
AmeyCespa WM (East) Limited (50%)	Waste management
A.R.M. Services Group Limited	Holding company
Brophy Grounds Maintenance Limited	Environmental services
Byzak Limited	Water systems maintenance
C.F.M. Building Services Limited *(Scotland)*	Buildings maintenance
Enterprise plc	Holding company
Enterprise (AOL) Limited	Environmental services and highways maintenance
Enterprise (Venture Partner) Limited	Investment holdings
Enterprise Holding Company No.1 Limited	Holding company
Enterprise Managed Services Limited	Utilities network maintenance and environmental services
EnterpriseManchester Partnership Limited (80%)	Environmental services
Enterprise Public Services Limited	Holding company
Fleet and Plant Hire Limited	Specialist fleet support services
Globemile Limited	Holding company
Heating and Building Maintenance Company Limited	Facilities management
MRS Environmental Services Limited	Environmental services
Nationwide Distribution Services Limited	Highways maintenance and other services
Novo Community Limited	Rehabilitation and offender management services
Sherard Secretariat Services Limited	Company secretarial services
Slough Enterprise Limited	Environmental services

32 Subsidiary undertakings, joint venture undertakings and jointly controlled operations *(continued)*

Dormant subsidiary undertaking	
Access Hire Services Limited	Durley Group Holdings Limited
Accord Asset Management Limited	Enterprise (ERS) Limited
Accord Consulting Services Limited	Enterprise Building Services Limited
Accord Environmental Services Limited	Enterprise Business Solutions 2000 Limited
Accord Network Management Limited	Enterprise Fleet Limited
Allerton Waste Recovery Park Interim SPV Limited (50%)	Enterprise Foundation (ETR) Limited
Amey 1321 Limited	Enterprise Islington Limited
Amey Building Limited	Enterprise Lighting Services Limited
Amey Datel Limited	Enterprise Managed Services (BPS) Limited
Amey Equitix Smart Meters 1 Holdings Limited	Enterprise Utility Services (DCE) Limited*
Amey Equitix Smart Meters 1 SPV Limited	Enterprise Utility Services (TBC) Limited*
Amey Facilities Partners Limited	Haringey Enterprise Limited
Amey IT Services Limited	Hillcrest Developments (Yorkshire) Limited
Amey MAP Services Limited	ICE Developments Limited
Amey OW Group Limited	JDM Accord Limited
Amey Railways Holding Limited	JNP Ventures Limited
Amey Technology Services Limited	JNP Ventures 2 Limited
Amey Tramlink Limited	JJ McGinley Limited
Amey Tube Limited	MRS St Albans Limited
Byzak Contractors (Scotland) Limited* *(Scotland)*	TPI (Holdings) Limited
Comax Holdings Limited	Transportation Planning (International) Limited
Countrywide Property Inspections Limited	Trinity Group Holdings Limited
CRW Maintenance Limited	Wimco Limited

* Company is in member's voluntary liquidation

Amey Equitix Smart Meters 1 Holdings Limited, Amey Equitix Smart Meters 1 SPV Limited and Amey MAP Services Limited all have financial periods ending on 28 February. Accord Network Management Limited, EnterpriseManchester Partnership Limited and Enterprise Foundation (ETR) Limited all have financial periods ending on 31 March. All other subsidiary undertakings have financial periods ending on 31 December. Where a subsidiary undertaking does not have a coterminous year end, interim financial statements have been prepared.

32 Subsidiary undertakings, joint venture undertakings and jointly controlled operations *(continued)*

The Group's joint venture undertakings, which are registered in England and Wales (unless otherwise indicated), and the proportion of equity held directly or indirectly are as follows:

Joint venture undertaking	Nature of business	2019 % held	2018 % held
ALC (FMC) Limited	PFI asset management concession for the MOD	**50.0**	50.0
AmeyBreathe Limited	Energy efficiency design and installation	**50.0**	-
Amey FMP Belfast Strategic Partnership Hold Co Limited	Managing development of schools and libraries in Northern Ireland	**70.0**	70.0
Amey FMP Belfast Strategic Partnership SP Co Limited	Managing development of schools and libraries in Northern Ireland	**70.0**	70.0
Amey Hallam Highways Holdings Limited	PFI highways concession in Sheffield	**3.3**	3.3
Amey Hallam Highways Limited	PFI highways concession in Sheffield	**3.3**	3.3
Amey Infrastructure Management (1) Limited	Investment holdings	**10.0**	10.0
Amey Infrastructure Management (2) Limited	Investment holdings	**10.0**	10.0
Amey Infrastructure Management (3) Limited	Investment holdings	**10.0**	10.0
Amey Ventures Investments Limited	Investment holdings	**5.0**	5.0
Amey-Webber LLC *(USA)*	Highways maintenance	**51.0**	51.0
AmeyCespa (AWRP) Holding Co Limited	PFI waste management concession	**3.3**	3.3
AmeyCespa (AWRP) SPV Limited	PFI waste management concession	**3.3**	3.3
AmeyCespa (MK) Holding Co Limited	PFI waste management concession	**50.0**	50.0
AmeyCespa (MK) SPV Limited	PFI waste management concession	**50.0**	50.0
AmeyVTOL Limited	Railways maintenance	**60.0**	60.0
Birmingham Highways Holdings Limited*	PFI highways concession in Birmingham	**-**	33.3
Birmingham Highways Limited	PFI highways concession in Birmingham	**-**	33.3
EduAction (Waltham Forest) Limited	Education support services outsourcing	**50.0**	50.0
GEO Amey PECS Limited	Prisoner escort and custody services	**50.0**	50.0
Integrated Bradford Hold Co Two Limited	PFI schools concession in Bradford	**0.6**	0.6
Integrated Bradford LEP Limited	PFI schools concession in Bradford	**4.0**	4.0
Integrated Bradford LEP Fin Co One Limited	PFI schools concession in Bradford	**4.0**	4.0
Integrated Bradford PSP Limited	PFI schools concession in Bradford	**5.0**	5.0
Integrated Bradford SPV Two Limited	PFI schools concession in Bradford	**0.6**	0.6
Keolis Amey Docklands Limited	Railways maintenance	**30.0**	30.0
Keolis Amey Operations/Gweithrediadau Keolis Amey Limited	Railways maintenance	**36.0**	36.0
Keolis Amey Metrolink Limited	Railways maintenance	**40.0**	40.0
Keolis Amey Wales Cymru Limited	Railways maintenance	**40.0**	40.0
Ventia Boral Amey NSW Pty Limited *(Australia)*	Highways management and maintenance *(Australia)*	**22.2**	22.2
Ventia Boral Amey QLD Pty Limited *(Australia)*	Highways management and maintenance *(Australia)*	**20.0**	20.0
Management & Training Corporation Limited (formerly MTCnovo Limited)	Rehabilitation and offender management services	**-**	50.0
Scot Roads Partnership Holdings Limited *(Scotland)*	Highways maintenance	**20.0**	20.0
Scot Roads Partnership Project Limited *(Scotland)*	Highways maintenance	**20.0**	20.0
Scot Roads Partnership Finance Limited *(Scotland)*	Highways maintenance	**20.0**	20.0
The London Community Rehabilitation Company Limited	Rehabilitation and offender management services	**-**	50.0
The Thames Valley Community Rehabilitation Company Limited	Rehabilitation and offender management services	**-**	50.0

32 Subsidiary undertakings, joint venture undertakings and jointly controlled operations *(continued)*

The following joint venture undertakings, and the Group proportion of equity held, are held indirectly through Amey Ventures Investments Limited:

Joint venture undertaking	Nature of business	2019 % held	2018 % held
AHL Holdings (Manchester) Limited	PFI street lighting concession	**2.5**	2.5
Amey Highways Lighting (Manchester) Limited	PFI street lighting concession	**2.5**	2.5
AHL Holdings (Wakefield) Limited	PFI street lighting concession	**2.5**	2.5
Amey Highways Lighting (Wakefield) Limited	PFI street lighting concession	**2.5**	2.5
ALC (Superholdco) Limited	PFI asset management concession for the MOD	**2.5**	2.5
ALC (Holdco) Limited	PFI asset management concession for the MOD	**2.5**	2.5
ALC (SPC) Limited	PFI asset management concession for the MOD	**2.5**	2.5
Amey Belfast Schools Partnership Hold Co Limited	PFI schools concession	**5.0**	5.0
Amey Belfast Schools Partnership PFI Co Limited	PFI schools concession	**5.0**	5.0
Amey Lighting (Norfolk) Holdings Limited	PFI street lighting concession	**5.0**	5.0
Amey Lighting (Norfolk) Limited	PFI street lighting concession	**5.0**	5.0
Amey Roads NI Holdings Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	2.5
Amey Roads NI Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	2.5
Amey Roads NI Financial Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	2.5
E4D&G Holdco Limited	PFI schools concession in Dumfries & Galloway	**4.3**	4.3
E4D&G Project Co Limited	PFI schools concession in Dumfries & Galloway	**4.3**	4.3
Integrated Bradford Hold Co One Limited	PFI schools concession in Bradford	**1.7**	1.7
Integrated Bradford SPV One Limited	PFI schools concession in Bradford	**1.7**	1.7
RSP (Holdings) Limited *(Scotland)*	PFI schools concession in Renfrewshire	**1.8**	1.8
The Renfrewshire Schools Partnership Limited *(Scotland)*	PFI schools concession in Renfrewshire	**1.8**	1.8
Services Support (Avon and Somerset) Holdings Limited	PFI courts concession in Bristol	**1.0**	1.0
Services Support (Avon and Somerset) Limited	PFI courts concession in Bristol	**1.0**	1.0

The Group also has an interest in the following jointly controlled operations:

Jointly controlled operation	Nature of business	2019 % Held	2018 % held
Amey Black and Veatch	Water systems maintenance	**50.0**	50.0
AmeyBroadspectrum *(Australia)*	Highways management and maintenance	**25.0**	25.0
AmeyColas	Rail track maintenance and renewal	**50.0**	50.0
AmeyInabensa	Rail track maintenance and renewal	**50.0**	50.0
Amey Lafarge	Highways management and maintenance	**70.0**	70.0
Amey-Miller Glasgow Schools	Building support services	**50.0**	50.0
AmeyMouchel	Highways management and maintenance	**75.0**	75.0
AmeySersa	Rail track maintenance and renewal	**70.0**	70.0
Amey SRM	Highways management and maintenance	**50.0**	50.0
KeolisAmey	Rail track maintenance and renewal	**70.0**	70.0
Ventia Boral Amey New South Wales *(Australia)*	Highways management and maintenance	**22.2**	22.2
Ventia Boral Amey Queensland *(Australia)*	Highways management and maintenance	**20.0**	20.0

All joint venture undertakings are incorporated and operate in the UK, with the exceptions of Amey-Webber LLC (USA) and Ventia Boral Amey QLD Pty Limited, Ventia Boral Amey NSW Pty Limited (both Australia). The Amey Broadspectrum, Ventia Boral Amey New South Wales and Ventia Boral Amey Queensland jointly controlled operations are based in Australia. All joint venture undertakings and jointly controlled operations are held through other subsidiary undertakings.

All joint venture undertakings have financial periods ending on 31 December, with the exceptions of: Amey Roads NI Holdings Limited, Amey Roads NI Limited, Amey Roads NI Financial Limited, Keolis Amey Metrolink Limited, Keolis Amey Wales Cymru Limited, Keolis Amey Operations/Gweithrediadau Keolis Amey Limited, Scot Roads Partnership Holdings Limited, Scot Roads Partnership Project Limited, Scot Roads Partnership Finance Limited (all 31 March); Amey FMP Belfast Strategic Partnership Hold Co Limited, Amey FMP Belfast Strategic Partnership SP Co Limited (30 June); AmeyVTOL Limited (31 August). Where a joint venture undertaking does not have a coterminous year end, interim financial statements have been prepared.

32 Subsidiary undertakings, joint venture undertakings and jointly controlled operations *(continued)*

Registered offices

The registered office of subsidiary and joint venture undertakings is Chancery Exchange, 10 Furnival Street, London, EC4A 1AB, United Kingdom. The exceptions to this are set out in the table below:

Undertaking	Registered office (United Kingdom, unless otherwise indicated)
AHL Holdings (Manchester) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
AHL Holdings (Wakefield) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Consulting Australia Pty Limited	Level 26, 181 William Street, Melbourne, VIC 3000, Australia
Amey Consulting USA, Inc.	1130 Post Oak Boulevard, Suite 1250, Houston, Texas 77056
Amey Highways Lighting (Manchester) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Highways Lighting (Wakefield) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Keolis Infrastructure/Seilwaith Amey Keolis Limited	Cvl Infrastructure Depot Ty Trafnidiaeth, Treforest Industrial Estate, Gwent Road, Pontypridd, CF37 5UT
Amey Infrastructure Management (1) Limited	3rd Floor, 3-5 Charlotte Street, Manchester, M1 4HB
Amey Roads NI Limited	Murray House, Murray Street, Belfast, BT1 6DN
Amey Roads NI Holdings Limited	Murray House, Murray Street, Belfast, BT1 6DN
Amey Roads NI Financial plc	Murray House, Murray Street, Belfast, BT1 6DN
Amey-Webber LLC	1209 Orange Street, Wilmington 19801, Delaware, USA
Byzak Contractors (Scotland) Limited	International House, Stanley Boulevard, Hamilton Intnl Technology Park, Blantyre, Glasgow, G72 0BN
C.F.M. Building Services Limited	Southside House, 135 Fifty Pitches Road, Carnold Business Park, Glasgow, G51 4EB
Enterprise Utility Services (DCE) Limited	Trafford House, Chester Road, Old Trafford, Manchester, M32 0RS
Enterprise Utility Services (TBC) Limited	Trafford House, Chester Road, Old Trafford, Manchester, M32 0RS
Fleet and Plant Hire Limited	The Matchworks Pavillions 3 and 4, Garston, Liverpool, L19 2PH
Keolis Amey Docklands Limited	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Keolis Amey Operations/Gweithrediadau Keolis Amey Limited	2 Callaghan Square, Cardiff, CF10 5BT
Keolis Amey Metrolink Limited	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Keolis Amey Wales Cymru Limited	2 Callaghan Square, Cardiff, CF10 5BT
RSP (Holdings) Limited	Precision House, McNeil Drive, Motherwell, ML1 4UR
Scot Roads Partnership Finance Limited	1e, Willow House, Kestrel View, Strathclyde Business Park, Bellshill, ML4 3PB
Scot Roads Partnership Holdings Limited	1e, Willow House, Kestrel View, Strathclyde Business Park, Bellshill, ML4 3PB
Scot Roads Partnership Project Limited	1e, Willow House, Kestrel View, Strathclyde Business Park, Bellshill, ML4 3PB
Services Support (Avon & Somerset) Limited	Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ
Services Support (Avon & Somerset) Holdings Limited	Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ
The Renfrewshire Schools Partnership Limited	Precision House, McNeil Drive, Motherwell, ML1 4UR
Ventia Boral Amey NSW Pty Limited	Level 4, Tower 1, 495 Victoria Avenue, Chatswood SA, NSW 2067, Australia
Ventia Boral Amey QLD Pty Limited	Level 4, Tower 1, 495 Victoria Avenue, Chatswood SA, NSW 2067, Australia

33 Financial and capital commitments

Lease commitments – lessee

The minimum cash amounts payable over the life of remaining lease period by year of cash outflow are as follows:

	Land and buildings 2019 £'000	**Other 2019 £'000**	Land and buildings 2018 £'000	Other 2018 £'000
Within 1 year	**65**	**2,342**	6,640	18,458
In 2 to 5 years inclusive	**1**	**1,023**	16,413	33,069
After 5 years	**-**	**-**	7,611	7,420
	66	**3,365**	30,664	58,947

Lease commitmentss relate to many small agreements throughout the Group, none of which are deemed significant enough for separate disclosure. In 2019, the commitment above relates to short-term and low value rentals only that are not accounted for as finance leases in accordance with IFRS 16, which has been adopted during the year.

Other financial commitments

The Group is committed to contributing subordinated loan capital of £19.0 million (2018: £22.8 million) to joint venture undertakings in 2020.

34 Contingent liabilities

As part of its activities, the Group is subject to contingent liabilities arising from the performance of certain contracts. At 31 December 2019, the Group has provided bank collateral totalling £99 million (2018: £147 million). In some cases, liabilities not covered by bank guarantees are covered by guarantees granted by fellow Group members, though these do not impact the overall Group. Guarantees have also been provided to joint venture undertakings totalling £314 million (2018: £372 million), of which the most relevant are those provided to the UK Ministry of Justice for both current and future service provision. A portion of the risk associated with guarantees has been mitigated through third party liability or construction defect insurance policies. The Directors consider the likelihood of a claim arising under these performance bonds, indemnities or guarantees to be remote.

Losses, for which no provision has been made in these financial statements and which might arise from litigation in the normal course of business, are not expected to be material in the context of these financial statements.

Under the terms of the Birmingham City Council Highways PFI contract settlement arrangements, the Group has provided guarantees in respect of the payment of the settlement accounts with £55 million remaining to be paid at 31 December 2019. The full amount of deferred consideration can be accelerated upon the occurrence of either a change of control or flotation of the Group; the sale of all or substantially all of the assets of the Group; abandonment by the Group of the original services agreement; material breach of certain business continuity covenants where such breach has a material adverse effect on the services provided by the Group; non-payment of amounts due under the settlement agreement; breach of payment security provisions in the settlement agreement; commencement of an insolvency process in relation to Amey companies party to the agreement; or acceleration of repayment of the Group's corporate banking facilities. Until the full amount of the deferred consideration is paid, subject to certain exceptions, there are restrictions on the disposal of assets which Amey UK plc and the Amey Group can make. Upon certain material disposals, Amey LG Limited is required to pay a proportion towards any payment of any deferred consideration.

The Group claims tax relief in Spain for the amortisation of goodwill arising on the acquisition of UK subsidiaries, as permitted under Spanish law. This law was subject to a challenge by the European Commission on competition grounds in respect of acquisitions after December 2007 (not affecting the Group's goodwill), with their first and second decisions issued in October 2009 and January 2011. In October 2014, the EU Commission issued a new Decision (the third Decision) challenging the amortisation of goodwill that arises from indirect acquisitions, also on competition grounds, affecting any time acquisitions. The Kingdom of Spain, Ferrovial, S.A., Ferrovial Servicios, S.A. and the Group (and other Spanish groups) have brought an appeal in 2017 against the third Commission decision before the EU General Court of Justice that is still pending. In November 2014, the EU General Court of Justice held in favour of Spain on the first and second decisions (the third decision was not part of this appeal, but subject to a separate stayed appeal). In December 2017, following an appeal by the European Commission on a limited point of law, the November 2014 ruling was annulled by the superior EC Court of Justice and the case referred back to the EU General Court, with most of the technical points still subject to judgment. The Spanish tax authorities, in the course of an audit related to year 2006, challenged this amortisation. The disputed claim has been referred to the EU General Court of Justice where the Group remains confident that the claim will be upheld. However, as a result of the December 2017 EU Court of Justice ruling, the Spanish tax authorities requested in 2018 the payment of €28.0 million plus €8.0 million of interest related to the tax amortisation for the years 2006 to 2015. Any payment made will be refunded should the European Courts rule in the Group's favour. The total value of the net tax relief claimed up to 31 December 2019 is £83 million (2018: £67.6 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

The Group has received £21.8 million of invoices from a supplier for additional amounts claimed under a revised interpretation of a contractual clause. The Group has taken legal advice which has confirmed it is not probable such a claim can be made but notes the amount represents a contingent liability.

35 Related party transactions

Joint venture undertakings

Certain Group subsidiary undertakings hold contracts to design, build and in certain instances maintain and supply other services in relation to PFI projects for the joint ventures. The Group also receives interest income on loans to joint ventures. The Group had the following trading balances with joint ventures at 31 December 2019:

	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
		Revenue	**Interest receivable on loans with joint ventures**	
ALC (FMC) Limited	**714**	837	**-**	-
Amey FMP Belfast Strategic Partnership Hold Co Limited	**-**	-	**30**	27
Amey FMP Belfast Strategic Partnership SP Co Limited	**68**	120	**-**	-
Amey Hallam Highways Limited	**45,048**	76,898	**167**	1,451
Amey Ventures Investments Limited	**36,987**	42,646	**-**	320
Amey Infrastructure Management (1) Limited	**-**	-	**133**	123
Amey Infrastructure Management (2) Limited	**38**	-	**246**	67
Amey Infrastructure Management (3) Limited	**38**	-	**205**	54
AmeyCespa (AWRP) SPV Limited	**12,412**	18,908	**-**	782
AmeyCespa (MK) SPV Limited	**(729)**	1,137	**581**	714
Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)	**585**	2,423	**-**	2,930
Amey Defence Services (Housing) Limited (formerly CarillionAmey (Housing Prime) Limited)	**-**	75	**-**	-
EduAction (Waltham Forest) Limited	**14**	-	**-**	-
GEO Amey PECS Limited	**16**	16	**-**	-
Integrated Bradford SPV Two Limited	**4,544**	6,180	**-**	-
Integrated Bradford LEP Limited	**220**	214	**-**	-
Management & Training Corporation Limited (formerly MTCnovo Limited)	**-**	-	**-**	24
	99,995	149,454	**1,362**	6,492

	Loan amounts outstanding with joint ventures		**Net trading balance owed to (by) the Group**	
Amey FMP Belfast Strategic Partnership Hold Co Limited	**100**	100	**-**	-
Amey FMP Belfast Strategic Partnership SP Co Limited	**-**	-	**168**	138
Amey Hallam Highways Limited	**-**	-	**27**	515
Amey Infrastructure Management (1) Limited	**1,540**	1,540	**46**	139
Amey Infrastructure Management (2) Limited	**3,354**	3,589	**53**	67
Amey Infrastructure Management (3) Limited	**3,068**	3,142	**50**	-
Amey Ventures Investments Limited	**1,341**	1,368	**3,996**	4,823
AmeyCespa (AWRP) SPV Limited	**-**	-	**(2)**	(2)
AmeyCespa (MK) SPV Holding Co Limited	**4,465**	4,837	**-**	-
Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)	**-**	22,854	**-**	34,668
EduAction (Waltham Forest) Limited	**-**	-	**4**	(11)
GEO Amey PECS Limited	**-**	-	**7**	76
Integrated Bradford LEP Limited	**-**	-	**15**	15
Integrated Bradford SPV Two Limited	**-**	-	**342**	385
Keolis Amey Docklands Limited	**-**	-	**1,066**	1,122
Keolis Amey Metrolink Limited	**-**	-	**117**	-
Keolis Amey Operations/Gweithrediadau Keolis Amey Limited	**10,670**	6,880	**921**	22
Keolis Amey Wales Cymru Limited	**-**	-	**310**	183
Management & Training Corporation Limited (formerly MTCnovo Limited)	**-**	10,000	**-**	38
	24,538	54,310	**7,120**	42,178
Less: provision for impairment	**(60)**	(22,945)	**(22)**	(34,756)
	24,478	31,365	**7,098**	7,422

The amounts reported above include loan amounts outstanding with joint ventures and net trading balances owed to (by) the Group which are classed as assets held for sale on the Group balance sheet.

35 Related party transactions *(continued)*

Ferrovial, S.A. and its subsidiary undertakings

	2019 £'000	2018 £'000
Income statement		
Net operating expenses	**(24,293)**	(22,726)
Net finance income	**159**	1,399
Net finance cost – Landmille Limited	**(12,477)**	(14,607)
Net finance cost – Ferrofin, SL	**(1,134)**	-
Net finance cost – Ferrovial Servicios, S.A.	**(1,143)**	(379)
Net finance cost – Other Ferrovial, S.A. companies	**(1,296)**	(926)
	(40,184)	(37,239)
Balance sheet (including amounts classed as assets (liabilities) held for sale)		
Assets		
Non-current assets	**18,900**	16,539
Current assets	**21,639**	12,098
Liabilities		
Current liabilities – Ferrovial, S.A. group loans held within assets held for sale	**(31,372)**	-
Current liabilities – Ferrovial, S.A. group loans	**(253,661)**	(80,000)
Current liabilities – other	**(35,677)**	(1,519)
Non-current liabilities – Ferrovial, S.A. group loans	**-**	(319,107)
Net liabilities	**(280,171)**	(371,989)

The Group has been charged operating expenses by Ferrovial Servicios, S.A. The Group has also been charged finance costs by Landmille Limited, Ferrofin, SL and Cespa UK Limited. Additionally, the Group received £5.1 million (2018: £5.1 million) from Ferrovial Servicios, S.A. in respect of tax losses. In 2019, the Group recorded a foreign exchange loss of £nil (2018: £0.4 million loss) on its borrowings from, and a foreign exchange loss of £1.1 million (2018: £0.1 million gain) on its deposits with, Ferrovial, S.A. subsidiary undertakings.

Non-current assets represent deposits with Ferrovial Servicios, S.A., which receive interest at a market rate of 0.02% (2018: 0.03%). Current assets include the remaining part of the loan to Cespa Ventures Limited which receives interest at a fixed rate of 12.5% (2018: 12.5%).

Included within the Non-current liabilities – Ferrovial, S.A. group loans was an amount due to Landmille Limited of £nil (2018: £177.5 million) which was designated in sterling and which bore interest at LIBOR plus 4.2% (2018: 4.2%). A further amount due to Landmille Limited of £nil (2018: £41.5 million) was designated in euros and was charged interest at the rate of six-month EURIBOR plus 3.5% (2018: six-month EURIBOR plus 3.5%). The Group also held additional sterling credit facilities with Landmille totalling £nil (2018: £150.0 million) which were fully utilised at the end of 2018. The first facility of £70.0 million bore interest at one-month LIBOR plus 2.47% to 3.47%, depending on the level of drawdown and was due to be repaid on 17 February 2021. The second facility of £80.0 million bore interest at three-month LIBOR plus 1.91% and was due to be repaid on 23 September 2020. All of these loans and facilities were fully extinguished as part of a refinancing of the Group in 2019 (see below).

On 8 July 2019, £200.0 million of the Group's existing subordinated loans from Landmille Limited and held by a subsidiary undertaking, Amey plc, were converted into a new Other equity instrument with Landmille Limited. This is a perpetual loan that is initially interest free but bears interest at 12-month LIBOR plus 700 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold. The proceeds of this loan were used in part to reduce the existing loans of £369.0 million from Landmille Limited. The remaining loans of £169.0 million were consolidated into a new sterling revolver facility with Landmille Limited which bears interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. This new sterling revolver facility was available until 31 July 2020, though this has now been extended since the balance sheet date to 31 July 2021. The amount outstanding both on this loan of £177.5 million (2018: £nil) and on the £200.0 million (2018: £nil) Other equity instruments have been fully subordinated in favour of any amounts due to the Group's banks under the five five-year bilateral facility agreements in place and which have recourse to the Group's balance sheet.

On 29 June 2019, the Group received a new intercompany loan from Ferrofin, SL which was received in cash. This loan bears interest at 1-month LIBOR plus 227 points which can be rolled up into the principal and was due to be repaid by 31 July 2020, though this has now been extended since the balance sheet date to 31 July 2021. This loan has also been fully subordinated in favour of any amounts due to the Group's banks under the five five-year bilateral facility agreements in place and which have recourse to the Group's balance sheet.

Also included within liabilities held for sale are other Ferrovial, S.A. group loans of £31.4 million (2018: £30.1 million) due to Cespa UK Limited which is designated in sterling and bears interest at market rate (2018: market rate) and which is due to be repaid by 27 August 2021. This loan is included within current liabilities held for sale in 2019 but was classed as a non-current liability in 2018.

35 Related party transactions *(continued)*

Ferrovial, S.A. and its subsidiary undertakings *(continued)*

Post balance sheet event (see note 37)

On 26 February 2020, £169.0 million of the amounts due to Landmille Limited were converted into Other equity instrument. The remaining balance of £8.5 million on the sterling revolver facility continue to be held on the same terms.

Ferrovial Servicios, S.A., Landmille Limited, Cespa Ventures Limited, Ferrofin, SL and Cespa UK Limited are all subsidiary undertakings of Ferrovial, S.A., the Group's ultimate parent undertaking.

36 Share-based payments

The Group participates in the Ferrovial, S.A. group (the parent undertaking) performance–based share award plan. Full details on this plan may be found in the financial statements of Ferrovial, S.A. for the year ended 31 December 2019.

The share-based staff costs recharged by Ferrovial, S.A. in relation to this plan during the year and recognised in the Group's income statement amounted to £0.4 million (2018: £0.8 million).

37 Post balance sheet events

(a) Further issue of Other equity instrument and extension of existing group borrowings

On 26 February 2020, a third issue of an Other equity instrument to Landmille took place further reducing the loans to Landmille by £169.0 million and increasing equity shareholder funds by the equivalent amount.

This loan is a perpetual loan that is initially interest free but bears interest at 12-month LIBOR plus 700 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold.

The loan has no specified maturity date but can be redeemed by the Group at any time. The Group also has the power to delay timing of the interest payment at its sole discretion which cannot be claimed by the lender.

As it is at the Group's discretion to decide both the repayment of the principal and the possibility of deferring the payment of interest, the loan does not satisfy the condition to be accounted for as a financial liability since it does not include a contractual obligation to pay cash or other financial assets to discharge the liability. Accordingly, it is classified as equity instrument and is recognised as 'Other equity instruments'. The accrued interest is recognised in reserves and treated in the same way as dividends.

The proceeds of this loan were used to reduce the existing loans of £177.5 million from Landmille Limited. This loan has been fully subordinated in favour of any amounts due to the Group's banks under the five five-year bilateral facility agreements in place and which have recourse to the Group's balance sheet.

Existing loans due from Landmille Limited and Ferrofin, SL have also been confirmed as not due within one year since the balance sheet date or the date of signing of these financial statements. Landmille Limited and Ferrofin, SL are fellow Ferrovial, S.A. group companies. See note 35 for more information.

(b) COVID-19 pandemic

Since the year end, the global COVID-19 pandemic has led to significant challenges for the business to meet, particularly with regards to ensuring the health and safety of employees. The Group has been able to keep large parts of the business fully operational with a maximum of 755 employees furloughed to date during this period of uncertainty and the Group also secured the necessary PPE to protect the workforce. Operational practices have been adapted to meet the guidelines on social distancing and minimising contacts. Reduced volumes of work have been noted and appropriate actions have been taken to utilise the various UK Government initiatives to assist the economy.

37 Post balance sheet events *(continued)*

(b) COVID-19 pandemic *(continued)*

In the first part of 2020, the Group has been assessing the impact of the pandemic on its operations and cash flows. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million. The main variables considered to quantify the range of £30 to £50m range of pandemic impact have been the extent of operational disruption, the potential for diminished volumes, contract modifications (changes in the economic activity caused by the pandemic causing the renegotiation of the terms of existing contracts and arrangements) and the impact of lower performance on the gain-share mechanisms of the contracts. The operational disruption and potential diminished volumes have been assessed in a moderate and severe scenario. In the moderate scenario, we have seen a 20-30% reduction in volumes during lock down period and then gradual recovery of the business activity. In the severe scenario, a 50%-60% reduction of the labour force would be out of action during lock down period impacting volumes, then gradual recovery of the business activity. The analysis of the contract modifications and gain-share impacts has been performed on a contract by contract basis.

The pandemic has also delayed the disposal processes for our held for sale businesses which are now likely to complete over the next 12 months as the transaction markets reopen.

Overlaid on these scenarios the Directors have incorporated the various UK Government initiatives that have been enacted or announced over the last few weeks, which have been set out below:

(a) The funding by Government of 80% of the wages of employees that have been furloughed (subject to a cap of £2,500 per employee)
(b) Procurement Policy Note 02/20: Supplier relief due to COVID-19 which ensures stability of revenue over the next three months. This envisages that contracting authorities continue to pay suppliers at risk due to COVID-19 on a continuity and retention basis. Contracting authorities can make advance payments to suppliers if necessary and contracting authorities should pay suppliers as quickly as possible to maintain cash flow and protect jobs. Procurement Policy Note 04/20 follows 02/20 and will similarly be relied upon.
(c) The ability to defer VAT and PAYE payments with repayments of this deferral to be made prior to the end of the 2020/21 tax year. The Group has agreement to defer VAT payments due for the period March to June 2020 until 31 March 2021 and also deferred PAYE payments due from March onwards until the end of June 2020.
(d) The Guidance note issued by Government regarding PFIs which states that PFI contractors should consider themselves to be part of the public sector in response to the current COVID-19 emergency.
(e) The additional liquidity provided by the above initiatives have given the Board assurance that the Group will have sufficient resources to cope with the worst-case scenario above without breaching covenant limits.

38 Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Ferrovial, S.A., a company incorporated in Spain. The Group is wholly owned by the ultimate parent undertaking. Copies of the group financial statements of Ferrovial, S.A. can be obtained from the address below or from the Ferrovial, S.A. website: www.ferrovial.com.

Ferrovial, S.A.
Príncipe de Vergara, 135
28002 Madrid
Spain

Company balance sheet as at 31 December 2019

Company number 04736639	Note	2019 £'000	2018 £'000
Fixed assets			
Investment in subsidiary undertakings	42	**48,528**	48,528
Current assets			
Trade and other receivables			
- due after more than one year	43	**181,950**	37,718
- due within one year	43	**5,642**	5,102
Cash and cash equivalents		**3,388**	163
Total current assets		**190,980**	42,983
Creditors – amounts falling due within one year	44	**(76,708)**	(1,063)
Net current assets		**114,272**	41,920
Total assets less current liabilities		**162,800**	90,448
Creditors – amounts falling due after more than one year	45	**(64,000)**	-
Provisions for liabilities	46	**(8,693)**	-
Net assets		**90,107**	90,448
Equity			
Share capital	47	**203,677**	203,677
Share premium account		**153,134**	153,134
Other reserve		**61,887**	61,887
Other equity instrument	48	**63,032**	61,198
Retained deficit		**(391,623)**	(389,448)
Equity shareholders' funds		**90,107**	90,448

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement or Statement of Comprehensive Income. The Company reported a loss for the year of £0.3 million (2018: £470.2 million loss).

The notes on pages 105 to 110 form part of these Company financial statements. The financial statements on pages 103 to 110 were approved and authorised for issue by the Board of Directors on 29 June 2020 and signed on its behalf by:

A L Nelson
Director
29 June 2020

Company statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Retained earnings (deficit) £'000	Total equity £'000
At 1 January 2018	203,677	153,134	61,887	-	81,937	500,635
Issue of Other equity instrument (note 48)	-	-	-	60,000	-	60,000
Reserves transfer in respect of Other equity instrument	-	-	-	1,198	(1,198)	-
Loss after tax for the year	-	-	-	-	(470,187)	(470,187)
At 31 December 2018	**203,677**	**153,134**	**61,887**	**61,198**	**(389,448)**	**90,448**
Reserves transfer in respect of Other equity instrument	**-**	**-**	**-**	**1,834**	**(1,834)**	**-**
Profit after tax for the year	**-**	**-**	**-**	**-**	**(341)**	**(341)**
At 31 December 2019	**203,677**	**153,134**	**61,887**	**63,032**	**(391,623)**	**90,107**

The Other reserve relates to a capital contribution made by Ferrovial Servicios, S.A., a fellow group undertaking, in 2003.

The notes on pages 105 to 110 form part of these Company financial statements.

Notes forming part of the Company financial statements for the year ended 31 December 2019

39 General information

The principal activity of the Amey UK plc (the Company) is that of holding company. The Company is a plc, limited by share capital and is incorporated in the United Kingdom, but domiciled in Spain.

The Company Secretary and the address of the registered office is as follows: Jayne Bowie, Chancery Exchange, 10 Furnival Street, London, EC4A 1HB. The address of the principal place of business is Principe de Vergara 135, 28002 Madrid, Spain.

40 Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with FRS 101, the historical cost convention and the Companies Act 2006.

(b) Going concern

The financial statements of the Company have been prepared on a going concern basis, further details of which are detailed in note 1(c) of the Group financial statements.

(c) New accounting standards

Details of new accounting standards applicable to the Company both for the current and future financial years are detailed in note 1(d) of the Group financial statements. The adoption of these new accounting standards does not have any impact on the Company.

(d) FRS 101 exemptions applied

The following exemptions from the requirements of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7 (Financial instruments: Disclosures)
- Paragraphs 91 to 99 of IFRS 13 (Fair value measurement): disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities
- Paragraph 38 of IAS 1 (Presentation of financial statements): comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1
- The following paragraphs of IAS 1:
  - 10(d): statement of cash flows
  - 10(f): a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements
  - 16: statement of compliance with all IFRS
  - 38A: requirement for minimum of two primary statements, including cash flow statements
  - 38B-D: additional comparative information
  - 40A-D: requirements for a third statement of financial position
  - 111: cash flow information
  - 134-136: capital management disclosures
- IAS 7 (Statement of cash flows)
- Paragraph 30 and 31 of IAS 8 (Accounting policies, changes in accounting estimates and errors): requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective
- The requirements of IAS 24: disclosure of related party transactions entered into between two or more members of a group.
- IFRS 2 (Share based payments)
- IAS 36 (Impairment of assets): paragraphs 134 and 135
- IFRS 15 (Revenue from contracts with customers): second sentence of paragraph 110, and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129.
- IFRS 16 (Leases): paragraph 52, the second sentence of paragraph 89 and paragraphs 90, 91 and 93. Paragraph 58, provided that the disclosure of details of indebtedness required by paragraph 61(c) of Schedule 1 of the Regulations is presented separately for lease liabilities and other liabilities in total.

40 Accounting policies *(continued)*

(e) Other principal accounting policies

The significant accounting policies applied in preparing the Company financial statements, which have been applied consistently, are set out below:

Investment in subsidiary undertakings

Investments by the Company in the shares of subsidiary undertakings are stated at cost less any provision where, in the opinion of the Directors, there has been a permanent impairment in the value of any such investment.

Deferred tax

Deferred tax is recognised on all temporary differences where the transaction or events that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. However, the deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred tax assets are recognised when it is more likely than not that they will be recovered in the foreseeable future. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currency

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which it operates (its 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the profit and loss account.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's existing accounting policies. In preparing the financial statements for the financial year, the Directors have considered these requirements, and concluded that no such estimates or judgements have been necessary other than in respect of the carrying value if the investment in subsidiary undertaking.

41 Directors

Details of the remuneration of the Company's Directors and of the highest paid Director are outlined in note 7 of the Group's financial statements. The Directors are not remunerated by the Company.

42 Investment in subsidiary undertakings

	Cost of shares £'000	Subordinated loan £'000	Provision for impairment £'000	Carrying value £'000
At 1 January 2018	497,867	-	-	497,867
Additions during the year	-	60,000	-	60,000
Impairment charge for the year	-	-	(509,339)	(509,339)
At 31 December 2018 and at 31 December 2019	**497,867**	**60,000**	**(509,339)**	**48,528**

On 30 April 2018, the Company granted a subordinated loan facility to its subsidiary undertaking, Amey Holdings Limited, for an amount of £60.0 million. It is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points which rises to 12-month LIBOR plus 500 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold. The loan has no specified maturity date but can be redeemed by the Amey Holdings Limited at any time. That company also has the power to delay timing of the interest payment at its sole discretion which cannot be claimed by the lender.

The subsidiary undertakings of the Company are disclosed in note 32 of the Group financial statements. Except for Amey Holdings Limited, all subsidiary undertakings are held through other subsidiary undertakings. Their activities are described in the Report of the Directors and in the Strategic Report.

In 2018, the Company reviewed the carrying amount of investment in subsidiary undertakings and concluded that impairment had arisen in respect of its investment in Amey Holdings Limited. This impairment reflected the continuing difficulties being experienced in the market place in the Amey Group of companies.

42 Investment in subsidiary undertakings *(continued)*

The recoverable amounts of investments are based on value-in-use which reflects forecast cash flows as derived from approved budgets and plans for the next five years. The future cash flows are based on the completed Budget 2020 and the 2021-2024 Strategic Plan. Residual values have also been included which are based on the normalised activity cash flow plus a growth factor. The growth rate used has been 1.75% (2018: 1.75%). The underlying assumptions of these cash flows are based on the existing contract order book, management's past experience and on probability ratios for new business generation. The cash flows have been discounted using a risk-based discount rate of 10.5% (2018: 10.5%). This pre-tax discount rate is a measure based on the 10-year UK bond rate adjusted for a risk premium to reflect both the increased risk of investments generally in the sector and the systematic risk of the specific investment.

The dynamics of the Support Services sector has remained in line with the previous year, with a similar uncertainty and instability in the markets in which the Group operates. As a result of this, management decided to maintain the same assumptions as used in the previous year.

The Company has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the specific investments. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of investments is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the investment.

43 Trade and other receivables

	2019 £'000	2018 £'000
Amounts falling due within one year		
Tax debtor	**5,642**	5,089
Prepayments	**-**	13
	5,642	5,102
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	**163,050**	22,861
Amounts due from Ferrovial Servicios, S.A.	**18,900**	14,857
	181,950	37,718
	187,592	42,820

44 Creditors – amounts falling due within one year

	2019 £'000	2018 £'000
Amounts due to Ferrofin, SL	**76,134**	-
Other creditors	**9**	8
Accruals	**565**	1,055
	76,708	1,063

On 29 June 2019, the Company received a new intercompany loan from Ferrofin, SL which was received in cash. This loan bears interest at 1-month LIBOR plus 227 points which can be rolled up into the principal and was due to be repaid by 31 July 2020, though this has been extended after the balance sheet date to 31 July 2021. This loan has also been fully subordinated in favour of any amounts due to the Company's banks under the five five-year bilateral facility agreements in place and which have recourse to the Group's balance sheet. Ferrofin, SL is a member of the Ferrovial, S.A. group of companies.

45 Creditors – amounts falling due after more one year

	2019 £'000	2018 £'000
Bank loans with recourse		
– due within 1 to 2 years	**32,000**	-
– due within 2 to 5 years	**32,000**	-
	64,000	-

At 31 December 2019, the Company has drawn down floating rate bank loans under its bilateral facility agreements with recourse to the balance sheet of £64.0 million (2015: £nil) with £32.0 million maturing in July 2021 and £32.0 million maturing in July 2022. The Company also has additional undrawn floating rate bilateral facility agreements with recourse to the balance sheet totalling £96.0 million which matures in July 2022.

46 Provisions for liabilities

Deferred tax	**2019 £'000**	2018 £'000
At 1 January	**-**	28,958
Deferred tax charged (credited) to the income statement	**8,693**	(28,958)
At 31 December	**8,693**	-

The deferred tax liability arises in respect of accelerated tax relief on goodwill of £8.7 (2018: £nil million). Following impairment of part of that goodwill in 2018 the associated deferred tax results in an unrecognised deferred tax asset of £nil (2018: £5.3 million). Deferred tax has been measured in full using the liability method using an expected tax rate of 25% (2018: 25%), being the rate substantively enacted in Spain at the balance sheet date. The tax relief received does not have an expiry date.

47 Share capital

Ordinary shares of £1 each	**Number**	**£'000**
Authorised		
At 1 January 2018, 31 December 2018 and at 31 December 2019	**204,000,000**	**204,000**
Issued, allotted, called up and fully paid		
At 1 January 2018, 31 December 2018 and at 31 December 2019	**203,676,768**	**203,677**

48 Other equity instrument

	£'000
At 1 January 2018	-
Issue of Other equity instrument	60,000
Accrued dividend for the year	1,198
At 31 December 2018	**61,198**
Accrued dividend for the year	**1,834**
At 31 December 2019	**63,032**

On 30 April 2018, Ferrofin, SL (a Ferrovial, S.A. group company), granted a subordinated loan facility to the Company for an amount of £60.0 million. It is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points which rises to 12-month LIBOR plus 500 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold.

The loan has no specified maturity date but can be redeemed by the Company at any time. The Company also has the power to delay timing of the interest payment at its sole discretion which cannot be claimed by the lender.

As it is at the Company's discretion to decide both the repayment of the principal and the possibility of deferring the payment of interest, the loan does not satisfy the condition to be accounted for as a financial liability since it does not include a contractual obligation to pay cash or other financial assets to discharge the liability. Accordingly, it will be classified as an equity instrument and will be recognised as 'Other equity instrument'. The accrued interest will be recognised in reserves and treated in the same way as dividends.

49 Financial and capital commitments

The Company had no financial or capital commitments at 31 December 2019 or 31 December 2018.

50 Contingent liabilities

The Company has provided guarantees to joint venture undertakings totalling £314 million (2018: £372 million), of which the most relevant are those provided to the UK Ministry of Justice for both current and future service provision. A portion of the risk associated with guarantees has been mitigated through third party liability or construction defect insurance policies. The Directors consider the likelihood of a claim arising under these performance bonds or borrowings to be remote.

Losses, for which no provision has been made in these financial statements and which might arise from litigation in the normal course of business, are not expected to be material in the context of these financial statements.

Under the terms of the Birmingham City Council Highways PFI contract settlement arrangements, the Company is party to Group guarantees in respect of the payment of the settlement accounts with £55 million remaining to be paid at 31 December 2019. The full amount of deferred consideration can be accelerated upon the occurrence of either a change of control or flotation of the Group; the sale of all or substantially all of the assets of the Group; abandonment by the Group of the original services agreement; material breach of certain business continuity covenants where such breach has a material adverse effect on the services provided by the Group; non-payment of amounts due under the settlement agreement; breach of payment security provisions in the settlement agreement; commencement of an insolvency process in relation to Amey companies party to the agreement; or acceleration of repayment of the Group's corporate banking facilities. Until the full amount of the deferred consideration is paid, subject to certain exceptions, there are restrictions on the disposal of assets which Amey UK plc and the Amey Group can make. Upon certain material disposals, Amey LG Limited is required to pay a proportion towards any payment of any deferred consideration.

The Company claims tax relief in Spain for the amortisation of goodwill arising on the acquisition of UK subsidiaries, as permitted under Spanish law. This law was subject to a challenge by the European Commission on competition grounds in respect of acquisitions after December 2007 (not affecting the Company's goodwill), with their first and second decisions issued in October 2009 and January 2011. In October 2014, the EU Commission issued a new Decision (the third Decision) challenging the amortisation of goodwill that arises from indirect acquisitions, also on competition grounds, affecting any time acquisitions. The Kingdom of Spain, Ferrovial, S.A., Ferrovial Servicios, S.A. and the Company (and other Spanish groups) have brought an appeal in 2017 against the third Commission decision before the EU General Court of Justice that is still pending. In November 2014, the EU General Court of Justice held in favour of Spain on the first and second decisions (the third decision was not part of this appeal, but subject to a separate stayed appeal). In December 2017, following an appeal by the European Commission on a limited point of law, the November 2014 ruling was annulled by the superior EC Court of Justice and the case referred back to the EU General Court, with most of the technical points still subject to judgement. The Spanish tax authorities, in the course of an audit related to year 2006, challenged this amortisation. The disputed claim has been referred to the EU General Court of Justice where the Company remains confident that the claim will be upheld. However, as a result of the December 2017 EU Court of Justice ruling, the Spanish tax authorities requested in 2018 the payment of €28.0 million plus €8.0 million of interest related to the tax amortisation for the years 2006 to 2015. Any payment made will be refunded should the European Courts rule in the Company's favour. The total value of the net tax relief claimed up to 31 December 2019 is £83.0 million (2018: £67.6 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

51 Controlling parties

The immediate parent undertaking is Ferrovial Services Netherlands B.V.i.o., a company incorporated in The Netherlands. The ultimate parent undertaking and the largest group to consolidate these financial statements is Ferrovial, S.A., a company incorporated in Spain. The Company is wholly owned by both the immediate and ultimate parent undertaking. Copies of the Ferrovial, S.A. consolidated financial statements can be obtained from the address below or from the Ferrovial, S.A. website: www.ferrovial.com:

Ferrovial, S.A.
Principe de Vergara, 135
28002 Madrid
Spain

The Company is the ultimate holding company in the UK and is registered in England and Wales. It is the parent of the smallest group for which consolidated financial statements are prepared and of which the Company is a member. Copies of the consolidated financial statements can be obtained from the registered office of Amey UK plc at the address below:

The Company Secretary
Amey UK plc
Chancery Exchange
10, Furnival Street
London, EC4A 1AB
United Kingdom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