Amey UK plc

Annual Report and Financial Statements

Year ended 31 December 2018

Company number: 04736639

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Company Information

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Chief Executive Officer's Summary

Amey is a leading supplier of consulting and infrastructure support services in the UK. Our 19,000 people are engaged in designing, building, maintaining and investing in services and infrastructure; creating safer, smarter and sustainable places to live, work and travel.

2018 was a year of significant landmarks for our business, including large wins, a shift in the landscape of Facilities Management delivery, particularly in Defence, and the stabilisation and re-shaping of some aspects of our business. Group revenue increased overall by 5.7% to £2.32 billion (2017: £2.20 billion). Gross profit margins were reduced by 0.8% to 5.5% (2017: 6.3%) before exceptional items of £428 million, which include adjustments arising from the impact of difficult market conditions being experienced, as well as the cost of exiting from the onerous Birmingham City Council Highways PFI contract. We have written down £314 million of goodwill held on our balance sheet, which reflects management's forward view of the waste collection market and to a lesser extent the Utilities business.

The Group has maintained operating profitability before exceptionals, reflecting increased operational and commercial discipline across the business as part of our ongoing Fit 4 the Future programme. The business continues to benefit from the focus and commitment of individuals and teams across the whole business.

The collapse of Carillion early in 2018 presented the business with challenges and opportunity. The immediate impact was in our FM and Defence business where we immediately took full responsibility for the £550 million per annum Carillion Amey joint venture (JV) contract, supplying services to the Defence Infrastructure Organisation (DIO). Our action protected critical services to the military and ensured the security of jobs, which has doubled the size of our facilities management business and made us the biggest supplier to the Defence Infrastructure Organisation and further strengthened our position as one of the largest infrastructure partners providing facilities services to the Ministry of Defence (MOD). We subsequently acquired Carillion's share of the JV and continue to successfully deliver this important contract. We were also invited to take Carillion's place on the Barnsley Schools PFI as the FM provider and acquired Carillion's Rail business from the Official Receiver and Liquidator which significantly increased our presence in the rail market and by acting swiftly we managed to secure jobs and deliver critical infrastructure projects.

Our two main Waste Recovery Parks, in Milton Keynes and Allerton, North Yorkshire, became operational in March, a significant achievement in these long-term contracts. Both use technology that will see large amounts of waste diverted from landfill to be either recycled or turned into renewable energy. Meanwhile, in municipal waste, we exited some large loss-making contracts, in Peterborough, and Northants and Daventry, supporting these local authority clients to find alternative arrangements. At the same time, we have been stabilising and improving performance in other key contracts such as waste collections in Surrey.

In June, we won one of the largest ever contracts in the history of the company, the £5 billion 15-year Wales and Borders rail franchise in joint venture with our long-term partner Keolis. This contract involves train operations on the mainline network and the responsibility for the asset management and the full upgrade of the Cardiff Valley lines. This hugely significant contract for Transport for Wales began in October and we look forward to a period of investment as we upgrade stations and introduce new trains. As we deliver the contract, we will create 600 new jobs, as well as 30 new apprenticeships every year, and will be opening a new Amey Consulting design hub in Cardiff in 2019.

In our Utilities business, we have added £150 million of new business in the power sector and demonstrated our ability to deliver large-scale projects including a major power station deal with Western Power Distribution. We have also re-entered the telecoms market, with a fibre roll-out to up to 20,000 homes in Edinburgh for CityFibre.

Our Highways business unit had some significant success, winning a £325 million 15-year Highways England contract for the Manchester area (Area 10) and, in a joint venture with Sir Robert McAlpine, will be delivering £100 million worth of motorway improvement schemes in the north of England.

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 their wider Services portfolio, which includes Amey. Since Ferrovial acquired Amey in 2002 they have been, and continue 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.

Chief Executive Officer's Summary *(continued)*

Our Fit 4 the Future transformation programme is continuing, and in its second phase we are moving forward on the four fronts of processes, performance, leadership and direction. We have been simplifying our processes and using data and technology to better understand and improve our performance, as well as increasing efficiency and reducing overhead. We have also strengthened our risk review and bidding processes to ensure the business does not enter into contracts that have the potential to lead to major problems.

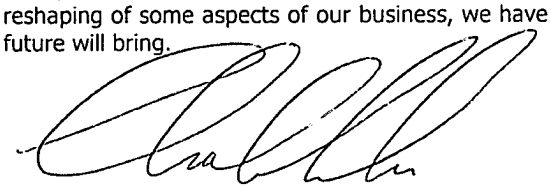
2018 saw further difficulties with our Birmingham City Council Highways PFI contract over the scope of the project network. We were unsuccessful in the Court of Appeal where a High Court Judgment in our favour was overturned, and we were not granted leave to appeal by the Supreme Court. We have, however, continued to deliver a high-quality service in Birmingham whilst engaging with all project stakeholders to resolve this longstanding and complex matter. This has resulted in Amey and the Special Purpose Vehicle (SPV), Amey Birmingham Highways Limited, agreeing a settlement for Amey's exit from the contract. Amey has now signed an agreement for exit on 30 September 2019, with an option given to Amey Birmingham Highways Limited to extend to 31 March 2020. The settlement agreement released Amey from the contract for £215 million, to be paid in instalments from 2019 to 2025. We have also increased the provision on our balance sheet to reflect the agreement.

Release from this difficult contract is hugely significant for the group and enables the business to capitalise on the major changes that have been made over the past three years and focus on success. Free from this extremely challenging issue the business is in great shape to deliver on its strategic plan, building on strong business principles, innovative service and outstanding people.

People are – and always have been – the heart of our business. Their safety and wellbeing continues to be our number one priority. In June, we launched Zero Code, the next step of our relentless drive to achieve zero lost time incidents by the end of 2021. The Code outlines simple principles to protect ourselves and others from harm, and it applies to everyone who works for and with Amey. We have been encouraged by the 16% improvement in our all injuries rate over the 12-month period. We are delighted to have won Investors in People (IiP) silver status, which places us in the top 5% of employers who have achieved this new revised and elevated standard. We were credited by IiP for having many best practices and tools and now need to consistently apply them across our business so that everyone can enjoy the same opportunities to understand our business and develop their career. Our annual employee survey had its highest-ever rate of response and showed that more of employees are engaged in our business than ever before.

The UK political landscape in 2018 was marked by uncertainties over Brexit. We are, however, encouraged by how the government is committed to £600 billion of investment in the national infrastructure and construction over the next ten years, with key projects in road and rail networks as well as in energy and utilities. The increased scrutiny over outsourcing since the collapse of Carillion has given us an opportunity to play a part in the discussions with government about procurement and value, and to suggest how to make reforms and create a solid and attractive market for the private sector to help the public sector.

In a year of significant landmarks, large business wins, a shift in the landscape of FM delivery, and the stabilisation and reshaping of some aspects of our business, we have emerged in good shape for the challenges and opportunities that the future will bring.



Andy Milner
Chief Executive Officer, Amey
12 July 2019

Divisional and Business Update

Highways

This business unit manages, operates and maintains roads, bridges and their related infrastructure and assets. Our clients are 16 local authorities, Highways England, Transport Scotland and Transport NI.

Following a year of stabilisation, 2018 was an exciting year for Highways. By listening to and learning from our clients and customers, we have reshaped the business with a focus on predictability, practicality and consistent delivery.

We have continued our drive to improve safety for our 3,800-strong workforce, achieving a 40% year-on-year improvement in the accident frequency rate (AFR) and a 60% reduction in lost days per injury, and are now achieving the lowest AFR of all the Amey business units.

The division's revenues totalled £363.6 million in 2018 (2017: £512.7 million). Operating losses were reduced to £2.6 million in 2018 (2017: £14.3 million) before exceptional items. In 2018, the goodwill allocated to the division of £138.7 million has been impaired in full during the year as an exceptional charge, reflecting continuing difficult market conditions. In addition, the division was also impacted by an exceptional cost to the division of £95.0 million (2017: £208.5 million) in respect of resolving the dispute on the Birmingham City Council Highways PFI contract. We have, however, continued to deliver a high-quality service in Birmingham whilst engaging with all project stakeholders to resolve this longstanding and complex matter. Amey has now agreed an exit from this contract, as described on page 2.

Our core business of managing, operating and maintaining roads and infrastructure was unchanged, and we were able to build on a stable client base of 16 local authorities.

Significant new business wins included a £325 million 15-year Highways England maintenance and response contract for Area 10. This was announced in October and will see us providing maintenance, including incident traffic management and the operation of five depots, on the trunk road and motorway network around Cheshire, Merseyside, Greater Manchester and South Lancashire from April 2019.

In a joint venture with Sir Robert McAlpine, we won the Delivery Integration Partnership for Highways England, for delivering improvement schemes worth up to £100 million on major motorway junctions, roundabouts and slip roads in the north of England.

Meanwhile we have grown our local authority contracts, such as the £15 million new access road to the McArthurGlen outlet centre in Cannock Chase, Staffordshire, due to open in 2020. Staffordshire County Council has also agreed a 'red carpet' scheme to speed up planning consent for housing and commercial developers who appointed Amey to build the approach roads. In Kent, a two-year extension to our existing seven-year highways maintenance contract with Kent County Council was finalised in November. The contract is worth over £35 million per year.

In Scotland, we are now managing the maintenance of the Queensferry Crossing over the Forth estuary, following the completion of this iconic structure in 2017, along with the maintenance of the original Forth Road Bridge, which we have been undertaking since June 2015.

Announced in June, we are delivering street lighting programmes for two Scottish councils. In Edinburgh we are installing 54,000 energy-efficient LED street lamps which will reduce CO2 and save the City Council £54 million over 20 years. In Inverclyde we have won the maintenance of road lighting and traffic sign lighting for the Council, adding to our successful work in replacing existing street lights with new LED lanterns in the region.

We were delighted to complete our core investment period for Sheffield City Council's Streets Ahead contract. During the year, working with the authority and interested parties, we reached a joint agreement and a new approach to the active management of street trees.

Divisional and Business Update *(continued)*

Highways *(continued)*

Working on the UK's busy highways is a hazardous undertaking. Our relentless pursuit of improvements to safety and efficiency has led to the development of Vision 2030: to use technology and automation to ensure that no operatives work on or near live motorway carriageways. Already, we are employing robotic lawnmowers to cut highway verges and drones for inspection work, as well as using sensor technology to tell us when drainage systems need maintenance, and predictive technology for replacement of streetlamps. This year we received £1.5 million funding from Highways England to develop an automated impact protection vehicle to ensure operatives will no longer be working in a stationary vehicle on a live carriageway. These innovations will allow us to enhance the diversity of our teams, addressing the challenge of an ageing workforce and enabling a wider section of the community to work in the Highways sector.

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 services.

This was a turnaround year for Utilities. Continuing with our 'protect and grow' strategy, we have continued to make our business more resilient with a balanced and sustainable portfolio. We have strengthened customer relationships and secured contract extensions as well as diversifying into new areas of work – finishing in profit for the first time in three years.

The division's revenues totalled £513.3 million in 2018 (2017: £530.3 million). Operating losses were reduced to £1.3 million in 2018 (2017: £22.7 million) before exceptional items. In 2018, the carrying value of the division's allocated goodwill was reduced by £65.2 million as an exceptional cost, reflecting continuing difficult market conditions. The division also incurred an exceptional cost of £4.5 million in respect of impairments on non-current assets (2017: £nil).

In March, David McLoughlin joined as managing director and began to reshape the management team, appointing Darren Jones as finance director and Gerry Mulholland as HSEQ director, as well as restructuring the water business on a regional, rather than a contract basis, to make it more market-focused.

We added £150 million in new business in the power sector through the award of two key frameworks with further growth opportunities. Scottish and Southern Electricity Networks (SSEN) awarded a four-year extension to our joint venture with GE Power's Grid Solutions for new substations, which will support the development of Scotland's onshore and offshore renewable energy projects. Through this framework, we have already secured two major projects to deliver Fort Augustus and New Deer substations worth over £65 million, demonstrating our ability to deliver large-scale projects. We secured two further contract extensions; one with National Grid for all substation construction and design projects across England and Wales until 2023, and another with longstanding client Western Power Distribution for the construction, refurbishment and rebuilding of overhead power lines across the South West, South Wales and the East and West Midlands, until 2020.

We also extended our relationship and work activity with Northern Power Grid, winning a contract to deliver all their vegetation management work for at least the next four years.

We are also delivering two new temporary substations to power the tunnelling equipment as part of the HS2 high-speed rail project and completed the construction of the prestigious onshore substation project for Orsted Energy, which services one of the world's largest offshore windfarms at Walney, off the Cumbrian coast.

In water, we were awarded the £2 million metering installation contract by Bristol Water and secured a place on Thames Water's framework contract.

We have put significant efforts into stabilising our smart metering portfolio, where the outlook is set to improve further through 2019. We also took some exciting steps to re-enter the telecoms market, building relationships with BT Openreach and CityFibre, for whom we are due to start rolling out fibre to 20,000 homes in Edinburgh from January 2019.

Divisional and Business Update *(continued)*

Utilities *(continued)*

Safety and the environment continue to be key priorities and have been recognised in a number of ways. We were awarded the prestigious RoSPA Gold Medal for our safety performance, and Achilles Verify's annual assessment of our HSEQ processes and on-site performance resulted in achieving 100% across all categories. We also won a silver Green Apple award from the Green Organisation for Environmental Best Practice for our SSEN flood defence work in Dundee.

We operate in a regulated market and this year has been a crucial one as the bidding and awards process for the next periods in water, power and telecoms have begun to get under way. As we focus on these, our year of consolidation and growth will provide a solid foundation on which we can further develop our business.

Consulting and Rail

The Consulting and Rail business unit brings together our unrivalled engineering knowledge and transportation expertise. It encompasses rail services operation, engineering and asset management as well as both practical and strategic consultancy.

The year saw a strong improvement in business performance right across this business unit, with an exceptionally high bid win-rate which increased our forward order book by over £2.5 billion.

The division's revenues, including share of joint venture revenues, totalled £773.7 million in 2018 (2017: £550.5 million). Operating profits, including share of joint venture profit after tax, were reduced to £50.8 million in 2018 (2017: £67.6 million) before exceptional items. In 2018, the division incurred an exceptional cost of £4.0 million in respect of impairments on non-current assets (2017: £nil).

Financial results are important to us, and so is our current and future workforce. We have again put target zero at the heart of our safety culture and continued to see improvement in our accident incident rate, which fell from 2.5 to 1.9. We know that the rail industry must attract and retain a diverse workforce to thrive and are proud of our efforts to attract more women into engineering. We were instrumental in creating the new Engineering badge for the Girl Guides. This was launched in February and has received phenomenal interest. During the year, we issued over 5,500 engineering information packs to inspire girls of all ages and estimate that over 125,000 girls are now working towards completing their Engineering badge.

Under its new identity as a standalone brand within the company, Amey Consulting went from strength to strength in 2018. With an emphasis on practical consulting, its key point of difference is that it is embedded within the Amey family. This means that our designs are done by engineers who understand how infrastructure is operated and maintained every day.

Working primarily in transport, property and estates, environmental and utilities, Amey Consulting has added over £200 million of new business and welcomed nearly 300 new employees. Successes include securing the £30 million Highways England Area 10 design services contract and growing the strategic consultancy and technology services to support Network Rail to tackle journey time delays across four routes. Here, in one project alone at East Croydon, we succeeded in improving dwell time performance by 40% and cutting delay-related costs by £3.5 million over the next five years.

Internationally, Consulting won the contract to support the Enterprise Asset Management programme management office and manager on behalf of the New York Metropolitan Transport Authority. In the UK, we were appointed as design partner within the Yorkshire and Humberside Authority's construction and infrastructure consultancy framework, YORConsult2 (2018-22), as well as, for the fourth successive time, to the Northern Ireland Roads & Rivers Engineering Services Consultancy Partner 2018 design framework.

In the Rail division we quickly encountered fall-out from the collapse of Carillion at the start of the year. As the shockwaves reverberated around the industry, we worked to secure jobs and the UK's critical infrastructure projects by acquiring the majority of Carillion's rail contracts. We carried out mobilisation and onboarding rapidly – and, more importantly, safely. In just a few days, we brought on board 700 new employees and 500 temporary staff, and went on to successfully deliver critical projects.

Divisional and Business Update *(continued)*

Consulting and Rail *(continued)*

In June, we won the 15-year Wales and Borders rail contract to design and build a new rail network and run operations across Wales as well as to deliver the £738 million South Wales Metro in partnership with the Welsh Government. Won as a joint venture with Keolis, with whom we also operate the Docklands Light Railway and Manchester Metrolink, the £5 billion total contract was one of the biggest-ever wins in the history of the company.

In a significant move that takes us into train operations as well as infrastructure, in October we began operating as Transport for Wales Rail Services. We will invest £196 million to improve and update all stations and a further £800 million in trains. By 2023, 95% of journeys will be on new trains, with more than 50% of those trains being sourced from Welsh suppliers. We will introduce smart ticketing, increase social mobility and widen access. Creating 600 new jobs to deliver the contract as well as 30 new apprenticeships every year, we will also open a new Amey Consulting design hub in Cardiff in 2019.

The 2018 Christmas period was our busiest ever as we undertook crucial engineering works on 69 live sites. All were handed back on time and with no lost time injuries – a tremendous achievement.

Environmental Services

Our Environmental Services business unit contributes to a better environment by collecting and processing waste for recycling and generating electricity.

The business unit saw significant transformation in 2018. It was restructured to focus on waste treatment, where we have reached some exciting milestones in a challenging environment.

The division's revenues totalled £262.0 million in 2018 (2017: £335.9 million). Operating losses increased to £45.2 million in 2018 (2017: £15.5 million) before exceptional items. In 2018, the goodwill allocated to the division of £110.4 million has been impaired in full during the year as an exceptional charge, reflecting continuing difficult market conditions.

In 2018, we became one of the largest waste treatment operators in the UK as two major waste treatment facilities came on stream.

Our Waste Recovery Park in Milton Keynes became fully operational in March, after we completed the works and the commissioning of the advanced thermal treatment facility. This was a landmark in a 18-year design, build and operate contract for Milton Keynes Council, which began in 2013. The site can handle up to 132,000 tonnes of household waste each year, uniquely combining three technologies to maximise recovery of recyclables and contribute renewable energy into the National Grid. The advanced thermal treatment facility is the first of its kind to operate commercially in the UK, gasifying residual waste instead of combusting it directly. It has been an engineering challenge to bring the facility to operations after the bankruptcy of the technology supplier in 2016. Its completion is a testament to our engineering capability and capacity to innovate successfully.

In Allerton, North Yorkshire, our Waste Recovery Park also came into full operation in the same month, after a three-year design and construction period as part of a 28-year contract. The site can handle 320,000 tonnes of household 'black bag' waste annually, diverting 90% of North Yorkshire and the City of York's waste from landfill and generating enough electricity to power a town equivalent in size to nearby Harrogate. The facility is also first of its class in the UK; combining the operation of a recycling plant, an anaerobic digestion plant and an energy-from-waste facility.

On the Isle of Wight, we have continued with the construction of our energy-from-waste plant, scheduled to be fully operational in 2019, after commencing its commissioning process in December 2018. Once finished, the plant will be ready to handle 40,000 tonnes of waste annually. The site will also include mechanical waste recovery and will contribute to recycling 60% of the Island's waste, while diverting 90% of its household waste away from landfill.

We are in year eight of a 25-year PFI contract to carry out a complete waste management service for Cambridgeshire County Council that includes recycling, composting and the treatment of black bag waste. This has continued to perform well as we continue to explore more ways of maximising the recovery of value from the different waste streams.

Divisional and Business Update *(continued)*

Environmental Services *(continued)*

Meanwhile, in our municipal waste operations, we have had a clear strategy to turn around parts of the business and to exit loss-making legacy contracts. Working with local authorities to find the best solution, we have served notice and effected handovers on a number of contracts. So 2018 saw our departure from Northampton, Daventry and Wolverhampton local authorities. The City of London contract has been passed to Veolia, saving us losses of £1.5 million a year. In Peterborough we are similarly assisting with the handover of the contract to the City Council's LATCO (Local Authority trading company). In the London Borough of Ealing, we have negotiated an exit by 2022 which will allow the Borough to create its own LATCO, with our support, and move the services in-house. These actions have significantly reduced our future loss provisions, which in the case of Peterborough we held until 2030.

Other municipal waste contracts continue to perform well. We have put new management teams in place at Trafford, in Ealing and also in Surrey, where we have significantly turned around our performance both operationally and financially. Repairing our core business has allowed us to focus on the predictability of cashflow and margin. We will continue with this renewal of stability within our collections portfolio until August 2019 while we exit the final few contracts of the seven legacy locations identified for intervention.

We are proud of our new partnership with Recycling Lives, a social enterprise and unique recycling business which we incorporated into our supply chain in 2018. Together we have set up a recycling academy at HMP Dovegate, giving prisoners an opportunity to develop vital work skills as they recycle more than 133,000 television sets from our Household Waste Recycling Centres every year.

Facilities Management, Justice and Defence

Facilities Management, Justice and Defence is an asset-led facilities and support services business responsible for providing, delivering and maintaining infrastructure, assets and services to clients in the public sector. It thrives on delivering projects and operating in complex challenging environments.

It has been a demanding year but a positive one for the Facilities Management, Justice and Defence business unit. We have put in place a clear strategy for growth, based on our core competencies in facilities management and support services.

We implemented our Fix-Win-Grow strategy, strengthening the team through our restructure with a focus on service delivery, client relationships, and operational performance as well as targeting key efficiencies through improved ways of working. This, combined with the successful integration of the defence business following the collapse of Carillion, has strengthened our position as one of the UK's leading providers of facilities services.

The division's revenues, including share of joint venture revenues, totalled £738.8 million in 2018 (2017: £654.7 million). Operating profits, including share of joint venture profit after tax, were improved to £23.6 million in 2018 (2017: £15.7 million) before exceptional items. In 2018, the division incurred an exceptional cost of £2.7 million in respect of impairments on non-current assets (2017: £nil).

Taking on full responsibility for the £550 million defence contract that we held in joint venture with Carillion has made us the largest supplier to the Defence Infrastructure Organisation and further strengthened our position as one of the largest infrastructure partners providing facilities services to the MOD. Following Carillion's collapse in January 2018, Amey stepped in to integrate a business with 1,550 employees and with over 4,000 in the supply chain. We took responsibility for the MOD estate of barracks, airfields and over 50,000 units of military accommodation, whilst not only stabilising the level of the service, but delivering over £264 million of project work: a 12% increase from the previous year.

The extreme weather in March was challenging and caused a fivefold increase in calls to our customer services centre, but we were able to meet the spike in call-outs and ensure military capability was not affected. The newly-merged organisation is now more efficient and offers end-users a better service, as demonstrated by a 30% reduction in complaints.

Divisional and Business Update *(continued)*

Facilities Management, Justice and Defence *(continued)*

Managing Director Amanda Fisher completed the restructure of the senior management team early in the new year with the key appointments of Jerry Moloney, Director of Facilities Management and Tim Redfern as Director of Defence. Following this, we focused on relationship management and compliance, making several appointments including a Chief Engineer and technical compliance specialists, and ensuring that our contracts were led by experienced facilities management professionals. This restructure has meant we have been able to make transformational change and revitalise our contract with the Ministry of Justice, addressing key issues and working more collaboratively. Our first series of client perception surveys has recognised our improvements across the board.

We launched Amey's Zero Code, briefing over 5,000 employees and running more than 9,000 health and safety training sessions as we kick-started this three-year drive to reduce workplace accidents to zero. We have successfully launched a programme to deliver ISO44001, the Collaborative Working Standard and ISO27001, the Information Security Standard, on our Defence contracts, demonstrating our improved performance in compliance.

In a year where we have largely been focusing on the 'Fix' element of the strategy, we have nevertheless made significant wins including the hard FM contract for the UK Hydrographics Office, and, in our GeoAmey joint venture, the Scottish Court Custody and Prison Escort Service. Our success in winning a place on the Crown Commercial Service Framework will enable us to bid for future government FM contracts.

Our strategy of refocusing on our FM and support services core business led us to sell our Prisoner Rehabilitation Service, MTCnovo, in January 2019. We also moved away from disadvantageous contracts, thereby completing negotiations for an early exit of London TriBorough TFM Contract.

The year 2018 has been an important one where we have made good progress with our Fix-Win-Grow strategy. We have built on the foundations put in place in the latter part of 2017, focused on important fixes to strengthen our relationships with clients, stepped up performance on compliance, become more efficient, and secured important contract wins. We are now looking forward to capitalising on our strong pipeline for growth.

Health, Safety and the Environment

Health and Safety

Committing to our ambition of zero harm, in 2018 we set a Group target of achieving zero lost time incidents by the end of 2021. This can only be achieved if this is accepted as everyone's challenge and so, acknowledging that everyone has a role to play, we developed our Zero Code. Launched with an all-company stand-down in June, Zero Code is our simple work code that highlights the key actions everyone must take to protect themselves and others from harm. It focuses on encouraging and developing correct and safe behaviours, and it applies to everyone who works for, and with, Amey. With the aim of empowering everyone to speak up if something is not right, we have made 'If in doubt, Shout Out!' its key phrase.

Meanwhile we have continued with training programmes and initiatives to improve safety.

- Our strategic safety leadership training programme, begun in 2017, was extended to account leads, managers and supervisors, who on completion receive the IOSH Managing Safely qualification. To date 1,047 employees have participated in the programme.
- We have developed and introduced a policy to stop the use of hands-free mobile phones for anyone driving on Amey-related business, including commuting.
- We have reviewed our Personal Protective Equipment (PPE) suppliers so that our people can now benefit from faster ordering times, access to PPE via vending machines, and a new range of better-fitting women's PPE.

Four of our business units, Facilities Management, Defence and Justice, Utilities, Highways, and Consulting and Rail, received a Royal Society for the Prevention of Accidents (RoSPA) Award. Our Highways team in the East Midlands also won the Institute for Collaborative Working's Industry to Industry Award.

Our relentless drive for improvement and awareness was reflected in the 2018 annual employee survey, which showed that 92% of our people believe that Amey takes health and safety in the workplace seriously.

As a result of our focus on Health and Safety our All Injury Rate (which includes employees and suppliers) improved by 7%, from 4.43 in 2017 to 4.11 in 2018. We have also seen a reduction in lost time injuries resulting in our injury severity rate reducing by 21%.

Environmental performance

The year 2018 was one of improvement and progress in our approach to environmental management. In July, we achieved external certification of our management system to the revised ISO 14001:2015 standard. Our specialised environment and sustainability team has continued to grow to a team of 83 – providing professional expertise our design and operations teams, in addition to our environmental business partners introduced in 2017.

This year we became signatories to the Waste to Wealth commitment, set by the Business in the Community Circular Economy Taskforce, to consider our use of materials. Employees at our Oxford head office took on the 'Cut Plastic be Fantastic' challenge, at the same time as we introduced a new plastics policy to cut single-use plastics and re-examine our waste recycling. As a result, 93% of the participants trialled and found alternative products to plastic.

The company also joined the Environmental Industries Commission, allowing us to engage with key stakeholders and influence UK environmental policy.

Our Utilities team won international recognition and a silver Green Apple award from the Green Organisation for Environmental Best Practice for its flood defence work in Dundee.

In 2018 our carbon emissions increased considerably through the commencement of waste treatment through advanced thermal treatment and anaerobic digestion at our Waste Recovery Parks in Allerton and Milton Keynes. The additional carbon emissions from these facilities were 13,693 tCO2e and 18,641 tCO2e respectively. Our carbon emissions from the treatment of biogas was 598,517 tCO2e.

Health, Safety and the Environment *(continued)*

Environmental performance *(continued)*

This brought our total carbon footprint in 2018 to 136,052 tCO2e under GHG protocol scope 1 and 3,674 tCO2e under GHG protocol scope 2, an increase of 40.17% compared to 2017 because of the new advanced thermal treatment activities.

We consumed 348.3 million kWh of energy in 2018 from the sources detailed in the table below.

Energy source	Million kWh	% of total consumption
EfW parasitic consumption	17.1	5%
Electricity	26.2	8%
Gas	2.3	1%
Diesel	213.5	61%
Unleaded	4.8	1%
Red Diesel	82.4	24%
Kerosene	0.7	<1%
LPG	0.1	<1%
Bottled LPG	1.2	<1%
Total	**348.3**	

Our energy intensity is annual energy consumed per annual turnover, in 2018 this was: 0.13 GWh / £m turnover.

Our energy saving activities included a trial in Sheffield of two vans that used hydrogen fuel cells to extend their battery-powered range to 200 miles. The results will be monitored by the Department for Transport. In September, we launched a campaign to encourage our people to choose a better way of working that cuts travelling time, by for example using Skype for meetings. We also began energy consumption assessments at some of our locations to identify opportunities for improvement.

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 PricewaterhouseCoopers. Our total energy consumption has been calculated using data and methodologies compiled in the fulfilment of the Energy Savings Opportunity Scheme (ESOS) Regulations.

Our People

Our people are at the core of our business. We continuously invest in their skills, development and wellbeing – a commitment that was recognised this year by a number of awards.

In 2018, Amey achieved reaccreditation from Investors in People (IiP). Its Silver Award places the company in the top five per cent of UK employers within the IiP's new revised and elevated standard. The process of reaccreditation, which takes place every three years, is a major undertaking that helps us to evaluate our achievements in critical leadership and people management practices from leading and inspiring our people, building capability, and reward and recognition, to living our values and creating sustainable success.

This year, we received the highest ever response to our annual employee survey, with two-thirds of our 19,000 employees taking part. Our engagement score increased to 79% from 75% in 2017, indicating an increase in employee pride, advocacy, job enjoyment and overall satisfaction. Together with the feedback from our investment in IiP, this provides critical information on where to focus our people priorities.

At Amey, we want everyone to develop their potential and thrive within the company. Our annual 'People Board' process identifies current and future talent and ensures we develop people with high potential to match our strategy and ambitions. We are pleased that in 2018, one in every two of our senior roles were filled by internal candidates whom we have grown from within our business, with over a quarter moving between our business units.

The Women at Amey (Women@Amey) network helps us to recruit, support and retain women and hosts development and networking events. In 2018, a cross-section of women across our business completed a 15-month pilot programme supporting them to become future leaders and seven have since been promoted or been successful with internal job moves.

Our Talent Tracker programmes for growing and developing future managers attracted 221 applications, with 39 people successful in getting on to the programme. The Ferrovial University, run by our parent company in Madrid, offers a range of development programmes and in 2018 was attended by 79 Amey employees. In 2018 we welcomed 111 graduates onto the new graduate development programme, which offers five career pathways spanning careers in engineering, operational and general management as well as whole host of functional areas.

Our Leaders Creating Better Places development programme aims to drive our safety and delivery performance and develop our leadership capability. It is focused on Account Leads and Supervisors, and so far, we have invested in putting over 1,000 of our people through the programme.

As part of our commitment to developing the skills of our employees, we signed the 5% Club's charter; a commitment to having 5% of our workforce in 'earn and learn' positions within five years of joining to give the company a pipeline of skills and talent. There are currently 150 apprentices working across Amey and we recruited 64 of them during 2018.

We have introduced a new more informal process for managing individual performance with Job Chats, which give a simple structure for a regular check-in between our people and their managers to see how things are going. Employees can still request a full Personal Development Review (PDR) if they would like a more in-depth discussion as well as a wider career development discussion.

Amey delivers services to almost everyone in the UK. Our focus on diversity and inclusion helps us to stay attuned to the needs of the communities we serve. We now have over 1,000 employee members in our diversity networks (e.g. LGBTA, Women@Amey) and an active inclusion steering group; helping to embed inclusion in our DNA, with inclusion awareness being a core element across all our leadership programmes. We have worked closely with SCOPE, the disability charity, and we are promoting diversity through our STEM outreach programme, our Girl Guide Engineering badge (see Consulting and Rail section), attending Pride events, and by opening our doors to employment for people who face disadvantage. In 2018 our efforts were recognised by six national awards for diversity and inclusion, including the Construction News Diversity Excellence Award and the Inspiring STEM Large Company Award (Diverse STEM).

In 2018 we widened our focus on mental health and set up a Wellbeing framework. We now have 138 Wellbeing Ambassadors who promote and support the wellbeing of our employees and we now have 80 mental health first aiders trained to spot early symptoms of mental health conditions and offer initial assistance and guidance, which includes access to our Employee Assistance Programme (EAP).

Our People *(continued)*

Our Gender Pay Gap report for 2017 showed there was a 24% difference in average (mean) pay between men and women. This is due to the fact there are still far more men than women represented in our technical and senior roles at Amey. We are working hard to understand the root causes of this disparity and to take active steps to address them, which includes increasing our sector's attractiveness women.

Springboard, our continuous improvement programme, which empowers employees to suggest and implement improvements to the business, was introduced in 2018 and is growing in momentum. The best ideas will be showcased at an awards ceremony in 2019.

In 2018, we introduced further dimension to our a*stars reward and recognition scheme. As well as employees being able to nominate a colleague to receive a £25 voucher for their hard work, we set up an annual award scheme to celebrate those demonstrating the best of Amey's values. Five hundred nominations were made, and 15 finalists attended an awards ceremony and dinner.

Social Value

Amey is an active and responsible member of the communities we serve. Our social value activities help create a long-term positive impact, inspiring people, supporting local enterprise, protecting the environment and transforming communities.

It was officially the Year of Engineering and in 2018 we have been inspiring young people about STEM (Science Technology Engineering Maths). The new Engineering badge for the Girl Guides, created and designed by Amey engineers, was launched in February and has received phenomenal interest. There are now over 125,000 girls working towards this badge. We further cemented our relationship with Girl Guiding UK with a three-year partnership to support their Innovator Skills Builder badge. We supported other STEM events across the UK including the national Big Bang and initiated the Amey Challenge Cup which brings girls aged 13-15 into our workplaces to work with our engineers for a day and solve a real-life engineering problem. Our wide-ranging efforts were rewarded with winning the 'STEM Employer – Large Company' category at the STEM Inspiration Awards in late 2018.

We continue with our strategic partnership with the Duke of Edinburgh Award (DofE), specifically to support disadvantaged young people. In 2017/8 the charity saw a 27% increase in participants coming from disadvantaged areas. Eighty-four Amey employees took part in the 'DofE Adventure' a 50km two-day fundraising hike. Through the DofE, we continue to provide life-changing opportunities for our apprentices, and we marked the 500th apprentice enrolment in the Gold Award with an event in Swindon attended by HRH The Earl of Wessex.

The Defence Employer Recognition Scheme awarded us Gold status in recognition of our commitment to the Armed Forces Corporate Covenant and the employment opportunities we provide to veterans, reservists and service families. We continue to support the Forces charity SSAFA, holding 19 fundraising 'Big Brew Up' events across the UK. Our defence business celebrated reaching our target of raising over £200,000 since 2016.

We continue to be active members of the Buy Social Corporate Challenge – with over £3.5 million of our supply-chain spend going to Social Enterprises in 2018. We have developed new partnerships with Wildhearts, an organisation with a diverse range of social impact initiatives in the UK and worldwide; Haven, which provides sustainable employment and development opportunities to disabled people, and Recycling Lives, a unique business that uses its commercial operations to sustain charitable programmes. We produced our first impact report with case studies and examples of our work with this sector. We also won the 'Market Builder' category at the UK Social Enterprise Awards 2018.

Our people are our greatest strength, as is shown clearly by their volunteering activities. All our employees receive one paid volunteer day a year, enabling them to support either one of our strategic charity partners or a local charity of their choice. In 2018 our employees gave over 13,000 hours of their time and this included an unprecedented 114 volunteers supporting the foodbank charity Trussell Trust during their busy December period. We also introduced a new initiative with the disability charity Scope, where some of our teams took over their charity shops in 'Store Wars' events.

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 nonfinancial 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.

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.

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 15 to the Group financial statements. The objectives and policies of managing the financial risk of the Group are also outlined in note 15.

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 the Fit 4 the Future programme, development of our people to ensuring compliance and accountability, and business audit and assurance.

Health and safety - Amey operates in a number of complex, high risk environments such as rail networks, airports, utilities, defence establishments, civil engineering structures, schools and industrial 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 9.

Principal Risks and Uncertainties *(continued)*

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. See page 11 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 and 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.

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's intention to leave the European Union (Brexit). This 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. We have prepared contingency plans and have established a Project Management Office to coordinate the workstreams in the event of a 'no-deal' Brexit.

Until we know and understand the 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 a strategic review of the markets it operates in. This review relates specifically to its services portfolio, of which Amey forms a part. No decisions have been taken and it is very much business as usual. The review, while it is being undertaken, does not have any impact 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)*

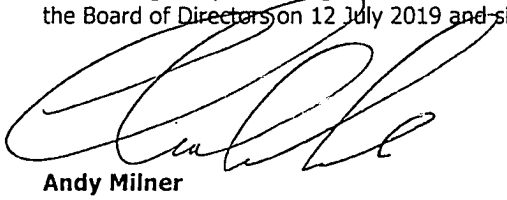
Transparency and government contracts - as a public service provider, we are acutely aware of the responsibility we have to government and taxpayers, and we are mindful of the positive impact that transparency and engagement has on the way that our industry is perceived.

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 2018 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 3 to 15 contains the strategic review of the business for 2018. This Report was approved by the Board of Directors on 12 July 2019 and signed on its behalf by:



Andy Milner
Chief Executive Officer, Amey
12 July 2019

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 2018. 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 29 to the financial statements.

Strategic report

The Chief Executive Officer's summary statement on pages 1 to 2 and the corporate commentary on pages 3 to 15 describe the principal activities of the Group, the development and performance of the Group's business during 2018, 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

On 28 August 2018, the Group obtained control of Carillion Amey Limited and Carillion Amey (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 has 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 has been accounted for as joint ventures to 28 August 2018, the date when control was obtained, and thereafter as wholly-owned subsidiary undertakings.

The Group income statement is set out on page 29 and shows a loss after tax for the year amounting to £388.0 million (2017: £188.9 million loss) on group revenue of £2.32 billion (2017: £2.20 billion).

The overall gross profit and operating profit before exceptional items were respectively £128.7 million and £14.6 million (2017: £137.4 million and £35.8 million) representing margins of 5.5% and 0.6% (2017: 6.3% and 1.6%). Administrative expenses were increased to £112.6 million (2017: £110.4 million).

The operating profit is stated after charging all operating costs and before net finance expense and tax. The operating loss on continuing operations was £413.6 million (2017: £168.8 million loss). Net operating exceptional losses arising in 2018 totalled £428.2 million (2017: £204.5 million loss) which arose on the cost of exit from the Birmingham City Council Highways PFI contract (£123.2 million), the impairment of goodwill (£314.3 million), impairments of other assets (£17.1 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 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 £35.1 million arose as a result of recognising these items. The 2017 net exceptional cost arose on the dispute on the Birmingham City Council Highways PFI contract (£208.5 million cost) and on the disposal of joint venture investments (£4.0 million profit) with no associated tax recognised.

Net finance expense on continuing operations was reduced to £14.4 million (2017: £21.1 million) reflecting the reduction in Group borrowings following equity investment during both 2018 and 2017. The Group's share of loss after tax of joint ventures was £6.2 million (2017: £8.7 million profit) which was adversely impacted in 2018 by an exceptional charge of £4.6 million arising on impairment of non-current assets in a joint venture. Also, Carillion Amey results as a joint venture were only included up to the point when those companies were fully acquired and consolidated.

Cash flows from operating activities were £130.5 million outflow (2017: £31.9 million inflow) which reflected the high level of provision utilisation during 2018 and other working capital challenges this year.

Equity shareholder funds at 31 December 2018 stood at a deficit of £32.8 million (2017: £246.3 million surplus). Shareholder funds and balance sheet strength were boosted as a result of the issue of an Other Equity Instrument of £60.0 million to Ferrofin, SL during the year in exchange for cash of £60.0 million on 30 April 2018. Since the year end, a further issue of a new 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. This has been included in a proforma balance sheet, as presented on page 32, which shows proforma net assets of £167.2 million at 31 December 2018. The Group has 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.

Report of the Directors *(continued)*

Results and dividends *(continued)*

No interim dividend was paid during the current or preceding year. The Directors do not recommend the payment of a final dividend. Other changes in equity shareholder funds reflect the retained loss after tax for the year of £377.7 million and post-tax actuarial gains on pension schemes of £29.4 million.

Post balance sheet events

(a) Birmingham contract dispute

On 29 June 2019, the Group concluded an agreement with Amey Birmingham Highways Limited (ABHL) to exit from the contract to provide highways maintenance services to Birmingham City Council. Under the settlement arrangements, the Group is obliged to pay £215 million in total to ABHL over a six-year period (£100 million on 29 June 2019, two further instalments of £30 million each at the end of September and December 2019, £10 million each year from 2020 to 2024 and £5 million in 2025), for a full release of the Group's liability in respect of the Birmingham project from all key stakeholders. The services agreement between the Group and ABHL will continue in amended form until 30 September 2019 (and may be subject to extension to a date not later than 31 March 2020 which may be nominated by ABHL). Liability under the services agreement during this period is generally capped at £0.9 million to September 2019 with a further £0.15 million per month if the contract is extended to March 2020. The Group will be entitled to set off unpaid amounts under the services agreement from ABHL against payments due to ABHL under the settlement agreement, subject to certain caps.

The total additional charge to profits in 2018 to cover the loss arising from these arrangements and for settling outstanding amounts due is £123.2 million. This is in addition to the amounts already provided in 2017 of £208.5 million.

(b) Further issue of other equity instrument

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 with interest that rises to 12-month LIBOR plus 700 basis points if Group Profits Before Interest, Tax, Depreciation and Amortisation ('EBITDA') is above a set threshold.

The instrument 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 instrument 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.

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 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 is available until 31 July 2020.

These loans 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.

In light of this new financing arrangement, the Group has presented a proforma balance sheet incorporating this intercompany loan change (see page 32). This proforma balance sheet shows net assets of £167.2 million at 31 December 2018.

Report of the Directors *(continued)*

Post balance sheet events *(continued)*

(c) Issue of new intercompany loan

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 and is due to repaid by 31 July 2020. 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.

(d) 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. No profit or loss arose on this disposal.

Directors

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

I Tyler (Chairman) (appointed 1 January 2018)
F Lopez (Vice-chairman) (appointed 6 June 2018)
A Camacho
A Garcia
F Gonzalez de Canales Moyano
A Milner
A Nelson
A Lovell (appointed 29 April 2019)
S Olivares (resigned 1 June 2018)
C Hui (resigned 28 March 2019)

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.

Employee involvement and employment policies

The involvement and engagement of employees is fundamental to the long-term growth of the business.

Employee engagement

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 those offline via their people managers. These are in addition to communications direct to employees on specific matters or initiatives, which included the launch of the Health and Safety Zero Code in June and a refresher on employee well-being initiatives in December 2018.

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 Group has conducted an annual employee survey for over ten years, which has assisted the Executive and Functional/Account Directors' understanding of the areas that are going well and those that require action to improve the business. The response rate for 2018's survey was 66% and the engagement score improved to 79%.

Report of the Directors *(continued)*

Employee involvement and employment policies *(continued)*

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 that it gets the best out of everyone.

The Investors in People Champion 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; and retirement.

Amey complies with the Equality Act 2010 and Public Sector Equality Duty. This requires 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 achieved 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 while 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 audits our site 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 also enabling for a wide range of disabilities in the UK.

Report of the Directors *(continued)*

Employee involvement and employment policies *(continued)*

Modern Slavery Act

The Group recognises that it has a responsibility to take a robust approach to slavery and human trafficking and indeed 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 third such statement which Amey has produced, can be found on the Amey website (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 2018, there was continued engagement with the supply chain extending communications on Group values and specifically on the Act. Failure to respond to our enquiries carries consequences for those within the supply chain and we have discontinued business with a number of suppliers due to their lack of proactivity as to the Act and/or lack of progress or desire in demonstrating their position in a transparent and collaborative ethos.

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 Code of Ethics.

Due diligence processes for slavery and human trafficking:

The Group has carried out a risk-based analysis on its own operations and within its supply chain having 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:

To ensure a high level of understanding of the risks of modern slavery and human trafficking in its supply chain members, the Group has provided web-based training to a wider group of staff to promote awareness of, to identify and address potential modern slavery risks. During 2018 a compliance audit was conducted jointly with our Scottish Water client.

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.

Report of the Directors *(continued)*

Corporate Governance

Amey is committed to high standards of corporate governance. Although not obliged to follow the FRC's UK Corporate Governance Code ("the Code"), the Board's policy is to embrace the principles of Good Governance as set out in the Code where appropriate and practical.

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.

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.

During the year all directors in the Group received refresher training on director duties and conflicts.

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 elevate 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 Risk Management Committee is a sub-committee of the Executive Committee with cross-business and function representation. It meets quarterly and receives reports in respect of the current status of those risks evaluated as Corporate Risks and Risk Events.

The Executive Committee reviews formally 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 2018 the Executive Committee reviewed the terms of reference for the Risk Management Committee.

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.

Report of the Directors *(continued)*

Corporate Governance *(continued)*

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 21 to the financial statements whilst details of finance risks are set out in note 15.

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, £96 million maturing in July 2022 and £32 million maturing in November 2022.

At 31 December 2018, these facilities were undrawn and the Group also held £118.4 million of unrestricted cash on the Group balance sheet.

Subsequent to the year-end, as discussed in the post balance sheet section above, the following matters that have an impact on our going concern assessment occurred:

1. On 29 June 2019, the Group concluded an agreement with Amey Birmingham Highways Limited (ABHL) to exit from the contract to provide highways maintenance services to Birmingham City Council. Under the settlement arrangements, the Group is obliged to pay £215 million in total to ABHL over a six-year period (£100 million on 29 June 2019, two further instalments of £30 million each at the end of September and December 2019, £10 million each year from 2020 to 2024 and £5 million in 2025), for a full release of the Group's liability in respect of the Birmingham project from all key stakeholders.

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

3. On 8 July 2019, the terms and conditions of part of the Group's existing subordinated loans to Landmille Limited, which were held by a fellow subsidiary undertaking, Amey plc, were amended and £200.0 million of these loans replaced with a new Other Equity Instrument with Landmille Limited which will be classed as part of equity on the Group balance sheet. This loan instrument 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 payments at its sole discretion which cannot be claimed by the lender. 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 with Landmille Limited were consolidated into a new sterling revolver facility which bears interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. This new sterling revolver facility is available until 31 July 2020. These loans 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. In light of this new financing arrangement, the Group has presented a proforma balance sheet incorporating this intercompany loan change (see page 32). This proforma balance sheet shows net assets of £167.2 million at 31 December 2018.

Report of the Directors *(continued)*

Going concern *(continued)*

The impact of these transactions has been a net £85 million cash outflow together with an improved net asset position. This together with the impact of the timing of supplier payments, which have in certain cases been brought forward to comply with the requirements outlined in the Procurement Policy Note issue by Cabinet Office, have reduced the level of cash headroom since the year-end.
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 2019 and the strategic plan for 2019-2023);
- the availability of core and ancillary financing facilities;
- the compliance with the related net debt/EBITDA covenant;
- 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 which includes the settlement payments agreed as a result from exiting from the Birmingham City Council Highways PFI contract and the funding structure described in the previous paragraphs; and
  - a Reasonable Worse Case ('RWC') forecast which applies sensitivities against the base case for 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:

- compliance with the requirements outlined in the Procurement Policy Note issue by Cabinet Office which aims to take into account a supplier's approach to payment in the procurement of major contracts;
- short-term timing delays in collections from customers; and
- longer-term reductions in performance and growth when compared to those set out in the Group's strategic plan.

Even after assuming that the sensitivities outlined above will materialise the Group's cash flow forecasts show that there is sufficient liquidity to enable it to continue trading.

As noted in the Chief Executive Officer's Summary, in October 2018, Ferrovial, S.A., our ultimate parent company, announced a strategic review of the markets it operates in. This review concluded in February 2019 that Ferrovial would divest their wider Services portfolio, which includes Amey. This decision does not impact our 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 our financing on a change of control would be as follows:

- Our external facilities may become due for repayment subject to the detailed change of control requirements which are primarily dependent on the credit worthiness of the purchaser. The Directors believe that the Group would be able to renew or replace these facilities, if necessary;
- Any consideration still outstanding to Amey Birmingham Highways Limited would be immediately payable under the terms of the settlement agreement; and
- Our facilities due to our parent totalling £274 million would be due for repayment in the event that this debt was not transferred to a new shareholder.

Whilst the Directors consider that the Group is a going concern, in the circumstances of any sale of the Group by the existing shareholder, the intentions of any future parent as regards shareholder financing is uncertain, including the amount of support, if any, the Group would receive from any new parent. However, as would be usual in the context of a third-party sale arrangement, the Directors would expect the existing shareholder debt to be managed in an appropriate manner as part of the sale process.

These events or conditions indicate, only in the event of a sale, the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern as it is not practicable to determine or quantify them.

Notwithstanding this, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Report of the Directors *(continued)*

Political donations

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

Auditor

Deloitte LLP has expressed their 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 to 31 December 2019.

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 for 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.

Report of the Directors *(continued)*

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

Andrew Nelson
Chief Finance Officer, Amey UK plc
12 July 2019

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 2018 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 48.

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.

Material uncertainty related to going concern – Proposed plans to sell the Group

We draw attention to note 1 of the financial statements concerning the proposed plans to sell the Group and the impact this will have on the Group's ability to continue as a going concern, which is dependent on the loans the Group has from its ultimate parent undertaking, Ferrovial, S.A., together with the provision of external facilities which may be withdrawn on a change of control. Whilst the Directors consider that the Group is a going concern, the intentions of future management are uncertain, including the amount of support, if any, the Group will receive in the form of guarantees or loans from its new parent. As stated in note 1, these events or conditions, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern as it is not practicable to determine or quantify them. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of Amey UK plc *(continued)*

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.

Independent auditor's report to the members of Amey UK plc *(continued)*

Report on other legal and regulatory requirements *(continued)*

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
12 July 2019

Group income statement for the year ended 31 December 2018

	Note	Before exceptional items 2018 £'000	Exceptional items (note 3) 2018 £'000	Total 2018 £'000	Before exceptional items 2017 £'000	Exceptional items (note 3) 2017 £'000	Total 2017 £'000
Continuing operations:							
Total revenue		**2,667,818**	**-**	**2,667,818**	2,581,278	-	2,581,278
Less: share of revenue of joint ventures		**(344,731)**	**-**	**(344,731)**	(383,089)	-	(383,089)
Group revenue	2	**2,323,087**	**-**	**2,323,087**	2,198,189	-	2,198,189
Cost of sales		**(2,194,377)**	**(98,173)**	**(2,292,550)**	(2,060,784)	(208,500)	(2,269,284)
Gross profit (loss)		**128,710**	**(98,173)**	**30,537**	137,405	(208,500)	(71,095)
Administration expenses		**(112,581)**	**-**	**(112,581)**	(110,381)	-	(110,381)
Share of (loss) profit after tax of joint ventures	2	**(1,531)**	**(4,626)**	**(6,157)**	8,743	-	8,743
Profit on disposal of joint venture investments		**-**	**34,286**	**34,286**	-	3,964	3,964
Impairment of assets		**-**	**(359,663)**	**(359,663)**	-	-	-
Operating profit (loss)	2,4	**14,598**	**(428,176)**	**(413,578)**	35,767	(204,536)	(168,769)
Finance income		**13,111**	**-**	**13,111**	19,582	-	19,582
Finance costs		**(27,501)**	**-**	**(27,501)**	(40,640)	-	(40,640)
Net finance expense	7	**(14,390)**	**-**	**(14,390)**	(21,058)	-	(21,058)
Profit (loss) before tax		**208**	**(428,176)**	**(427,968)**	14,709	(204,536)	(189,827)
Tax credit	8	**4,890**	**35,059**	**39,949**	891	-	891
Profit (loss) after tax for the year		**5,098**	**(393,117)**	**(388,019)**	15,600	(204,536)	(188,936)
Attributable to:							
Equity holders of the Company		**10,542**	**(393,117)**	**(382,575)**	19,124	(204,536)	(185,412)
Minority interests		**(5,444)**	**-**	**(5,444)**	(3,524)	-	(3,524)
		5,098	**(393,117)**	**(388,019)**	15,600	(204,536)	(188,936)

The notes on pages 35 to 85 form part of these Group financial statements.

Group statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Loss after tax for the year		**(388,019)**	(188,936)
Other comprehensive income (expense)			
Items not subject to recycling:			
Actuarial gains and adjustments on pension schemes	22	**35,464**	66,579
Deferred tax on pension schemes	8	**(6,028)**	(11,318)
Items subject to recycling:			
Gain on change in fair value of derivatives	15	**1,809**	2,617
Deferred tax on derivatives	8	**(315)**	(438)
Share of joint ventures' other comprehensive income (expense)			
- gain on change in fair value of derivatives	15	**6,344**	3,052
- deferred tax on derivatives		**(1,077)**	(518)
- derivatives recycled through profit and loss	15	**15,989**	476
- deferred tax on recycled amounts		**(2,718)**	(115)
Other comprehensive income for the year after tax		**49,468**	60,335
Total comprehensive expense for the year		**(338,551)**	(128,601)
Attributable to:			
Equity holders of the Company		**(334,205)**	(125,765)
Minority interests		**(4,346)**	(2,836)
		(338,551)	(128,601)

The notes on pages 35 to 85 form part of these Group financial statements.

Group balance sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill on acquisition of subsidiary undertakings	9	**421,490**	735,764
Other intangible assets	10	**114,830**	93,882
Property, plant and equipment	12	**52,205**	54,130
Investments in joint ventures	13	**47,002**	96,712
Deferred tax assets	8	**57,067**	68,934
PFI/PPP Financial assets	14	**70,165**	62,645
Derivative financial instruments		**-**	107
Trade and other receivables	17	**30,387**	38,739
		793,146	1,150,913
Current assets			
Inventories	18	**21,914**	34,009
PFI/PPP Financial assets	14	**4,196**	11,998
Derivative financial instruments		**121**	852
Trade and other receivables	17	**491,256**	452,191
Current tax assets		**17,367**	14,070
Cash and cash equivalents	19	**164,330**	215,881
		699,184	729,001
Total assets		**1,492,330**	1,879,914
Current liabilities			
Trade and other payables	20	**(693,351)**	(660,979)
Ferrovial, S.A. group loans	20	**(80,000)**	(581)
Current tax liabilities		**(1,330)**	(4,144)
Provisions for other liabilities and charges	23	**(217,323)**	(117,612)
External borrowings	22	**(2,905)**	(4,093)
		(994,909)	(787,409)
Non-current liabilities			
Trade and other payables	21	**(5,725)**	(4,308)
Ferrovial, S.A. group loans	21	**(319,107)**	(397,742)
Derivative financial instruments		**(16,965)**	(19,612)
Deferred tax liabilities	8	**(34,541)**	(61,807)
Retirement benefit obligations	22	**(13,512)**	(56,450)
Provisions for other liabilities and charges	23	**(86,016)**	(250,030)
External borrowings	21	**(54,379)**	(56,293)
		(530,245)	(846,242)
Total liabilities		**(1,525,154)**	(1,633,651)
Net (liabilities) assets		**(32,824)**	246,263
Capital and reserves			
Share capital	24	**203,677**	203,677
Share premium account		**153,134**	153,134
Other reserve		**61,887**	61,887
Other equity instruments	25	**61,198**	-
Hedge reserve		**(8,375)**	(27,309)
Retained (deficit) earnings		**(495,743)**	(140,937)
Equity attributable to equity holders of the Company		**(24,222)**	250,452
Minority interests	26	**(8,602)**	(4,189)
Total equity		**(32,824)**	246,263

The notes on pages 35 to 85 form part of these Group financial statements. The financial statements on pages 29 to 31 and 33 to 85 were approved and authorised for issue by the Board of Directors on 12 July 2019 and signed on its behalf by:

Andy Milner
Director
12 July 2019

Unaudited proforma Group balance sheet as at 31 December 2018

	2018 Audited £'000	Conversion of Ferrovial, S.A. group loans £'000	2018 Proforma £'000
Non-current assets	**793,146**	**-**	**793,146**
Current assets	**699,184**	**-**	**699,184**
Total assets	**1,492,330**	**-**	**1,492,330**
Current liabilities			
Ferrovial, S.A. group loans	**(80,000)**	**80,000**	**-**
Other current liabilities	**(914,909)**	**-**	**(914,909)**
	(994,909)	**80,000**	**(914,909)**
Non-current liabilities			
Ferrovial, S.A. group loans	**(319,107)**	**120,000**	**(199,107)**
Other non-current liabilities	**(211,138)**	**-**	**(211,138)**
	(530,245)	**120,000**	**(410,245)**
Total liabilities	**(1,525,154)**	**200,000**	**(1,325,154)**
Net assets (liabilities)	**(32,824)**	**200,000**	**167,176**
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	**61,198**	**200,000**	**261,198**
Hedge reserve	**(8,375)**	**-**	**(8,375)**
Retained (deficit) earnings	**(495,743)**	**-**	**(495,743)**
Equity attributable to equity holders of the Company	**(24,222)**	**200,000**	**175,778**
Minority interests	**(8,602)**	**-**	**(8,602)**
Total equity	**(32,824)**	**200,000**	**167,176**

Non-adjusting post-balance sheet event - further issue of other equity instrument: on 8 July 2019, Landmille Limited converted £200.0 million of its existing loans to Amey plc into an Other Equity Instrument also with Landmille Limited. Landmille Limited is a fellow Ferrovial, S.A. group company. See note 34 for more information.

In light of this new financing arrangement, the Group has elected to present a proforma balance sheet incorporating this intercompany loan change.

Group statement of changes in equity for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Hedge reserve £'000	Retained (deficit) earnings £'000	Minority interests £'000	Total equity £'000
At 31 December 2016	3,677	153,134	61,887	-	(31,695)	185,249	4,569	376,821
Impact of transition to IFRS 15	-	-	-	-	-	(196,035)	(5,922)	(201,957)
At 1 January 2017	3,677	153,134	61,887	-	(31,695)	(10,786)	(1,353)	174,864
Issue of share capital in the year (note 24)	200,000	-	-	-	-	-	-	200,000
Loss after tax for the year	-	-	-	-	-	(185,412)	(3,524)	(188,936)
Other comprehensive income	-	-	-	-	4,386	55,261	688	60,335
At 31 December 2017	203,677	153,134	61,887	-	(27,309)	(140,937)	(4,189)	246,263
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 25)	**-**	**-**	**-**	**60,000**	**-**	**-**	**-**	**60,000**
Reserves transfer in respect of other equity instruments	**-**	**-**	**-**	**1,198**	**-**	**(1,198)**	**-**	**-**
Profit 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)**
Non-adjusting post balance sheet event: Further issue of other equity instrument (note 34)	***-***	***-***	***-***	***200,000***	***-***	***-***	***-***	***200,000***
Proforma equity at 31 December 2018	***203,677***	***153,134***	***61,887***	***261,198***	***(8,375)***	***(495,743)***	***(8,602)***	***167,176***

Non-adjusting post balance sheet event - further issue of other equity instrument: on 8 July 2019, Landmille Limited converted £200.0 million of its existing loans to Amey plc into an Other Equity Instrument issued 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 2018.

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

The notes on pages 35 to 85 form part of these Group financial statements.

Group cash flow statement for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Cash flows (absorbed) generated from operating activities	27	**(130,476)**	31,860
Income tax received		**7,555**	8,241
		(122,921)	40,101
Cash flows from investing activities			
Additions of property, plant and equipment		**(2,342)**	(4,978)
Additions of other intangible assets		**(11,233)**	(1,317)
Disposal of property, plant and equipment and other intangible assets		**1,710**	2,881
Acquisition of subsidiary undertakings	11	**(11,090)**	-
Acquisition of equity in and loan advances made to joint ventures		**(35,154)**	(5,880)
Repayment of loan advances made to joint ventures		**2,887**	2,491
Disposal of loans to joint ventures, cash paid (see note 3)		**63,180**	13,860
Interest received		**8,519**	8,102
Dividends received from joint ventures		**5,714**	6,830
		22,191	21,989
Cash flows from financing activities			
Loans advanced by minority interest shareholders		**100**	-
Repayment of bank loans		**(930)**	(1,996)
Movements on loans with Ferrovial, S.A. subsidiary undertakings		**365**	(179,211)
Repayment of finance leases		**(2,794)**	(3,099)
Interest paid		**(25,657)**	(35,220)
Increase in share capital		**-**	200,000
Proceeds from issue of other equity instruments		**60,000**	-
		31,084	(19,526)
Cash and cash equivalents in acquired subsidiary undertakings		**18,095**	-
Net (decrease) increase in cash and cash equivalents		**(51,551)**	42,564
Cash and cash equivalents at 1 January		**215,881**	173,317
Cash and cash equivalents at 31 December	19	**164,330**	215,881

The notes on pages 35 to 85 form part of these Group financial statements.

Notes forming part of the Group financial statements for the year ended 31 December 2018

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 pension liabilities, financial instruments and other intangible assets arising on acquisition. The suitability of the going concern basis is considered in the Report of the Directors.

The significant accounting policies applied in preparing the consolidated financial statements, which have been applied consistently, 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 2018.

(b) 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 21 to the financial statements whilst details of finance risks are set out in note 15.

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, £96 million maturing in July 2022 and £32 million maturing in November 2022.

At 31 December 2018, these facilities were undrawn and the Group also held £118.4 million of unrestricted cash on the Group balance sheet.

Subsequent to the year-end, as discussed in the post balance sheet section above, the following matters that have an impact on our going concern assessment occurred:

1. On 29 June 2019, the Group concluded an agreement with Amey Birmingham Highways Limited (ABHL) to exit from the contract to provide highways maintenance services to Birmingham City Council. Under the settlement arrangements, the Group is obliged to pay £215 million in total to ABHL over a six-year period (£100 million on 29 June 2019, two further instalments of £30 million each at the end of September and December 2019, £10 million each year from 2020 to 2024 and £5 million in 2025), for a full release of the Group's liability in respect of the Birmingham project from all key stakeholders.

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

3. On 8 July 2019, the terms and conditions of part of the Group's existing subordinated loans to Landmille Limited, which were held by a fellow subsidiary undertaking, Amey plc, were amended and £200.0 million of these loans replaced with a new Other Equity Instrument with Landmille Limited which will be classed as part of equity on the Group balance sheet. This loan instrument 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 payments at its sole discretion which cannot be claimed by the lender. 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 with Landmille Limited were consolidated into a new sterling revolver facility which bears interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. This new sterling revolver facility is available until 31 July 2020. These loans 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. In light of this new financing arrangement, the Group has presented a proforma balance sheet incorporating this intercompany loan change (see page 32). This proforma balance sheet shows net assets of £167.2 million at 31 December 2018.

1 Accounting policies *(continued)*

(b) Going concern *(continued)*

The impact of these transactions has been a net £85 million cash outflow together with an improved net asset position. This together with the impact of the timing of supplier payments, which have in certain cases been brought forward to comply with the requirements outlined in the Procurement Policy Note issue by Cabinet Office, have reduced the level of cash headroom since the year-end.
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 2019 and the strategic plan for 2019-2023);
- the availability of core and ancillary financing facilities;
- the compliance with the related net debt/EBITDA covenant;
- 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 which includes the settlement payments agreed as a result from exiting from the Birmingham City Council Highways PFI contract and the funding structure described in the previous paragraphs; and
  - a Reasonable Worse Case ('RWC') forecast which applies sensitivities against the base case for 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:

- compliance with the requirements outlined in the Procurement Policy Note issue by Cabinet Office which aims to take into account a supplier's approach to payment in the procurement of major contracts;
- short-term timing delays in collections from customers; and
- longer-term reductions in performance and growth when compared to those set out in the Group's strategic plan.

Even after assuming that the sensitivities outlined above will materialise the Group's cash flow forecasts show that there is sufficient liquidity to enable it to continue trading.

As noted in the Chief Executive Officer's Summary, in October 2018, Ferrovial, S.A., our ultimate parent company, announced a strategic review of the markets it operates in. This review concluded in February 2019 that Ferrovial would divest their wider Services portfolio, which includes Amey. This decision does not impact our 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 our financing on a change of control would be as follows:

- Our external facilities may become due for repayment subject to the detailed change of control requirements which are primarily dependent on the credit worthiness of the purchaser. The Directors believe that the Group would be able to renew or replace these facilities, if necessary;
- Any consideration still outstanding to Amey Birmingham Highways Limited would be immediately payable under the terms of the settlement agreement; and
- Our facilities due to our parent totalling £274 million would be due for repayment in the event that this debt was not transferred to a new shareholder.

Whilst the Directors consider that the Group is a going concern, in the circumstances of any sale of the Group by the existing shareholder, the intentions of any future parent as regards shareholder financing is uncertain, including the amount of support, if any, the Group would receive from any new parent. However, as would be usual in the context of a third-party sale arrangement, the Directors would expect the existing shareholder debt to be managed in an appropriate manner as part of the sale process.

These events or conditions indicate, only in the event of a sale, the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern as it is not practicable to determine or quantify them.

Notwithstanding this, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

1 Accounting policies *(continued)*

(c) New accounting standards

(i) IFRS 9, Financial Instruments

With the exception of hedge accounting, which is applied prospectively, IFRS 9 was applied retrospectively, recognising the cumulative effect of initially applying this standard as an adjustment to the opening balances for 2018 of the statement of financial position. Therefore, the comparative information for 2017 was not restated and continues to be presented in accordance with IAS 39. The main changes contained within this new standard are set out in more detail below.

i) **Impairment of financial assets.** IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument. For trade receivables and assets from contracts with customers (IFRS 15), the Group has used the simplified approach (provision for losses expected during the entire lifetime of the asset). In order to implement this approach, the Group has established a procedure under which accounts receivable will not only become impaired when they are no longer recoverable (losses incurred), it will also consider losses that are potentially expected based on changes to the credit rating that are specific to the customer, business sector and country. This model applies to all financial assets, including commercial assets contracted under IFRS 15, non-trade assets and receivables under the IFRIC 12 model. The negative impact on equity attributable to shareholders due to the impairment of financial assets amounted to £0.5m million net of any associated tax.

ii) **Classification and measurement of financial assets.** A new classification has been introduced to reflect the Group's business model and the nature of the contractual financial asset cash flows. To this end, the Group has adapted its policies and established three categories that are permitted under the standard. No significant adjustments have been recognised due to this new classification, as the majority of assets are still measured at amortised cost, since the contractual cash flows consist only of principal and interest payments, and the assets are held to maturity. We would solely note that for its equity instruments that are measured by default at their fair value with changes reported in profit or loss, there is an option to report changes in fair value in other comprehensive income from the outset. This decision cannot be revoked and must be taken for each asset individually.

iii) **Classification and measurement of financial assets.** IFRS 9 does not make any changes to IAS 39, except for the change in treatment of the renegotiation of financial liabilities that does not cause them to be removed from the balance sheet.

iv) **Hedge accounting.** IFRS 9 attempts to align hedge accounting more closely with risk management, and the new requirements establish a principle-based approach. The new standard had no significant impact on these financial statements at 31 December 2018. IFRS 9 also generally permits the designation of specific components of non-financial items and financial instruments as hedged items, provided that they are separately identifiable and reliably measurable, and that there is always a liquid market for the items concerned, and in certain cases it specifically allows for hedging against inflation for certain financial instruments.

The impact of adoption of IFRS 9 on the balance sheet as at 1 January 2018 was as follows:

	Balance at 31 December 2017 £'000	Transition to IFRS 9 £'000	Balance at 1 January 2018 Post IFRS 9 £'000
Non-current trade and other receivables	38,739	-	38,739
Non-current deferred tax assets	68,934	-	68,934
Other non-current assets	1,043,240	(270)	1,042,970
Inventories	34,009	-	34,009
Current trade and other receivables	452,191	(266)	451,925
Other current assets	242,801	-	242,801
Current liabilities	(787,409)	-	(787,409)
Non-current provisions for other liabilities and charges	(250,030)	-	(250,030)
Other non-current liabilities	(596,212)	-	(596,212)
Net assets	246,263	(536)	245,727
Share capital, premium and other reserves	391,389	-	391,389
Retained earnings	(140,937)	(469)	(141,406)
Minority interests	(4,189)	(67)	(4,256)
Total equity	246,263	(536)	245,727

1 Accounting policies *(continued)*

(c) New accounting standards *(continued)*

(ii) IFRS 15, Revenue from Contracts with Customers

In 2017, the Group early adopted IFRS 15. The standard was applied retrospectively, recognising the cumulative effect of initial application as an adjustment to the opening balances for 2017, calculated only for those contracts that were not completed contracts at 1 January 2017.

(iii) Other new standards, amendments and interpretations adopted by the European Union mandatorily applicable for the first time in 2018

On 1 January 2018, the following additional standards which might have had an impact on the consolidated financial statements came into force in the European Union:

IFRIC Interpretation 22	Foreign currency transactions and advance consideration
Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfer of investment property
Annual improvements: 2014-16 cycle	Improvements to IFRS 1 and IAS 28 amendments

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

(iv) New standards, amendments and interpretations mandatorily applicable in annual reporting periods after 2018

The new standards, amendments and interpretations approved by the IASB but not mandatorily applicable at 31 December 2018 that will have an impact on the Group are as follows:

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 for the future payment obligations relating to leases classified to date as operating leases.

The modified retrospective approach is expected to be 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 is not expected to be applied on transition to contracts that were previously carried as operating leases if they do 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 12 months), low-value leases.

From a preliminary analysis of the operating leases in place at the close of the financial year, the Group estimates an approximate impact of £70 million in minimum, non-cancellable future payments, updated at the implicit interest rate, taking account of the type of asset, which could be comparable with the asset due to right-of-use and the financial debt that will have to be entered in the balance sheet. The estimate has been made based on the portfolio of contracts and market conditions at 31 December 2018, but it could change because the Group has not finalised the implementation of the new solution that will facilitate the application of the standard and any possible changes to the accounting policy that may arise during actual adoption of the standard by the Group companies, until the financial statements for the year of first-time adoption are issued.

1 Accounting policies *(continued)*

(c) New accounting standards *(continued)*

(iv) New standards, amendments and interpretations mandatorily applicable in annual reporting periods after 2018 *(continued)*

Other standards

The other new standards, amendments and interpretations approved by the IASB and approval status for use in the European Union at 31 December 2018 which are not expected to have an impact for the Group are as follows:

New standards, amendments and interpretations		Commencement date	Approval status
Amendments to IAS 28	Long-term interests in associates and joint venture	1 January 2019	Approved
IFRIC Interpretation 23	Uncertainty over income tax treatments	1 January 2019	Not approved
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019	Not approved
Annual Improvements	2015-2017 cycle	1 January 2019	Not approved
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019	Not approved
Conceptual framework	Amendments to references to the conceptual framework in IFRS Standards	1 January 2020	Not 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	Not approved
IFRS 17	Insurance contracts	1 January 2021	Not approved

(d) 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 minority shareholders.

(e) Critical accounting estimates and judgements

In the consolidated financial statements for 2018 estimates have been made to measure certain assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically 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 Company, 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

(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

1 Accounting policies *(continued)*

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

(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 25)
(viii) Estimates relating to the fair value of assets and liabilities acquired in the business combination detailed in note 11.

Although these estimates were made on the basis of the best information available at 31 December 2018 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.

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.

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 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 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 collection business presents structural 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 today with measures to turnaround or exit these contracts being taken in the short term.

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.

Note 23 reports the future contract losses that have been recognised.

Impairment testing

Following the assessment of the recoverable amount of goodwill allocated to the Utilities division, to which goodwill of £116 million is allocated, the directors consider the recoverable amount of goodwill allocated to the Utilities division to be most sensitive to the level of gross margin that can be achieved on the contracts maintained 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 dependent on recovery in the gross margins on major power and water contracts which have suffered in recent years together with achieving targeted levels of productivity on smart metering contracts.

The market for Utilities products is broken down across Power, Smart metering and Water. The power market is expected to be flat given regulatory changes in the compensation schemes to DSOs have led to higher pressure on O&M contractors such as Amey. The Government's smart metering roll out plan is expected to drive strong growth in the meter installation market. No growth is expected within Water as utilities have increased efficiency standards impacting all players in the value chain.

The sensitivity analysis in respect of the recoverable amount of Utilities goodwill is presented in note 9.

1 Accounting policies *(continued)*

(f) 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 acquiree and the equity interest issued by the Group in exchange for control of the acquiree. 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.

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 its 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.

1 Accounting policies *(continued)*

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

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.

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.

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

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 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.

1 Accounting policies *(continued)*

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

Revenue *(continued)*

(iii) Recognition of revenue from contract modifications, claims and disputes *(continued)*

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.

(iv) 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.

(v) 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". In 2017, these balances were reported as part of "Trade and other receivables".

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 company or the company 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 company 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.

1 Accounting policies *(continued)*

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

Revenue *(continued)*

(vi) 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 provisions 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.

(vii) 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.

(viii) 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:

Buildings	2% to 2.5% per annum
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.

1 Accounting policies *(continued)*

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

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.

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 operating leases are charged to the income statement on a straight-line basis over the lease period.

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.

1 Accounting policies *(continued)*

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

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.

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)*

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

Financial instruments *(continued)*

Impairment of financial assets (continued)

(a) *Trade and other receivables* - trade receivables are initially recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is remote. 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)*

(f) 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 Divisional analysis

The Group's divisions and their activities are described in more detail in the Strategic Review on pages 3 to 15.

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 2018 £'000	**Share of joint ventures' revenue 2018 £'000**	**Total revenue 2018 £'000**	Group revenue 2017 £'000	Share of joint ventures' revenue 2017 £'000	Total revenue 2017 £'000
Revenue – by division						
Highways	**363,558**	**-**	**363,558**	512,703	-	512,703
Utilities	**513,349**	**-**	**513,349**	530,314	-	530,314
Consulting and Rail	**711,593**	**62,092**	**773,685**	512,326	38,186	550,512
Environmental Services	**262,018**	**-**	**262,018**	335,888	-	335,888
Facilities Management, Justice and Defence	**489,706**	**249,124**	**738,830**	333,583	321,086	654,669
Rest of Group and Central Services (including interdivisional eliminations)	**(17,137)**	**33,515**	**16,378**	(26,625)	23,817	(2,808)
	2,323,087	**344,731**	**2,667,818**	2,198,189	383,089	2,581,278
Revenue – by geographical location						
United Kingdom	**2,280,454**	**344,731**	**2,625,185**	2,156,684	383,089	2,539,773
Rest of Europe	**6,912**	**-**	**6,912**	5,741	-	5,741
Middle East	**-**	**-**	**-**	4,974	-	4,974
Australasia	**33,129**	**-**	**33,129**	30,122	-	30,122
North America	**2,592**	**-**	**2,592**	668	-	668
	2,323,087	**344,731**	**2,667,818**	2,198,189	383,089	2,581,278

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

2 Divisional analysis *(continued)*

	Group operating profit excluding joint ventures 2018 £'000	**Share of profit after tax of joint ventures 2018 £'000**	**Total operating profit 2018 £'000**	Group operating loss excluding joint ventures 2017 £'000	Share of profit after tax of joint ventures 2017 £'000	Total operating loss 2017 £'000
Divisional operating profit (loss) – before exceptional items						
Highways	**(2,635)**	**-**	**(2,635)**	(14,293)	-	(14,293)
Utilities	**(1,349)**	**-**	**(1,349)**	(22,670)	-	(22,670)
Consulting and Rail	**47,778**	**2,995**	**50,773**	65,655	1,920	67,575
Environmental Services	**(45,246)**	**-**	**(45,246)**	(15,492)	-	(15,492)
Facilities Management, Justice and Defence	**26,854**	**(3,221)**	**23,633**	7,460	8,218	15,678
Rest of Group and Central Services	**(9,273)**	**(1,305)**	**(10,578)**	6,364	(1,395)	4,969
	16,129	**(1,531)**	**14,598**	27,024	8,743	35,767
Divisional operating profit (loss) – exceptional items (note 3)						
Highways	**(233,714)**	**-**	**(233,714)**	(208,500)	-	(208,500)
Utilities	**(69,687)**	**-**	**(69,687)**	-	-	-
Consulting and Rail	**(3,984)**	**-**	**(3,984)**	-	-	-
Environmental Services	**(110,660)**	**-**	**(110,660)**			
Facilities Management, Justice and Defence	**(2,736)**	**-**	**(2,736)**	-	-	-
Rest of Group and Central Services	**(2,769)**	**(4,626)**	**(7,395)**	3,964	-	3,964
	(423,550)	**(4,626)**	**(428,176)**	(204,536)	-	(204,536)
Divisional operating profit (loss) – after exceptional items						
Highways	**(236,349)**	**-**	**(236,349)**	(222,793)	-	(222,793)
Utilities	**(71,036)**	**-**	**(71,036)**	(22,670)	-	(22,670)
Consulting and Rail	**43,794**	**2,995**	**46,789**	65,655	1,920	67,575
Environmental Services	**(155,906)**	**-**	**(155,906)**	(15,492)	-	(15,492)
Facilities Management, Justice and Defence	**24,118**	**(3,221)**	**20,897**	7,460	8,218	15,678
Rest of Group and Central Services	**(12,042)**	**(5,931)**	**(17,973)**	10,328	(1,395)	8,933
	(407,421)	**(6,157)**	**(413,578)**	(177,512)	8,743	(168,769)

3 Exceptional items

The following exceptional items have been charged (credited) to operating profit (loss):

	2018 £'000	2017 £'000
Birmingham contract dispute [i]		
- contract loss charged to cost of sales	**95,000**	208,500
- investment impairment loss	**28,249**	-
Impairment of goodwill [ii]	**314,274**	-
Impairment of other assets [iii]	**17,140**	-
Share of exceptional joint venture impairment of other intangible assets [iv]	**4,626**	-
Guaranteed minimum pension equalisation of past service charge [v]	**3,173**	-
Profit on disposal of joint venture investments [vi]	**(25,945)**	(3,964)
Gain arising on pre-acquisition holding in Carillion Amey (note 11) [vii]	**(8,341)**	-
Charged as part of operating profit (loss)	**428,176**	204,536
Exceptional tax credit [viii]	**(35,059)**	-
Total exceptional items	**393,117**	204,536

(i) In 2018, the Group has recorded an additional exceptional cost of £123.2 million as part of overall cost of exiting from the Birmingham City Council Highways PFI contract, which has suffered from high level of performance deductions and penalties applied by the Council. Included in this amount is £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 Amey 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 2017, an exceptional charge of £208.5 million was initially provided in respect of the contract.

(ii) In 2018, the Group has reviewed the carrying value of goodwill held on the balance sheet and concluded that impairments of £314.3 million have arisen in respect of the Highways, Utilities and Environmental Services divisions. The Highways and Environmental Services divisions' goodwill has been impaired in full. This write down reflects the continuing difficulties being experienced in the market place for our services in those divisions.

(iii) In 2018, the Group has reviewed the carrying value of assets held on certain contracts and investments with impairments of £17.1 million arising on anticipated under recovery of those assets through future cash inflows. This cost includes £0.3 million impairment of contract rights, £6.1 million impairment of software, £0.3 million impairment of tangible fixed assets and £4.4 million of receivables impairments. In addition, a £6.0 million impairment charge arose in respect of the MTCnovo joint venture.

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

(v) 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 recent high court judgement.

(vi) 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. The consideration received on these disposals was £54.8 million. In 2017, the Group completed the disposal of a 90% share in the loan investments made to the Integrated Bradford joint ventures and the Scot Roads joint venture, giving rise to a profit on disposal of £4.0 million. The consideration received was £15.4 million.

(vii) 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 11 for further details.

(viii) In 2018, a tax credit of £0.1 million was recognised on the impairment of other intangible assets which arose on consolidation and £0.5 million was recognised on the Guaranteed Minimum Pension equalisation past service charge. The adjustments for the impairment of goodwill combined with the planned divestment of the Amey UK plc by Ferrovial have also given rise to a £34.5 million deferred tax credit in respect of goodwill. No tax has been attributed to the Birmingham costs in either 2018 or 2017, or on the 2018 impairment of other intangible assets as the Group has not recognised in full a deferred tax asset on those company trading losses.

The impact of exceptional items on the cash flow reported for the year is only in respect of the consideration received of £63.2 million (2017: £15.4 million) on the disposal of joint venture investments.

4 Operating profit (loss)

This is stated after charging (crediting):

		2018 £'000	2017 £'000
Amortisation	- other intangible assets	**30,382**	21,560
Depreciation	- owned assets	**6,318**	5,617
	- leased assets	**2,101**	2,119
Lease rentals	- land and buildings	**9,547**	9,626
	- hire of plant and machinery	**100,079**	77,235
Cost of inventories recognised as an expense		**164,979**	153,158
Loss on disposal of property, plant and equipment		**130**	2,444
Exceptional items (note 3)		**428,176**	204,536
Auditor's remuneration	- audit of Company and Group financial statements	**222**	204
	- audit of subsidiary undertakings	**989**	1,150
	- audit of joint venture undertakings	**99**	125
	- audit-related assurance services	**165**	152

5 Employees (including Directors)

Staff costs during the year consisted of:

	2018 £'000	2017 £'000
Wages and salaries	**546,535**	509,825
Social security costs	**50,593**	48,050
Other pension costs arising on defined benefit pension schemes (note 22)	**3,938**	3,799
Defined benefit pension schemes past service charge (credit) (note 22)	**3,173**	(100)
Other pension costs arising on defined contribution pension schemes	**19,349**	18,294
	623,588	579,868

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

	2018 Number	2017 Number
Contract-based employees	**15,753**	16,296
Management and administration	**723**	685
	16,476	16,981

6 Directors and key management remuneration

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

	2018 £'000	2017 £'000
Short-term employee benefits	**1,229**	1,439
Company contributions to defined contribution scheme	**21**	11
Performance based Ferrovial, S.A. share-based awards	**328**	298
Total emoluments	**1,578**	1,748
Included above are the following amounts in respect of the highest paid Director:		
Emoluments	**773**	733
Company contributions to defined contribution scheme	**21**	11

During the year, one Director (2017: one) was a member of the Group's defined benefit pension scheme (which has been closed to future accrual) and two Directors (2017: 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 32) and included in net operating expenses.

7 Net finance expense

	2018 £'000	2017 £'000
Finance income		
Interest receivable from bank deposits	**122**	33
Interest receivable on loans to joint ventures (note 32)	**6,492**	6,799
Interest receivable on PFI/PPP Financial asset	**4,435**	11,106
Other interest and similar income	**68**	263
Interest receivable from Ferrovial, S.A. subsidiary undertakings (note 32)	**1,399**	750
Foreign exchange gains	**595**	631
Total finance income on financial assets at amortised cost	**13,111**	19,582
Finance costs		
Interest payable on borrowings	**(5,172)**	(4,599)
Interest payable on finance leases	**(287)**	(357)
Interest payable to Ferrovial, S.A. subsidiary undertakings (note 32)	**(15,533)**	(17,761)
Foreign exchange losses	**(983)**	(2,696)
Other interest and similar charges	**(4,322)**	(11,617)
Total finance costs on financial liabilities at amortised cost	**(26,297)**	(37,030)
Finance expense from defined benefit schemes (note 22)	**(1,204)**	(3,610)
Total finance costs	**(27,501)**	(40,640)
Net finance expense	**(14,390)**	(21,058)

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.

8 Tax credit

	2018 £'000	2017 £'000
Current tax		
UK	**2,075**	-
Overseas	**5,605**	3,838
Adjustment in respect of prior years – UK	**5,050**	(865)
– Overseas	**1,977**	(1,023)
Current tax credit	**14,707**	1,950
Deferred tax		
Credit from (charge to) deferred tax provision	**34,201**	(3,404)
(Charge to) credit from deferred tax asset	**(7,688)**	6,450
Deferred tax charge relating to employee benefit obligations	**(1,271)**	(4,105)
Deferred tax credit (charge)	**25,242**	(1,059)
Tax credit	**39,949**	891
Reconciliation of variances from standard rate of UK corporation tax		
Loss on ordinary activities before tax	**(427,968)**	(189,827)
Add: share of tax of joint ventures	**(1,267)**	1,683
	(429,235)	(188,144)
Loss before tax at the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**(81,555)**	(36,218)
Adjusted for:		
Expenses not deductible (income deductible) for tax purposes	**42,854**	(2,333)
Overseas rate differences	**(8,065)**	988
Foreign permanent establishment exemption	**(29)**	(724)
Non-taxable disposals	**(4,240)**	815
Adjustment in respect of prior years	**(17,527)**	1,542
Utilisation of unrecognised losses	**(1,202)**	(550)
Current year losses not recognised	**35,330**	40,136
Recognition of deferred tax on prior year losses not previously recognised	**(6,401)**	-
Other temporary differences in respect of foreign exchange on goodwill	**(524)**	(2,351)
Impact of change in tax rate	**143**	(513)
	(41,216)	792
Less: share of tax of joint ventures	**1,267**	(1,683)
Tax credit	**(39,949)**	(891)

The weighted average applicable tax rate was positive 9.3% (2017: negative 0.5%). The adverse change in the effective tax rate is attributable to the partial recognition of previously unrecognised trade losses and the tax impact of both allowable and non-allowable goodwill.

8 Tax *(continued)*

Deferred tax is calculated in full on temporary differences under the liability method using an expected tax rate for the UK of 17% (2017: 17%) on short-term timing differences and 17% (2017: 17%) on long-term timing differences. For balances arising in Spain, an expected tax rate of 25% (2017: 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. This will reduce the Company's future tax charge accordingly.

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

	2018 £'000	2017 £'000
Deferred tax assets recognised	**57,067**	68,934
Deferred tax liabilities	**(34,541)**	(61,807)
	22,526	7,127

Deferred tax assets

	Accelerated depreciation £'000	**Retirement benefit obligations £'000**	**Tax allowable goodwill £'000**	**Tax losses £'000**	**Other temporary differences £'000**	**Total £'000**
At 31 December 2016	4,751	25,018	1,797	-	6,069	37,635
Impact of adoption of IFRS 15	-	-	-	40,546	-	40,546
At 1 January 2017	4,751	25,018	1,797	40,546	6,069	78,181
Income statement	1,513	(4,105)	128	3,734	1,075	2,345
SOCI	-	(11,318)	-	-	(274)	(11,592)
At 31 December 2017	**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**

Deferred tax liabilities

	Accelerated capital allowances £'000	**Accelerated tax relief on goodwill £'000**	**Intangible assets acquired £'000**	**Other temporary differences £'000**	**Total £'000**
At 31 December 2016	8,758	25,350	10,637	13,494	58,239
Income statement	965	3,608	(1,482)	313	3,404
SOCI	-	-	-	164	164
At 31 December 2017	**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**

8 Tax *(continued)*

Unrecognised deferred tax assets

	2018 £'000	2017 £'000
Capital losses	**2,677**	2,796
Trading losses	**73,025**	42,187
Accelerated tax relief on goodwill	**5,322**	-
Accelerated depreciation	**52**	57
Other temporary differences	**65**	65
	81,141	45,105

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.

9 Goodwill on acquisition of subsidiary undertakings

	Cost £'000
Carrying amount:	
At 31 December 2016 and at 31 December 2017	**735,764**
Impairment charge for the year	**(314,274)**
At 31 December 2018	**421,490**

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

	2018 £'000	2017 £'000
Highways	**-**	138,714
Utilities	**116,171**	181,371
Consulting and Rail	**218,567**	218,567
Environmental Services	**-**	110,360
Facilities Management, Justice and Defence	**86,752**	86,752
	421,490	735,764

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

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 2019 and the 2019-2023 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% (2017: 2.0%) apart from Utilities where we have used 0.25%, reflecting the specific dynamics of the regulated sector. 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% (2017: 8.0%). 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 changed markedly during 2018, with a significant increase in uncertainty and instability in the markets in which the company operates. As a result of this the management decided to review the appropriateness of the original assumptions and concluded that changes were required to reflect the increase in risks in the sector.

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.

9 Goodwill on acquisition of subsidiary undertakings *(continued)*

At the beginning of the financial year the recoverable amount of Utilities was in excess of its book value. Due to current market conditions at the year-end, as discussed above, the recoverable amount has been partially impaired. A 1% increase in the risk-adjusted discount rate for Utilities is considered reasonably possible based on recent experience and would lead to an impairment charge of £12 million.

10 Other intangible assets

	Order books £'000	Customer relationships £'000	Contracts £'000	Software £'000	Total £'000
Cost					
At 31 December 2016	37,787	61,100	119,760	24,791	243,438
Additions	-	-	-	1,317	1,317
Disposals	-	-	(77,797)	(602)	(78,399)
At 31 December 2017	**37,787**	**61,100**	**41,963**	**25,506**	**166,356**
On acquisition (see note 11)	**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**
Amortisation					
At 31 December 2016	22,896	11,613	79,986	14,346	128,841
Charge for the year	6,668	3,096	7,683	4,113	21,560
Disposals	-	-	(77,797)	(130)	(77,927)
At 31 December 2017	**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 3)	**-**	**-**	**300**	**6,092**	**6,392**
Disposals	**-**	**-**	**-**	**(1,646)**	**(1,646)**
At 31 December 2018	**43,254**	**20,889**	**11,922**	**31,537**	**107,602**
Carrying amount					
At 31 December 2018	**24,339**	**54,087**	**30,041**	**6,363**	**114,830**
At 31 December 2017	8,223	46,391	32,091	7,177	93,882

In 2018, the Group has 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 are considered exceptional in nature (see note 3 for further detail).

Customer order books and relationships as at 31 December 2018 arose on the acquisition of Enterprise in 2013 and 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. Customer order books are being amortised over a period of six years and customer relationships over a period of twenty years for Enterprise and eighteen months to the end of the current contract for 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.

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.

Following completion of the Tube Lines contract in 2017, and certain other contracts in earlier years, the fully amortised costs were written out of the balance sheet.

Software is amortised over periods of up to five years.

11 Acquisition of subsidiary undertakings – 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 has 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 has been accounted for as joint ventures to 28 August 2018, the date when control was obtained, and thereafter as wholly-owned subsidiary undertakings.

No adjustments to the book values have been 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), 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. At 31 December 2018, the contingent liabilities were reassessed and reduced to £4.5 million following agreement on one of the main claims during the post acquisition period. The remaining open claims at 31 December 2018 retain the same 'possible' risk profile.

	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, Carillion Amey revenue was £192 million and profit after tax was £29 million. Incidental acquisition costs incurred of £0.5 million have been charged as part of administration expenses in the year.

12 Property, plant and equipment

	Assets under construction £'000	Fixtures and fittings: Long leasehold £'000	Fixtures and fittings: Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost					
At 31 December 2016	3,927	34,746	12,816	91,054	142,543
Additions	99	283	357	6,365	7,104
Disposals	-	-	(6,318)	(22,328)	(28,646)
At 31 December 2017	**4,026**	**35,029**	**6,855**	**75,091**	**121,001**
On acquisition (see note 11)	**-**	**-**	**-**	**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**
Depreciation					
At 31 December 2016	-	7,676	9,444	65,808	82,928
Provided in year	-	(90)	1,246	6,580	7,736
Disposals	-	-	(6,036)	(17,757)	(23,793)
At 31 December 2017	**-**	**7,586**	**4,654**	**54,631**	**66,871**
Provided in year	**-**	**-**	**1,057**	**7,362**	**8,419**
Impairment (see note 3)	**-**	**-**	**-**	**315**	**315**
Disposals	**-**	**(160)**	**(423)**	**(9,665)**	**(10,248)**
At 31 December 2018	**-**	**7,426**	**5,288**	**52,643**	**65,357**
Carrying amount					
At 31 December 2018	**4,038**	**27,328**	**843**	**19,996**	**52,205**
At 31 December 2017	4,026	27,443	2,201	20,460	54,130

The net book value of plant and machinery held under finance lease and similar hire purchase contracts amounted to £8.9 million (2017: £10.6 million), on which depreciation charged in the year was £2.1 million (2017: £2.1 million).

13 Investments in joint ventures

Investments in joint ventures comprise:

	2018 £000	2017 £'000
Cost of shares	**419**	87
Share of post-acquisition profits	**21,226**	34,605
Loan advances (see note 32)	**54,310**	62,020
Total	**75,955**	96,712
Provision for impairment – shares	**(17)**	-
Provision for impairment – profits	**(5,991)**	-
Provision for impairment – loans	**(22,945)**	-
Carrying value on the balance sheet	**47,002**	96,712

The movements during the year were as follows:

	Cost of shares £'000	Share of post-acquisition profits £000	Loan advances £'000	Total £'000
At 31 December 2016	92	30,547	66,272	96,911
Additions	1	-	-	1
Share of profit after tax for the year	-	8,743	-	8,743
Dividends paid by joint ventures	-	(6,830)	-	(6,830)
Disposals	(6)	(268)	-	(274)
Share of movements in the SOCI:				
- derivatives	-	2,907	-	2,907
- deferred tax thereon	-	(494)	-	(494)
Loan advances	-	-	12,099	12,099
Loan repayments	-	-	(2,491)	(2,491)
Loan disposals	-	-	(13,860)	(13,860)
At 31 December 2017	**87**	**34,605**	**62,020**	**96,712**
Impact of transition to IFRS 9	**-**	**(117)**	**(27)**	**(144)**
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 3)	**(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**

In 2018, the Group has reviewed the carrying value of investments in joint ventures and identified impairments of £28.9 million arising on the anticipated realisation of assets through future cash inflows. These impairments are considered exceptional in nature (see note 3 for further details).

The Group's joint venture investments, including the percentage of interest held, are set out in note 29.

13 Investments in joint ventures *(continued)*

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

	2018 £'000	2017 £'000
Share of revenue	**344,731**	383,089
Share of profit after tax for the year	**(6,157)**	8,743
Share of other comprehensive income	**18,538**	2,895
Dividends received from joint ventures	**5,714**	6,830
Share of gross assets	**201,417**	570,004
Share of gross liabilities	**(189,522)**	(571,032)
Share of net liabilities	**11,895**	(1,028)
Loan advances (note 32)	**54,310**	62,020
Provision for impairment	**(28,953)**	-
Net investment in joint ventures	**37,252**	60,992
Included in:		
Investments in joint ventures	**47,002**	96,712
Provision for joint venture losses (note 23)	**(9,750)**	(35,720)
	37,252	60,992

None of the joint venture investments held by the Group are considered to be 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.

14 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% (2017: 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 two service concession arrangements on which PFI/PPP financial assets arise:

- 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.
- A 25-year PFI waste management contract with Isle of Wight Council which runs until 2040. 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 is scheduled to be completed within 18 months when the contract will move to the maintenance phase.

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.

15 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.

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.

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. The Directors are currently evaluating the options available to address this risk.

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

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: Disclosure) 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 are held by subsidiary undertakings and Level 2 financial liabilities are held by both subsidiary undertakings and the Group's joint venture undertakings.

15 Financial instruments *(continued)*

Financial risk *(continued)*

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

	2018 £'000	2017 £'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**	476
- 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)**	(476)
- in respect of losses recycled to the income statement from reserves and included in impairment of assets	**(10,062)**	-
Gains (losses) included in the SOCI:		
- in respect of derivatives transferred from equity	**1,809**	2,617
- in respect of share of joint ventures change in fair value of derivatives	**6,344**	3,052
- in respect of losses recycled to the income statement from reserves	**15,989**	476

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; for 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 will remain 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 group has also taken out foreign exchanges rate hedges to cover risk on purchasing commitments in foreign currencies. The last of these hedges expires in 2019.

The maturity of the notional amounts of derivatives held by subsidiary undertakings and joint venture investments is as follows:

	Subsidiaries 2018 £'000	**Joint ventures 2018 £'000**	**Total 2018 £'000**	Subsidiaries 2017 £'000	Joint ventures 2017 £'000	Total 2017 £'000
Within 1 year	**2,081**	**-**	**2,081**	2,638	14,425	17,062
From 1 to 2 years	**-**	**359**	**359**	9,632	-	9,632
From 3 to 5 years	**-**	**121**	**121**	-	747	747
From 6 to 10 years	**-**	**828**	**828**	-	890	890
From 11 to 15 years	**-**	**3,039**	**3,039**	-	60,503	60,503
Over 15 years	**49,830**	**18,204**	**68,034**	51,063	65,866	116,929
Total	**51,911**	**22,551**	**74,462**	63,333	142,430	205,764

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.

15 *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 net payables with Ferrovial, S.A. subsidiary undertakings at 31 December 2018	**1,616**	**(1,616)**

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.

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:

	2018 £'000	2017 £'000
Finance lease liabilities (note 21)	**7,206**	9,478
PFI/PPP Non-recourse term loans (note 21)	**49,978**	50,908
Minority interest shareholder loan (note 21)	**100**	-
Current Ferrovial, S.A. group loans (note 21)	**80,000**	581
Non-current Ferrovial, S.A. group loans (note 32)	**319,107**	397,742
Total external borrowings and Ferrovial, S.A. group loans	**456,391**	458,709
Total equity	**(32,824)**	246,263
	423,567	704,972

16 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:

	2018 £'000	2017 £'000
Financial assets:		
Loan advances to joint ventures	**31,365**	62,137
PFI/PPP financial assets	**74,361**	74,643
Trade receivables	**115,524**	122,381
Amounts recoverable on contracts	**301,958**	233,801
Amounts due from joint ventures	**7,435**	34,186
Amounts due from Ferrovial S.A. group undertakings	**28,637**	23,103
Derivative financial instruments	**121**	959
Cash and cash equivalents	**164,330**	215,881
	723,731	767,091
Financial liabilities:		
Trade payables	**211,672**	253,765
Payments received on account	**4,010**	3,973
Amounts due to Landmille Limited	**369,031**	369,173
Amounts due to Ferrovial S.A. group undertakings	**31,595**	33,018
Amounts due to joint ventures	**13**	779
External borrowings	**57,284**	60,386
Derivative financial instruments	**16,965**	19,612
	690,570	740,706

17 Trade and other receivables

	2018 £'000	2017 £'000
Current		
Trade receivables	**115,524**	122,381
Amounts recoverable on contracts	**288,110**	211,271
Amounts due from joint ventures (note 32)	**7,435**	34,186
Amounts due from Ferrovial, S.A. subsidiary undertakings (note 32)	**12,098**	6,894
Other debtors	**26,429**	33,345
Prepayments and accrued income	**41,660**	44,114
	491,256	452,191
Non-current		
Amounts recoverable on contracts	**13,848**	22,530
Amounts due from Ferrovial Servicios, S.A. subsidiary undertakings (note 32)	**16,539**	16,209
	30,387	38,739

There was no difference between the book value of the amounts due from Ferrovial, S.A. subsidiary undertakings and their equivalent fair values for 2018 and 2017. Fair value has been based on carrying amount.

A provision for doubtful debtors was included within trade receivables as follows:

	2018 £'000	2017 £'000
At 1 January	**7,093**	8,586
Impact of adoption of IFRS 9	**122**	-
Utilised	**(978)**	(1,822)
Charged to income statement	**2,873**	329
At 31 December	**9,110**	7,093

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

	2018 £'000	2017 £'000
Not past due	**73,094**	92,165
Up to 2 months past due	**27,453**	17,371
More than 2 months past due	**14,977**	12,845
	115,524	122,381

18 Inventories

	2018 £'000	2017 £'000
Raw materials and consumable stocks	**11,035**	11,824
Bid and mobilisation costs	**10,879**	22,185
	21,914	34,009

19 Cash and cash equivalents

	2018 %	2018 £'000	2017 %	2017 £'000
Cash balances held at floating rate	**0.1**	**164,330**	0.1	215,881

Included within cash balances is £45.9 million (2017: £53.6 million) relating to jointly controlled and other operations in which the Group has restricted control. Individual bank balances and overdrafts have been offset where cash pooling and set-off arrangements are in place. 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 minority 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.

Of the cash balances held above, £152,065,000 (2017: £199,492,000) is held in the UK, £23,000 (2017: £15,000) is held in Spain and £12,241,000 (2017: £16,374,000) is held elsewhere overseas.

20 Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade payables	**211,672**	253,765
Payments received on account	**4,010**	3,973
Amounts due to Landmille Limited (note 32)	**80,000**	581
Amounts due to Ferrovial Servicios, S.A. subsidiary undertakings (note 32)	**1,519**	3,868
Amounts due to joint ventures (note 32)	**13**	779
Other creditors	**63,970**	68,551
Deferred income	**71,303**	72,081
Accruals	**340,864**	257,962
	773,351	661,560
As presented on the balance sheet:		
Trade and other payables	**693,351**	660,979
Ferrovial, S.A. group loans (note 32)	**80,000**	581
	773,351	661,560
Non-current		
Amounts due to Landmille Limited (note 32)		
- in more than 1 year but not more than 2 years	**289,031**	327,500
- in more than 2 years but not more than 5 years	**-**	41,092
Amounts due to other Ferrovial, S.A. subsidiary undertakings (note 32)		
- in more than 1 year but not more than 2 years	**30,076**	-
- in more than 2 years but not more than 5 years	**-**	29,150
Other creditors		
- in more than 1 year but not more than 2 years	**825**	3,599
- in more than 2 years but not more than 5 years	**-**	709
Deferred income		
- in more than 1 year but not more than 2 years	**4,036**	-
- in more than 2 years but not more than 5 years	**864**	-
	324,832	402,050
As presented on the balance sheet:		
Trade and other payables	**5,725**	4,308
Ferrovial, S.A. group loans (note 32)	**319,107**	397,742
	324,832	402,050

Included within the Group's trade creditors balance is £63.6m (2017: £67.3m) 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.

20 Trade and other payables *(continued)*

The amounts shown above due to Landmille Limited 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 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 25). 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 bears interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. This new sterling revolver facility is available until 31 July 2020 and is also subordinated in favour of any amounts due to the Group's banks.

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 and is due to repaid by 31 July 2020. 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.

21 External borrowings

	Current 2018 £'000	**Non-current 2018 £'000**	Current 2017 £'000	Non-current 2017 £'000
Finance lease liabilities	**2,078**	**5,128**	2,860	6,618
PFI/PPP Non-recourse term loans	**827**	**49,151**	1,233	49,675
Minority interest shareholder loan	**-**	**100**	-	-
	2,905	**54,379**	4,093	56,293

	Expiry Date	**Interest Rate**	**2018 £'000**	2017 £'000
PFI/PPP Non-recourse term loans	2034	Fixed	**49,978**	50,908
Minority interest shareholder loan	2020	Floating	**100**	-
			50,078	50,908

The Group also has undrawn floating rate bank loan facilities totalling £160 million, with £32 million maturing in July 2021, £96 million maturing in July 2022 and £32 million maturing in November 2022.

External borrowings mature as follows:

	Finance lease liabilities 2018 £'000	**PFI/PPP Non-recourse term loans 2018 £'000**	**Minority interest shareholder loan 2018 £'000**	**Total 2018 £'000**
Due within 1 year	**2,078**	**827**	**-**	**2,905**
Due within 2 to 5 years	**4,921**	**6,346**	**100**	**11,367**
Due after more than 5 years	**207**	**42,805**	**-**	**43,012**
	7,206	**49,978**	**100**	**57,284**

	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Due within 1 year	2,860	1,233	-	4,093
Due within 2 to 5 years	6,214	4,478	-	10,692
Due after more than 5 years	404	45,197	-	45,601
	9,478	50,908	-	60,386

21 External borrowings *(continued)*

PFI/PPP Non-recourse term loans have been secured on the assets of AmeyCespa WM (East) Limited.

The weighted average interest rate for PFI/PPP Non-recourse term loans was 1.80% (2017: 1.50%). The interest rate on the finance lease liabilities are fixed at a weighted average rate of 3.1% (2017: 3.5%). The interest rate on the minority interest shareholder loan is fixed at three-month LIBOR plus margin of 3%. (2017: not applicable).

There was no difference between the external borrowings shown above and their equivalent fair values for 2018 and 2017. 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.

	Finance lease liabilities 2018 £'000	**PFI/PPP Non-recourse term loans 2018 £'000**	**Minority interest shareholder loan 2018 £'000**	**Total 2018 £'000**
Due within 1 year	**2,263**	**1,736**	**4**	**4,003**
Due within 2 to 5 years	**5,138**	**9,955**	**16**	**15,109**
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**

	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Due within 1 year	3,136	1,712	-	4,848
Due within 2 to 5 years	6,570	7,244	-	13,814
Due after more than 5 years	414	50,255	-	50,669
Total	10,120	59,211	-	69,331
Less: impact of future finance costs	(642)	(8,303)	-	(8,945)
As reported on the balance sheet	9,478	50,908	-	60,386

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

22 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 £19.3 million (2017: £18.3 million).

Defined benefit schemes

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 and Owen Williams Sections. 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 2018 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 2016
West Midlands Pension Fund	31 March 2016

22 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

The principal actuarial assumptions used are as follows:

	2018 **%**	2017 %
Rate of increase in salaries	**1.9 – 3.55**	1.9 – 3.55
Rate of increase in pensions in payment	**2.25 – 5.00**	2.25 – 5.00
Discount rate	**2.85**	2.45
Inflation assumption – RPI	**3.25**	3.25
Inflation assumption – CPI	**2.25**	2.25

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

	2018 **Years**	2017 Years
Remaining life of members aged 65		
- men	**21.6 – 23.4**	21.7 – 23.3
- women	**22.9 – 26.1**	22.9 – 26.0
Remaining life of members aged 45		
- men	**23.0 – 26.2**	23.1 – 26.1
- women	**24.5 – 28.5**	24.4 – 28.4

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:

	2018 **£'000**	2017 £'000
Present value of funded obligations	**(853,691)**	(921,249)
Fair value of plan assets	**840,638**	865,287
Deficit	**(13,053)**	(55,962)
Present value of unfunded obligations	**(459)**	(488)
Liability on the balance sheet	**(13,512)**	(56,450)

The amount recognised in the income statement was as follows:

	2018 **£'000**	2017 £'000
Current service cost (note 5)	**3,938**	3,799
Past service charge (note 5)	**3,173**	-
Other pension credits, including plan amendments and settlements (note 5)	**-**	(100)
Total included under staff costs	**7,111**	3,699
Pension scheme administration costs	**1,320**	2,256
Finance expense	**1,204**	3,610
Total income statement charge	**9,635**	9,565

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.

On 26 October 2018, the High Court handed down a judgement relating to the Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for many defined benefit schemes, including those in which the Group participates. The Group has worked with independent, qualified actuaries to understand the implications of the judgement for the defined benefit pension schemes in which the Group participates and the £3.2m charge reflects the best estimate of the effect on reported pension liabilities.

In 2017, the Group recorded a past service credit of £0.1 million from discontinuing unfunded unapproved retirement benefits to a member and from a 'Wind Up Lump Sum' exercise for the former Amey Pension Scheme.

22 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 £3.4 million for regular payments and £15.7 million for additional top-up payments.

The amount recognised in other comprehensive income was as follows:

	2018 £'000	2017 £'000
Actuarial gains	**(35,464)**	(66,579)
Total income recognised in the SOCI	**(35,464)**	(66,579)

Actuarial gains and losses have been reported in the SOCI. The Group's share of the actual performance of fund assets was a decrease of £11.5 million (2017: £60.6 million increase).

The movements in the balance sheet liability were as follows:

	2018 £'000	2017 £'000
At 1 January	**56,450**	147,173
Total income statement charge	**9,635**	9,565
Total income recognised in the SOCI	**(35,464)**	(66,579)
Employer contributions – regular payments	**(2,971)**	(3,111)
Employer contributions – additional top-up payments	**(14,138)**	(30,598)
At 31 December	**13,512**	56,450

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

	2018 £'000	2017 £'000
At 1 January	**921,737**	953,777
Liabilities extinguished on settlements	**-**	(1,429)
Service cost, including employees' share	**7,258**	3,973
Interest cost	**22,203**	24,784
Actuarial gains	**(68,005)**	(27,157)
Benefits paid	**(29,043)**	(32,211)
At 31 December	**(854,150)**	921,737

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

	2018 £'000	2017 £'000
At 1 January	**865,287**	806,604
Assets extinguished on settlements	**-**	(1,329)
Interest on assets	**20,999**	21,174
Actuarial (losses) gains	**(32,541)**	39,422
Administration expenses	**(1,320)**	(2,256)
Contributions from employees	**147**	174
Employer contributions – regular payments	**2,971**	3,111
Employer contributions – additional top-up payments	**14,138**	30,598
Benefits paid	**(29,043)**	(32,211)
At 31 December	**840,638**	865,287

22 Retirement benefit schemes *(continued)*

Defined benefit schemes *(continued)*

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

	2018 £'000	2017 £'000
Equities	**192,090**	244,268
Corporate bonds	**123,649**	103,432
Government bonds	**444,680**	412,216
Property	**45,355**	55,517
Cash and cash equivalents	**34,864**	49,854
	840,638	865,287

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	**52,100**
-0.5% change to discount rate assumed	**70,700**
Members' life expectancy increases by one year	**21,100**

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 Company 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.

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 Company notes that this is a risk to which any DB 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.

23 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 31 December 2016	1,233	12,318	51,493	36,202	4,373	105,619
Impact of transition to IFRS 15 (note 1 (c) (ii))	-	-	36,482	-	-	36,482
At 1 January 2017	1,233	12,318	87,975	36,202	4,373	142,101
Income statement	500	7,568	217,763	-	337	226,168
Transfers	-	-	6,033	-	-	6,033
Utilisation	-	(4,254)	(1,924)	-	-	(6,178)
Share of movements of joint ventures in the SOCI	-	-	-	(121)	-	(121)
Disposals	-	-	-	(361)	-	(361)
At 31 December 2017	**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**
As presented on the balance sheet:						
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**
Current liabilities	426	2,400	114,786	-	-	117,612
Non-current liabilities	1,307	13,232	195,061	35,720	4,710	250,030
At 31 December 2017	1,733	15,632	309,847	35,720	4,710	367,642

The onerous lease provision is in respect of property leases and is expected to be utilised over the remaining lease terms. The insurance reserve represents claims made for which the Group is considered liable and will be utilised as the claims arise. 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 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. The landfill site provision represents the Group's post-closure cost for site restoration and aftercare for up to sixty years. Provisions have not been discounted as the impact of such discounting is immaterial.

24 Share capital

Ordinary shares of £1 each	Number	£'000
Authorised		
At 31 December 2016	**4,000,000**	**4,000**
Increase during the year	**200,000,000**	**200,000**
At 31 December 2017 and at 31 December 2018	**204,000,000**	**204,000**
Issued, allotted, called up and fully paid		
At 31 December 2016	**3,676,768**	**3,677**
Issue of share capital in the year	**200,000,000**	**200,000**
At 31 December 2017 and at 31 December 2018	**203,676,768**	**203,677**

On 29 June 2017, the Company increased the authorised and issued share capital by 200,000,000 Ordinary shares of £1 each for a total consideration of £200.0 million. The proceeds of this increase in share capital were used by the Group to reduce intercompany debt due to Landmille Limited, a fellow Ferrovial, S.A. group undertaking.

25 Other equity instruments

	£'000
At 31 December 2016 and at 31 December 2017	-
First issue of other equity instrument	**60,000**
Accrued dividend for the year	**1,198**
At 31 December 2018	**61,198**

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. 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.

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, also with Landmille Limited. This is also 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.

26 Minority interests

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

	AmeyCespa Limited and subsidiary companies 2018 £'000	**Other group companies 2018 £'000**	**Total 2018 £'000**	AmeyCespa Limited and subsidiary companies 2017 £'000	Other group companies 2017 £'000	Total 2017 £'000
Share of revenue	**43,301**	**7,243**	**50,544**	73,413	600	74,013
Share of (loss) profit after tax	**(5,517)**	**73**	**(5,444)**	(3,522)	(2)	(3,524)
Share of other comprehensive income	**1,098**	**-**	**1,098**	688	-	688
Share of gross assets	**113,139**	**619**	**113,758**	140,695	877	141,572
Share of gross liabilities	**(121,845)**	**(515)**	**(122,360)**	(144,915)	(846)	(145,761)
Share of net (liabilities) assets	**(8,706)**	**104**	**(8,602)**	(4,220)	31	(4,189)

The minority interest in the impact of adoption of IFRS 9, Financial Instruments resulted in an increase in share of net liabilities of £67,000, all of which was attributable to Amey Cespa Limited and subsidiary companies. See note 1 (c) (i) for further information.

The minority interest in AmeyCespa Limited and its 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 29.

27 Cash flow generated from operating activities

	2018 £'000	2017 £'000
Loss before tax	**(427,968)**	(189,827)
Adjustment for net finance expense		
Finance income	**(13,111)**	(19,582)
Finance costs	**27,501**	40,640
	14,390	21,058
Adjustment for non-cash movements		
Depreciation of property, plant and equipment	**8,419**	7,736
Amortisation of intangible assets	**30,382**	21,560
Impairment of assets	**359,663**	-
Non-cash pension credit	**(8,678)**	(27,754)
Share of loss (profit) after tax of joint ventures	**6,157**	(8,743)
Loss on disposal of property, plant and equipment	**130**	2,444
Profit on disposal of joint venture investments	**(34,286)**	(3,964)
Non-cash provisions movement	**51,825**	226,168
	413,612	217,447
Movement in working capital		
Decrease (increase) in inventories	**11,637**	(12,010)
Decrease (increase) in receivables	**16,463**	(40,797)
(Decrease) increase in payables	**(68,452)**	42,167
Utilisation of provisions	**(90,158)**	(6,178)
	(130,510)	(16,818)
Cash flow (absorbed) generated from operating activities	**(130,476)**	31,860

28 Changes in financial liabilities arising from financing activities

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

	2018 £'000	2017 £'000
Finance lease liabilities	**7,206**	9,478
PFI/PPP Non-recourse term loans	**49,978**	50,908
Minority interest shareholder loan	**100**	-
Amounts due to Landmille Limited (current)	**80,000**	581
Amounts due to Landmille Limited (non-current)	**289,031**	368,592
Amounts due to Ferrovial, S.A. group undertaking (non-current)	**30,076**	29,150
Total external borrowings and Ferrovial, S.A. group loans	**456,391**	458,709
Derivative financial instrument liabilities	**16,965**	19,612
Total finance liabilities forming part of financing	**473,356**	478,321

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

	2018 £'000	2017 £'000
Total financial liabilities forming part of financing at the start of the year	**478,321**	660,723
Cash movements on financial liabilities:		
Repayment of finance leases	**(2,794)**	(3,099)
Repayment of PFI/PPP Non-recourse term loans	**(930)**	(1,996)
Advance of minority interest shareholder loan	**100**	-
Repayment of Landmille Limited loans	**(581)**	(176,789)
	(4,205)	(181,884)
Non-cash movements on financial liabilities:		
Inception of new finance leases	**522**	2,126
Roll up of unpaid interest on amounts due to Ferrovial, S.A. group undertaking	**926**	607
Foreign exchange loss (gain) on Landmille Limited loan	**439**	(1,593)
Change in fair value of derivative financial instrument liabilities	**(2,647)**	(1,658)
	(760)	(518)
Total reduction in financial liabilities arising from financial activities	**(4,965)**	(182,402)
Total financial liabilities forming part of financing at the end of the year	**473,356**	478,321

29 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 LG Limited has a branch in Qatar and 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 LLC *(Qatar)* (49%)	Highway management and maintenance *(Qatar)*
Amey Consulting USA, Inc. *(USA)*	Highway management and maintenance *(USA)*
Amey Defence Services Limited (formerly Carillion Amey Limited)	Facilities management and buildings maintenance
Amey Defence Services (Housing) Limited (formerly Carillion Amey (Housing Prime) Limited)	Housing maintenance on behalf of the MOD
Amey Environmental Services Limited (formerly Amey Airports 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

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

Dormant subsidiary undertaking

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

29 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	2018 % held	2017 % held
ALC (FMC) Limited	PFI asset management concession for the MOD	**50.0**	50.0
Amey Birmingham Highways Holdings Limited*	PFI highways concession in Birmingham	**33.3**	33.3
Amey Birmingham Highways Limited	PFI highways concession in Birmingham	**33.3**	33.3
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**	33.3
Amey Hallam Highways Limited	PFI highways concession in Sheffield	**3.3**	33.3
Amey Infrastructure Management (1) Limited	Investment holdings	**10.0**	10.0
Amey Infrastructure Management (2) Limited	Investment holdings	**10.0**	-
Amey Infrastructure Management (3) Limited	Investment holdings	**10.0**	-
Amey Ventures Investments Limited	Investment holdings	**5.0**	10.0
Amey-Webber LLC *(USA)*	Highways maintenance	**51.0**	51.0
AmeyCespa (AWRP) Holding Co Limited	PFI waste management concession	**3.3**	16.7
AmeyCespa (AWRP) SPV Limited	PFI waste management concession	**3.3**	16.7
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
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**	-
Keolis Amey Metrolink Limited	Railways maintenance	**40.0**	40.0
Keolis Amey Wales Cymru Limited	Railways maintenance	**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**	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**	50.0
The Thames Valley Community Rehabilitation Company Limited	Rehabilitation and offender management services	**50.0**	50.0

* Amey Birmingham Highways Holdings Limited was placed in administration on 19 September 2018. See note 33 (a) for post balance sheet event.

29 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	2018 % held	2017 % held
AHL Holdings (Manchester) Limited	PFI street lighting concession	**2.5**	5.0
Amey Highways Lighting (Manchester) Limited	PFI street lighting concession	**2.5**	5.0
AHL Holdings (Wakefield) Limited	PFI street lighting concession	**2.5**	5.0
Amey Highways Lighting (Wakefield) Limited	PFI street lighting concession	**2.5**	5.0
ALC (Superholdco) Limited	PFI asset management concession for the MOD	**2.5**	5.0
ALC (Holdco) Limited	PFI asset management concession for the MOD	**2.5**	5.0
ALC (SPC) Limited	PFI asset management concession for the MOD	**2.5**	5.0
Amey Belfast Schools Partnership Hold Co Limited	PFI schools concession	**5.0**	10.0
Amey Belfast Schools Partnership PFI Co Limited	PFI schools concession	**5.0**	10.0
Amey Lighting (Norfolk) Holdings Limited	PFI street lighting concession	**5.0**	10.0
Amey Lighting (Norfolk) Limited	PFI street lighting concession	**5.0**	10.0
Amey Roads NI Holdings Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	5.0
Amey Roads NI Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	5.0
Amey Roads NI Financial Limited *(Northern Ireland)*	PFI highways concession in Northern Ireland	**2.5**	5.0
E4D&G Holdco Limited	PFI schools concession in Dumfries & Galloway	**4.3**	8.5
E4D&G Project Co Limited	PFI schools concession in Dumfries & Galloway	**4.3**	8.5
Integrated Bradford Hold Co One Limited	PFI schools concession in Bradford	**1.7**	2.9
Integrated Bradford SPV One Limited	PFI schools concession in Bradford	**1.7**	2.9
RSP (Holdings) Limited *(Scotland)*	PFI schools concession in Renfrewshire	**1.8**	3.5
The Renfrewshire Schools Partnership Limited *(Scotland)*	PFI schools concession in Renfrewshire	**1.8**	3.5
Services Support (Avon and Somerset) Holdings Limited	PFI courts concession in Bristol	**1.0**	2.0
Services Support (Avon and Somerset) Limited	PFI courts concession in Bristol	**1.0**	2.0

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

Jointly controlled operation	Nature of business	2018 % Held	2017 % 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**	-
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 Birmingham Highways Holdings Limited, Amey Birmingham Highways Limited, 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.

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

Registered offices

The registered office of subsidiary and joint venture undertakings is The Sherard Building, Edmund Halley Road, Oxford, OX4 4DQ, United Kingdom. The exceptions to this are set out in the table below:

Undertaking	Registered office (United Kingdom, unless otherwise indicated)
Amey Birmingham Highways Holdings Limited	One Colmore Square, Birmingham, B4 6HQ
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 LLC	Doha, Qatar
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 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	West Point, 501 Chester Road, Old Trafford, Manchester, M16 9HU
Enterprise Utility Services (TBC) Limited	West Point, 501 Chester Road, Old Trafford, Manchester, M16 9HU
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	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Keolis Amey Metrolink Limited	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Keolis Amey Wales Cymru Limited	Amey Rail Maindee Depot, off Caerleon Road, Newport, NP19 9DZ
Management & Training Corporation Limited (formerly MTCnovo Limited)	Fifth Floor, Capital Tower, 91 Waterloo Road, London, SE1 8RT
RSP (Holdings) Limited	Precision House, McNeil Drive, Motherwell, ML1 4UR
Scot Roads Partnership Finance Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
Scot Roads Partnership Holdings Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
Scot Roads Partnership Project Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
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
The London Community Rehabilitation Company Limited	Fifth Floor, Capital Tower, 91 Waterloo Road, London, SE1 8RT
The Thames Valley Community Rehabilitation Company Limited	Fifth Floor, Capital Tower, 91 Waterloo Road, London, SE1 8RT
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

30 Financial and capital commitments

Operating leases – lessee

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

	Land and buildings 2018 £'000	**Other 2018 £'000**	Land and buildings 2017 £'000	Other 2017 £'000
Within 1 year	**6,640**	**18,458**	7,755	24,675
In 2 to 5 years inclusive	**16,413**	**33,069**	16,592	40,428
After 5 years	**7,611**	**7,420**	6,789	9,995
	30,664	**58,947**	31,136	75,098

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

Other financial commitments

The Group is committed to contributing subordinated loan capital of £22.8 million (2017: £14.0 million) to joint venture undertakings in 2019.

31 Contingent liabilities

As part of its activities, the Group is subject to contingent liabilities arising from the performance of certain contracts. At 31 December 2018, the Group has provided bank guarantees totalling £147 million (2017: £239 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 £372 million (2017: £642 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. 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. Until the first £160 million has been paid (due by 31 December 2019), the Group is prohibited from paying dividends or payment on intra-company debt to affiliates, save that the Group can pay Ferrovial group recharges of up to £8.0 million during that period.

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 2018 is £67.6 million (2017: £75.9 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

32 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 the joint ventures at 31 December 2018:

	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
		Revenue	**Interest receivable on loans with joint ventures**	
ALC (FMC) Limited	**837**	896	**-**	-
Amey Birmingham Highways Limited	**2,423**	22,437	**2,930**	2,709
Amey FMP Belfast Strategic Partnership Hold Co Limited	**-**	-	**27**	24
Amey FMP Belfast Strategic Partnership SP Co Limited	**120**	274	**-**	-
Amey Hallam Highways Limited	**76,898**	108,616	**1,451**	1,687
Amey Ventures Investments Limited	**42,646**	35,881	**320**	444
Amey Infrastructure Management (1) Limited	**-**	-	**123**	15
Amey Infrastructure Management (2) Limited	**-**	-	**67**	-
Amey Infrastructure Management (3) Limited	**-**	-	**54**	-
AmeyCespa (AWRP) SPV Limited	**18,908**	62,621	**782**	-
AmeyCespa (MK) SPV Limited	**1,137**	5,053	**714**	747
CarillionAmey Limited	**-**	4,800	**-**	-
CarillionAmey (Housing Prime) Limited	**75**	1,188	**-**	-
GEO Amey PECS Limited	**16**	18	**-**	21
Integrated Bradford Hold Co Two Limited	**-**	-	**-**	39
Integrated Bradford SPV Two Limited	**6,180**	4,750	**-**	-
Integrated Bradford LEP Limited	**214**	206	**-**	-
Integrated Bradford PSP Limited	**-**	-	**-**	114
Management & Training Corporation Limited (formerly MTCnovo Limited)	**-**	-	**24**	228
Scot Roads Partnership Project Limited	**-**	-	**-**	771
	149,454	246,740	**6,492**	6,799

	Loan amounts outstanding with joint ventures		**Net trading balance owed to (by) the Group**	
Amey Birmingham Highways Limited	**22,854**	22,854	**34,668**	20,195
Amey FMP Belfast Strategic Partnership Hold Co Limited	**100**	100	**-**	-
Amey FMP Belfast Strategic Partnership SP Co Limited	**-**	-	**138**	194
Amey Hallam Highways Limited	**-**	16,301	**515**	5,555
Amey Infrastructure Management (1) Limited	**1,540**	1,540	**139**	36
Amey Infrastructure Management (2) Limited	**3,589**	-	**67**	-
Amey Infrastructure Management (3) Limited	**3,142**	-	**-**	-
Amey Ventures Investments Limited	**1,368**	3,714	**4,823**	5,186
AmeyCespa (AWRP) SPV Limited	**-**	-	**(2)**	(2)
AmeyCespa (MK) SPV Holding Co Limited	**4,837**	5,581	**-**	-
CarillionAmey Limited	**-**	-	**-**	767
CarillionAmey (Housing Prime) Limited	**-**	-	**-**	(54)
EduAction (Waltham Forest) Limited	**-**	-	**(11)**	(723)
GEO Amey PECS Limited	**-**	1,250	**76**	95
Integrated Bradford SPV Two Limited	**-**	-	**385**	450
Integrated Bradford LEP Limited	**-**	-	**15**	-
Keolis Amey Wales Cymru Limited	**-**	-	**183**	-
Keolis Amey Docklands Limited	**-**	-	**1,122**	1,062
Keolis Amey Operations/Gweithrediadau Keolis Amey Limited	**6,880**	-	**22**	-
Keolis Amey Metrolink Limited	**-**	680	**-**	423
Management & Training Corporation Limited (formerly MTCnovo Limited)	**10,000**	10,000	**38**	207
Services Support (Avon & Somerset) Limited	**-**	-	**-**	16
	54,310	62,020	**42,178**	33,407
Less: provision for impairment	**(22,945)**	-	**(34,756)**	-
	31,365	62,020	**7,422**	33,407

32 Related party transactions *(continued)*

Ferrovial, S.A. and its subsidiary undertakings

	2018 £'000	2017 £'000
Income statement		
Net operating expenses	**(22,726)**	(23,832)
Net finance income	**1,399**	750
Net finance cost – Landmille Limited	**(14,607)**	(17,154)
Net finance cost – Ferrovial Servicios, S.A.	**(379)**	-
Net finance cost – Other Ferrovial, S.A. companies	**(926)**	(607)
	(37,239)	(40,843)

	2018 £'000	2017 £'000
Balance sheet		
Trade and other receivables		
Non-current assets – other trade receivables	**16,539**	16,209
Current assets – other trade receivables	**12,098**	6,894
Trade and other payables		
Current liabilities – Ferrovial, S.A. group loans	**(80,000)**	(581)
Current liabilities – other trade payables	**(1,519)**	(3,868)
Non-current liabilities – Ferrovial, S.A. group loans	**(319,107)**	(397,742)
Net liabilities	**(371,989)**	(379,088)

The Group has been charged operating expenses and net finance costs by Ferrovial Servicios, S.A, which are disclosed above. The Group has also been charged finance costs by Landmille Limited. Unless stated otherwise, balances are with Ferrovial Servicios, S.A. and all balances above are as included in the Group balance sheet. Additionally, the Group received £5.1 million (2017: £6.0 million) from Ferrovial Servicios, S.A. in respect of tax losses.

In 2018, the Group recorded a foreign exchange loss of £0.4 million (2017: £1.6 million loss) on its borrowings from, and a foreign exchange gain of £0.1 million (2017: £0.2 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 0.03% (2017: 0.08%) and a long-term loan to Cespa Ventures Limited which receives interest at a fixed rate of 12.5% (2017: 12.5%).

Included within the non-current liabilities – Ferrovial, S.A. group loans was an amount due to Landmille Limited of £177.5 million (2017: £177.5 million) which was designated in sterling and which bore interest at LIBOR plus 4.2% (2017: 4.2%) and was due to be repaid on 30 March 2020 as the loan was automatically renewed for a further year on 30 March 2019. A further amount due to Landmille Limited of £41.5 million (2017: £41.1 million) was designated in euros and was charged interest at the rate of six-month EURIBOR plus 3.5% (2017: six-month EURIBOR plus 3.5%) and was due to be repaid on 31 December 2020.

In 2016, Landmille Limited provided an additional sterling credit facility of £70.0 million to the Group, which was £70.0 million utilised at the end of the year (2017: £70.0 million utilised). This facility 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. Also, in 2016, Landmille Limited provided a further sterling credit facility of £80.0 million to the Group, which was £80.0 million utilised at the end of the year (2017: £80.0 million utilised). This facility bore interest at three-month LIBOR plus 1.91% and was due to be repaid on 23 September 2019.

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 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 is available until 31 July 2020. These loans 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.

Also included within non-current liabilities are other Ferrovial, S.A. group loans of £30.1 million (2017: £29.2 million) due to Cespa UK Limited which is designated in sterling and bears interest at market rate (2017: market rate) and is due to be repaid by 27 August 2020.

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.

33 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 2018.

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 £0.8 million (2017: £0.7 million).

34 Post balance sheet events

(a) Birmingham contract dispute

On 29 June 2019, the Group concluded an agreement with Amey Birmingham Highways Limited (ABHL) to exit from the contract to provide highways maintenance services to Birmingham City Council. Under the settlement arrangements, the Group is obliged to pay £215 million in total to ABHL over a six-year period (£100 million on 29 June 2019, two further instalments of £30 million each at the end of September and December 2019, £10 million each year from 2020 to 2024 and £5 million in 2025), for a full release of the Group's liability in respect of the Birmingham project from all key stakeholders. The services agreement between the Group and ABHL will continue in amended form date until 30 September 2019 (and may be subject to extension to a date not later than 31 March 2020 which may be nominated by ABHL). Liability under the services agreement during this period is generally capped at £0.9 million to September 2019 with a further £0.15 million per month if the contract is extended to March 2020. The Group will be entitled to set off unpaid amounts under the services agreement from ABHL against payments due to ABHL under the settlement agreement, subject to certain caps.

The total additional charge to profits in 2018 to cover the loss arising from these arrangements and for settling outstanding amounts due is £123.2 million. This is in addition to the amounts already provided in 2017 of £208.5 million.

(b) Further issue of other equity instrument

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 also 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 instrument 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 instrument 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.

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 which bears interest at 1-month LIBOR plus between 372 and 472 basis points dependent on the drawn amount. This new sterling revolver facility is available until 31 July 2020.

These loans 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.

(c) Issue of new intercompany loan

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 and is due to repaid by 31 July 2020. 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.

(d) 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. No profit or loss arose on this disposal.

35 Ultimate parent undertaking and controlling party

The ultimate parent company and controlling party is Ferrovial, S.A., a company incorporated in Spain. 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

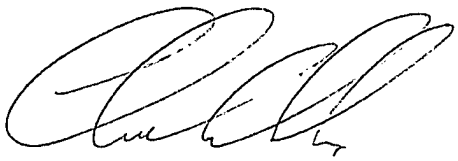
Ferrovial, S.A.
Príncipe de Vergara, 135
28002 Madrid
Spain

Company balance sheet as at 31 December 2018

Company number 04736639	Note	2018 £'000	2017 £'000
Fixed assets			
Investment in subsidiary undertakings	40	**48,528**	497,867
Current assets			
Trade and other receivables	41	**42,820**	32,323
Cash and cash equivalents		**163**	103
Total current assets		**42,983**	32,426
Creditors – amounts falling due within one year	42	**(1,063)**	(700)
Net current assets		**41,920**	31,726
Total assets less current liabilities		**90,448**	529,593
Provisions for liabilities	43	**-**	(28,958)
Net assets		**90,448**	500,635
Equity			
Share capital	44	**203,677**	203,677
Share premium account		**153,134**	153,134
Other reserve		**61,887**	61,887
Other equity instrument	45	**61,198**	-
Retained (deficit) earnings		**(389,448)**	81,937
Equity shareholders' funds		**90,448**	500,635

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 £470.2 million (2017: £6.5 million profit).

The notes on pages 88 to 92 form part of these Company financial statements. The financial statements on pages 86 to 92 were approved and authorised for issue by the Board of Directors on 12 July 2019 and signed on its behalf by:



Andy Milner
Director
12 July 2019

Company statement of changes in equity for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Retained (deficit) earnings £'000	Total equity £'000
At 31 December 2016	3,677	153,134	61,887	-	75,401	294,099
Issue of share capital in the year (note 43)	200,000	-	-	-	-	200,000
Profit after tax for the year	-	-	-	-	6,536	6,536
At 31 December 2017	**203,677**	**153,134**	**61,887**	**-**	**81,937**	**500,635**
Issue of other equity instrument (note 44)	**-**	**-**	**-**	**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**

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

The notes on pages 88 to 92 form part of these Group financial statements.

Notes forming part of the Company financial statements for the year ended 31 December 2018

36 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, The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, United Kingdom, OX4 4DQ. The address of the principal place of business is Principe de Vergara 135, 28002 Madrid, Spain.

37 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared on a going concern basis and in accordance with FRS 101, the historical cost convention and the Companies Act 2006. The principal accounting policies set out below have been applied consistently.

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.

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.

37 Accounting policies *(continued)*

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.

38 Directors

Details of the remuneration of the Company's Directors and of the highest paid Director are outlined in note 6 of the Group's financial statements. The Directors are not remunerated by the Company.

39 Investment in subsidiary undertakings

	Cost of shares £'000	Subordinated loan £'000	Provision for impairment £'000	Carrying value £'000
At 31 December 2016	297,867	-	-	297,867
Additions during the year	200,000	-	-	200,000
At 31 December 2017	**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	**497,867**	**60,000**	**(509,339)**	**48,528**

On 29 June 2017, the Company subscribed to additional share capital of £200.0 million in its principal subsidiary undertaking, Amey Holdings Limited as part of an overall recapitalisation of the Amey UK plc group of companies.

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 29 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.

40 Trade and other receivables

	2018 £'000	2017 £'000
Amounts falling due within one year		
Tax debtor	**5,089**	4,937
Prepayments	**13**	210
	5,102	5,147
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	**22,861**	17,527
Amounts due from Ferrovial Servicios, S.A.	**14,857**	9,649
	37,718	27,176
	42,820	32,323

41 Creditors – amounts falling due within one year

	2018 £'000	2017 £'000
Other creditors	**8**	9
Accruals	**1,055**	691
	1,063	700

42 Provisions for liabilities

Deferred tax	2018 £'000	2017 £'000
At 1 January	**28,958**	25,350
Deferred tax (credited) charged to the income statement	**(28,958)**	3,608
At 31 December	**-**	28,958

The deferred tax liability arises in respect of accelerated tax relief on goodwill of £nil (2017: £29.0 million). Following impairment of part of that goodwill the associated deferred tax now results in an unrecognised deferred tax asset of £5.3 million. Deferred tax has been measured in full using the liability method using an expected tax rate of 25% (2017: 25%), being the rate substantively enacted in Spain at the balance sheet date.

43 Share capital

Ordinary shares of £1 each	Number	£'000
Authorised		
At 31 December 2016	**4,000,000**	**4,000**
Increase during the year	**200,000,000**	**200,000**
At 31 December 2017 and at 31 December 2018	**204,000,000**	**204,000**
Issued, allotted, called up and fully paid		
At 31 December 2016	**3,676,768**	**3,677**
Issue of share capital in the year	**200,000,000**	**200,000**
At 31 December 2017 and at 31 December 2018	**203,676,768**	**203,677**

On 29 June 2017, the Company increased the authorised and issued share capital by 200,000,000 Ordinary shares of £1 each for a total consideration of £200.0 million. The proceeds of this increase in share capital were used to provide additional investment in Amey Holdings Limited, the Company's principal subsidiary undertaking.

44 Other equity instrument

	£'000
At 31 December 2016 and at 31 December 2017	-
Issue of other equity instrument	**60,000**
Accrued dividend for the year	**1,198**
At 31 December 2018	**61,198**

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.

45 Financial and capital commitments

The Company had no financial or capital commitments at 31 December 2018 or 31 December 2017.

46 Contingent liabilities

The Company has provided guarantees to joint venture undertakings totalling £372 million (2017: £642 million), of which the most relevant are those provided to the UK Ministries of Defence and 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. 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. Until the first £160 million has been paid (due by 31 December 2019), the Group is prohibited from paying dividends or payment on intra-company debt to affiliates, save that the Group can pay Ferrovial group recharges of up to £8.0 million during that period.

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 2018 is £67.6 million (2017: £75.9 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

47 Post balance sheet events – issue of new intercompany loan

On 29 June 2019, the Company 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 and is due to repaid by 31 July 2020. 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.

48 Controlling parties

The immediate parent company 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. 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
The Sherard Building
Edmund Halley Road
Oxford, OX4 4DQ
United Kingdom