

REGISTERED NUMBER: 00889628 (England and Wales)

**Annual Report and
Financial Statements for the Year Ended 31 December 2019
for
Enterprise Managed Services Limited**



Enterprise Managed Services Limited

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for the Year Ended 31 December 2019**

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Enterprise Managed Services Limited

**Company Information
for the Year Ended 31 December 2019**

Directors

J S Haluch
K J Jarvey
D S Jones
A L Nelson
P Thain
R J Ward

Company Secretary

Sherard Secretariat Services Limited

Registered Office

Chancery Exchange
10 Funnival Street
London
EC4A 1AB

Auditor

Deloitte LLP
4 Brindleyplace
Birmingham
B1 2HZ

Enterprise Managed Services Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their strategic report for the year ended 31 December 2019.

Principal activity

The principal activity of the Company continues to be the provision of management services for the maintenance of utility infrastructures within water, gas and electricity sectors. In addition, the Company provides environmental services to several Local Authorities. Our role is to perform maintenance tasks such as fixing water leaks, repairing gas mains, installing utility supplies and repairing broken connections, as well as collecting domestic refuse. Nearly all of the work we do is essential and must happen in order for the infrastructure to operate. There have been no changes in the Company's activities during the year.

Review of business and future developments

The income statement for the year is set out on page 11 and shows revenue of £216,876,000 (2018 - £363,703,000) and a loss after tax amounting to £67,782,000 (2018 - £10,925,000), all of which arose from continuing activities.

The Company saw a significant reduction in revenue of 40% in 2019. The main cause for this was a significant decrease in volumes on the United Utilities Network Maintenance Alliance and also on the Wolverhampton, Peterborough and Northampton & Daventry waste collections contracts. In addition to the loss of contribution on these contracts, additional costs arose on the Severn Trent Water capital works contract which resulted in the Company recording a gross loss. The Company also incurred an exceptional cost of £6.6 million in respect of impairment of a long-term debtor for contract related pension costs which have now been assessed as non-recoverable. Administrative expenses have been reduced significantly from the unusually high level recorded in 2018 and have returned to a normalised level.

Charges for provisions against impairments to investments in subsidiary undertakings of £38,651,000 arose in the year (2018: £4,918,000). These provisions reflect the difficult trading conditions being experienced by some of the Company's principal operating subsidiaries.

The Amey Group has identified certain contracts held by the Company which form part of the broader disposal businesses of Waste Collections and Utilities now discontinued and held for sale by the Group. For this Company, these are not considered to meet the definition of held for sale or discontinued operations on an entity basis. The Company will continue to trade and operate contracts of the continuing business of Amey following any sale.

The Directors are expecting a further reduction in trading activity in 2020 as contracts end and further work remains to be secured. They also note that the COVID-19 pandemic will have a negative impact on revenues and operating margins (see commentary on post balance sheet events below).

Post balance sheet events

Issue of other equity instrument

On 10 July 2020, a fellow Amey group company, Enterprise plc, granted an equity loan facility to the Company for a total amount of £30.0 million. This is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points.

Enterprise Managed Services Limited

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

Post balance sheet events

COVID-19 pandemic impact on the Amey Group (the "Group")

Since the year end, the global COVID-19 pandemic has led to significant challenges for the Group to meet, particularly with regards to ensuring the health and safety of employees. The Group has been able to keep large parts of the business fully operational with a maximum of 755 employees furloughed to date during this period of uncertainty and the Group also secured the necessary PPE to protect the workforce. Operational practices have been adapted to meet the guidelines on social distancing and minimising contacts. Reduced volumes of work have been noted and appropriate actions have been taken to utilise the various UK Government initiatives to assist the economy. For more information on the impact of COVID-19 on the Group, please see note 27 to the financial statements.

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

There have been no other events since the balance sheet date which materially affect the position of the Company.

Key performance indicators

The Company's principal key performance indicators are revenue and profit before tax which are shown in the income statement for the year set out on page 11.

Principal risks and uncertainties

The Company's risks and other key performance indicators are only reported and managed on a Divisional basis. To gain a further understanding of this business, details of the principal risks and uncertainties and other key performance indicators are contained in the Annual Report and Financial Statements of the intermediate parent undertaking, Amey UK plc ('the Group'), for the year ended 31 December 2019. The Company is a member of the Environmental Services, Utilities and Facilities Management divisions of the Group.

Enterprise Managed Services Limited

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

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

The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019 (see also the Corporate Governance statement and a detailed s172 statement on the Amey Group's website: www.amey.co.uk and the Amey UK plc 2019 group accounts for more information).

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

- (a) the likely consequences of any decision in the long-term, such as strategic planning, Brexit impact and business development opportunities;
- (b) interests of the Group's employees including health and safety, employee involvement and initiatives, diversity, inclusion and gender pay gap issues;
- (c) the need to foster relationships with suppliers, customers and others including supplier evaluation, social values and payment practices;
- (d) to act fairly between members of the Company
- (e) impact of operations on community and the environment, including carbon management, climate crisis initiatives; and
- (f) reputation for high standards of business conduct including adoption of corporate governance standards, training of Directors and whistleblowing reporting.

As the Company is a wholly owned subsidiary of the Amey group of companies, and ultimately the Ferrovial group of companies, the Company's Directors discharge their duties within policies, procedures and authorisation limits set out on a group-wide basis. Further information on how officers within the Amey Group of companies discharge their duties is included in the Amey UK plc 2019 group accounts. The Directors of this Company also achieve this through attendance at relevant executive meetings, involvement in executive briefings and training, and through having responsibility for implementation of group-wide initiatives to promote best practice.

Approved by the Board on 10 July 2020 and signed on its behalf by:



A L Nelson
Director
10 July 2020

Enterprise Managed Services Limited

Report of the Directors for the Year Ended 31 December 2019

The Directors present their annual report with the audited financial statements of the Company for the year ended 31 December 2019.

Strategic Report

Details of future developments and financial risk management can be found in the Strategic Report on page 2 and form part of this report by cross reference.

Dividends

No dividends were paid by the Company during the year (2018 - £nil). The Directors do not recommend the payment of a final dividend.

Directors of the Company

The Directors who held office during the year and up to the date of this Report were as follows:

A L Milner (resigned 12 December 2019)

K J Jarvey

J S Haluch

D M McLoughlin (resigned 10 January 2020)

D S Jones

R J Ward

A L Nelson

The following director was appointed after the year end:

P Thain (appointed 31 March 2020)

Directors' indemnity

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

Going concern

After making enquiries and based on the assumptions outlined in note 2 to the financial statements, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Policy on slavery and human trafficking

In accordance with the Modern Slavery Act 2015, the Group is committed to ensuring that there is no modern slavery or human trafficking in our supply chains, or in any part of our business, with a zero tolerance for non-compliance. A full statement reflecting that commitment can be found on the Amey website www.amey.co.uk and an abridged statement is included in the financial statements of the Company's intermediate parent company, Amey UK plc.

Statement as to disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Enterprise Managed Services Limited

Report of the Directors for the Year Ended 31 December 2019 (continued)

Reappointment of auditor

Deloitte LLP has been appointed as Auditor and has expressed their willingness to continue in office as Auditor. In accordance with s487 of the Companies Act 2006, Deloitte LLP will be re-appointed as Auditor to the Company.

Approved by the Board on 10 July 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'A L Nelson', written over a dotted line.

A L Nelson

Director

10 July 2020

Enterprise Managed Services Limited

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom 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.

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.

Enterprise Managed Services Limited

Independent auditor's report to the members of Enterprise Managed Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Enterprise Managed Services Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Enterprise Managed Services Limited

Independent auditor's report to the members of Enterprise Managed Services Limited (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 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 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Enterprise Managed Services Limited

Independent auditor's report to the members of Enterprise Managed Services Limited (continued)

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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

We have nothing to report in 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
Birmingham
United Kingdom
10 July 2020

Enterprise Managed Services Limited
Income Statement for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	4	216,876	363,703
Cost of sales (including exceptional charge of £6,647,000 (2018 - £1,955,000))	6	(239,340)	(336,971)
Gross (loss)/profit		(22,464)	26,732
Administrative expenses		(9,665)	(23,623)
Operating (loss)/profit		(32,129)	3,109
Provision for investments in fellow group companies	8	(38,651)	(4,918)
Loss before interest and taxation		(70,780)	(1,809)
Interest receivable and similar income	7	24	7
		(70,756)	(1,802)
Finance expense	9	(1,276)	(1,517)
Loss before taxation	10	(72,032)	(3,319)
Tax on loss	11	4,250	(7,606)
Loss for the year		(67,782)	(10,925)

The notes on pages 15 to 44 form part of these financial statements.

Enterprise Managed Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £'000	2018 £'000
Loss for the year	(67,782)	(10,925)
Total comprehensive loss for the year	(67,782)	(10,925)

The notes on pages 15 to 44 form part of these financial statements.

Enterprise Managed Services Limited (Registered number: 00889628)

Balance Sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	12	7,835	7,997
Tangible assets	13	2,168	2,632
Investments	14	30,797	61,448
		<u>40,800</u>	<u>72,077</u>
Current assets			
Inventories	15	98	770
Debtors: amounts falling due within one year	16	345,200	387,960
Debtors: amounts falling due after more than one year	16	2,640	1,726
Cash at bank and in hand		4,208	5,029
		<u>352,146</u>	<u>395,485</u>
Creditors:			
Amounts falling due within one year	17	(416,742)	(421,002)
Net current liabilities		<u>(64,596)</u>	<u>(25,517)</u>
Total assets less current liabilities		(23,796)	46,560
Creditors:			
Amounts falling due after more than one year	18	(1,077)	(560)
Provisions for liabilities	21	(1,695)	(4,786)
Net (liabilities)/assets		<u>(26,568)</u>	<u>41,214</u>
Capital and reserves			
Share capital	23	3	3
Retained (deficit)/earnings		<u>(26,571)</u>	<u>41,211</u>
Shareholders' funds		<u>(26,568)</u>	<u>41,214</u>

The financial statements were approved by the Board of Directors on 10 July 2020 and signed on its behalf by:



A L Nelson

Director

10 July 2020

The notes on pages 15 to 44 form part of these financial statements.

Enterprise Managed Services Limited

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

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2018	3	63,220	63,223
Impact of transition to IFRS 15	-	(11,084)	(11,084)
At 1 January 2018 after transition to IFRS 15	3	52,136	52,139
Loss for the year	-	(10,925)	(10,925)
Total comprehensive loss	-	(10,925)	(10,925)
At 31 December 2018	3	41,211	41,214

	Share capital £'000	Retained earnings/ (deficit) £'000	Total £'000
At 1 January 2019	3	41,211	41,214
Loss for the year	-	(67,782)	(67,782)
Total comprehensive loss	-	(67,782)	(67,782)
At 31 December 2019	3	(26,571)	(26,568)

Post balance sheet event - issue of other equity instrument

On 10 July 2020, a fellow Amey group company, Enterprise plc, granted an equity loan facility to the Company for a total amount of £30.0 million, which is classed as Other equity instrument (see note 27). This is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points.

The notes on pages 15 to 44 form part of these financial statements.

Enterprise Managed Services Limited

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

1 General information

The principal activity of Enterprise Managed Services Limited (the Company) is the provision of management services for the maintenance of utility infrastructures within water, gas and electricity sectors and it operates principally within the UK. The Company is a private company limited by share capital, incorporated and domiciled in the UK and registered in England and Wales.

The Company Secretary and address of the registered office is as follows:

Sherard Secretariat Services Limited

Chancery Exchange
10 Furnival Street
London
EC4A 1AB
United Kingdom

2 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

On 1 January 2019, the following standards which might have an impact on the financial statements came into force in the European Union and have subsequently been approved for use in the United Kingdom: IFRS 16 Leases, Amendments to IFRS 9, IFRS 19 and IAS 28, IFRIC Interpretation 23 and Annual Improvements to IFRS 2015-2017 cycle. No significant impact on the Company financial statements has been identified because of these amendments, other than those identified below:

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

The Company has identified £2.0 million of right-of use assets at 1 January 2019 which are now included in tangible fixed assets. A corresponding finance lease liability of £2.0 million has been recognised as part of external borrowings, using an implicit interest rate of 3.9% to determine the present value of remaining payments of in-scope finance leases. As the modified retrospective approach has been applied, there is no impact on previously reported earnings or on shareholders' funds. In addition, the Company has chosen to present right-of-use assets as part of tangible fixed assets with the corresponding finance lease liability presented as part of creditors rather than reporting these as separate line items on the Company balance sheet.

The impact of adoption of IFRS 16 on the balance sheet as at 1 January 2019 is set out in note 26 to the financial statements.

Other new standards or interpretations applicable to the Company for accounting periods commencing on or after 1 January 2020 are not expected to have a material impact on the Company.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 'Reduced Disclosure Framework':

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- IFRS 2, 'Share based payments';
- IAS 36, 'Impairment of assets' paragraphs 134 and 135;
- IFRS 15, 'Revenue from contracts with customers': second sentence of paragraph 110, and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129; and
- IFRS 16, 'Leases': paragraph 52, the second sentence of paragraph 89 and paragraphs 90, 91 and 93. Paragraph 58, provided that the disclosure of details of indebtedness required by paragraph 61(c) of Schedule 1 of the Regulations is presented separately for lease liabilities and other liabilities in total.

Basis of consolidation

The Company is exempt from preparing consolidated financial statements under section 400 of the Companies Act 2006 on the grounds that it is itself a wholly owned subsidiary undertaking of a company registered in England and Wales. These financial statements therefore, present information about the individual undertaking and not about its group. These financial statements are separate financial statements.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Going concern

The Company is a subsidiary of Amey UK plc (the Group) and its financial resources are managed on a group basis. The Company is accordingly a cross-guarantor to certain borrowings and liabilities of the Group as described in note 24. The ultimate parent of the Group is Ferrovial, S.A. 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.

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

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

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

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

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

The RWC forecast looks at the following key sensitivities:

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

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Going concern (continued)

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

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

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

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

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

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Going concern (continued)

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

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

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

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

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

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Other principal accounting policies

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

Revenue recognition

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.

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

(iii) Variable consideration

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

(iv) Balance sheet items relating to revenue recognition: amounts recoverable on contracts/payments received on account

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Foreign currency transactions and balances

The functional currency is the currency of the primary economic environment in which the Company operates (Pound Sterling). Foreign currency denominated transactions and balances are translated using the exchange rate ruling at the date of the transaction or balance. Gains or losses arising are included in the income statement as they arise.

Intangible assets (software)

Costs associated with computer software maintenance are recognised as an expense as incurred. Computer software purchase and development costs are recognised as assets and are amortised over their estimated useful lives, which does not exceed five years.

Intangible assets (goodwill and other intangible assets)

Acquired intangible assets are included in the balance sheet at cost and amortised over their useful economic finite lives. The Company has no intangible assets with indefinite lives.

The Company reviews the carrying value of intangible fixed assets in the light of developments in its business and makes provision for any impairment in value as the need arises.

Non-financial assets which are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment where indications exist that the amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying value exceeds its recoverable value. Prior impairments (other than for goodwill) are reviewed for reversal at subsequent reporting dates.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. Freehold land and buildings are not depreciated. The rates generally applicable are:

Short leasehold land and buildings – term of the lease
Plant and machinery - 10% to 33%

Leasing and hire purchase contracts

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

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

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****2 Accounting policies (continued)**

Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at commencement at the lower of the fair value or the net present value of the minimum lease payments with the corresponding rental obligation included in creditors. The interest element of the finance lease payment is charged to the income statement over the lease period so as to produce a constant period rate of interest.

Investment in subsidiary undertakings

Investments by the Company in the shares of subsidiary undertakings are stated at cost less accumulated impairment losses.

Investment in joint ventures

Investments by the Company in the shares of, or the loans to, joint venture undertakings are stated at cost less accumulated impairment losses.

Inventories

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

Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost, less provision for impairment.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Financial instruments

Recognition and de-recognition

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

Classification and initial measurement of financial assets

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

Subsequent measurement of financial assets

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

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

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

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Financial instruments (continued)

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.

(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.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Financial instruments (continued)

Classification and measurement of financial liabilities (continued)

(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.

(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.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Financial instruments (continued)

Classification and measurement of financial liabilities (continued)

(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.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Pre-contract costs and certain other costs arising on contracts

The Company expenses all pre-contract costs and other costs where recovery is not specifically provided for in accordance with the contract terms. The Company recognises on the balance sheet bid costs where it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows with a present value greater than the amount recognised as an asset and where recovery is specifically provided for in accordance with the contract terms. Costs, which have been expensed, are not subsequently reinstated when a contract award is achieved.

Cash at bank and in hand

Cash at bank and in hand includes cash and deposits with banks. Bank overdrafts are shown within borrowings in current liabilities.

Enterprise Managed Services Limited

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

2 Accounting policies (continued)

Creditors

Obligations to pay for goods and services are recognised initially at fair value and subsequently measured at amortised cost.

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 Company due to their nature or amount.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

3 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

IFRS 15

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.

Enterprise Managed Services Limited

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

4 Revenue

The analysis of the Company's turnover for the year by division is as follows:

	2019 £'000	2018 £'000
Environmental Services	48,349	89,676
Facilities Management, Justice and Defence	3,177	8,767
Utilities	165,350	265,260
	<u>216,876</u>	<u>363,703</u>

Revenue is wholly attributable to the principal activity of providing management services for the maintenance of utility infrastructures within water, gas and electricity sectors. The Company also provides environmental services to several Local Authorities. All revenue arises solely in the UK.

5 Employees and Directors

The Company had no direct employees in either 2019 or 2018. The costs of employees of Amey Services Limited are recharged to this Company in direct support of its trade.

No Directors were remunerated through the Company in either 2019 or 2018.

Remuneration of Directors paid by Amey Services Limited in respect of their services to the Company, including the emoluments of the highest paid Director, was as follows:

	2019 £'000	2018 £'000
Emoluments	1,089	605
Contributions to money purchase pension schemes	76	53
	<u>1,165</u>	<u>658</u>

The remuneration in respect of the highest paid Director was as follows:

	2019 £'000	2018 £'000
Emoluments	412	208
Contributions to money purchase pension schemes	25	23
	<u>437</u>	<u>231</u>

Enterprise Managed Services Limited

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

5 Employees and Directors (continued)

Included in the emoluments shown above are amounts paid to an agency company of £nil (2018 - £139,000) for the management services provided.

In addition to the amounts shown above, £nil (2018 - £257,000) was paid as compensation for loss of office.

In respect of the Directors included above, three Directors (2018 - three) participated in a money purchase pension scheme.

Details of the remuneration of the other Directors, whose services are of a non-executive nature and who are also directors of the Company's intermediate parent undertaking, Amey UK plc, or of its fellow group undertaking, Amey LG Limited, are disclosed in those companies' financial statements. Their remuneration is deemed to be wholly attributable to their services to those companies. The emoluments of the other Directors are paid by the parent group. Their remuneration is deemed to be wholly attributable to their services to the parent group.

6 Exceptional items

	2019 £'000	2018 £'000
Impairment of assets	6,647	1,955

In 2019, the Company incurred an exceptional cost of £6.6 million arising on the impairment of other receivables arising on contract for anticipated under-recovery of that asset through future cash inflows. In 2018, the Company reviewed the carrying value of software on certain contracts and identified impairments of £1,955,000 arising on anticipated under-recovery of those assets through future cash flows.

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Foreign exchange gains	23	7
Other interest receivable	1	-
	24	7

8 Provision for investment in subsidiary undertakings

	2019 £'000	2018 £'000
Charge for the year	38,651	4,918

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****9 Finance expense**

	2019	2018
	£'000	£'000
Foreign exchange losses	15	10
Finance lease interest	78	67
Other interest payable	505	1,063
Payable to fellow subsidiary undertakings	678	377
	<u>1,276</u>	<u>1,517</u>

10 Loss before taxation

The loss before taxation is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Deferred income /(recognised) in the year	(6,579)	(2,078)
Amortisation - other intangible assets	162	895
Depreciation - owned assets	750	1,017
- assets held under finance leases	935	637
Amortisation of bid and mobilisation costs	1,036	3,089
Short term and low value lease rentals - land and buildings	88	888
- hire of plant and machinery	20,095	29,413
- IT licences and rentals	1,404	1,467
Cost of inventory recognised as an expense	6,946	10,103
Loss/(profit) on disposal of property, plant and equipment	241	(44)
Exceptional items (see note 6)	6,647	1,955
Provision for investments in group companies (see note 14)	<u>38,561</u>	<u>4,918</u>

The auditor's remuneration is borne by Amey Group Services Limited, a fellow subsidiary undertaking of the Company, and is not recharged.

Short term and low value lease rental charges include recharge of costs incurred by fellow group undertakings on behalf of the Company.

11 Taxation

	2019	2018
	£'000	£'000
Analysis of tax (income)/expense		
Current tax		
Tax - current year	(6,150)	(2,019)
UK corporation tax adjustment to prior periods	2,019	7,325
Total current tax	<u>(4,131)</u>	<u>5,306</u>
Deferred tax - current year charge	(85)	102
Deferred tax - adjustment in respect of prior period	(34)	2,198
Total deferred tax	<u>(119)</u>	<u>2,300</u>
Total tax (income)/expense in income statement	<u>(4,250)</u>	<u>7,606</u>

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****11 Taxation (continued)**

Factors affecting the tax (income)/expense

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)

The differences are reconciled below:

	2019 £'000	2018 £'000
Loss before income tax	(72,032)	(3,319)
Tax on loss calculated at standard rate	(13,686)	(631)
Effects of:		
Increase in tax from adjustment for prior periods	1,985	8,589
Increase from effect of expenses not deductible in determining taxable profit	97	1,014
Tax effect of asset impairments not deductible in determining taxable profit	7,344	934
Deferred tax credit from unrecognised temporary difference from a prior period	-	(2,047)
Deferred tax expense/(credit) relating to changes in tax rates or laws	10	(253)
Tax (income)/expense	(4,250)	7,606

The UK Finance Act 2017 included provision for the main rate of corporation tax to reduce from 19% to 17% from 1 April 2020. A Budget Resolution passed on 17 March 2020 included provision for the main rate of corporation tax to remain at 19% from 1 April 2020 and not reduce to 17% as previously legislated. The anticipated decrease in the Company's tax charge will now not materialise. As the rate change will be enacted after the balance sheet date, it is a non-adjusting post balance sheet event. However, the impact of recognising deferred tax at 19% would be to increase the net deferred tax asset by £229,000 as at 31 December 2019.

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****12 Intangible fixed assets**

	Goodwill £'000	Computer software £'000	Contract rights £'000	Total £'000
Cost				
At 1 January 2019	7,239	27,931	2,818	37,988
At 31 December 2019	7,239	27,931	2,818	37,988
Amortisation				
At 1 January 2019	-	27,931	2,060	29,991
Amortisation charge	-	-	162	162
At 31 December 2019	-	27,931	2,222	30,153
Net book value				
At 31 December 2019	7,239	-	596	7,835
At 31 December 2018	7,239	-	758	7,997

Goodwill relates to the acquisition of the Subterra business in a prior period, part of the Thames Water Group, engaged in the replacement and maintenance of water services.

Other intangible assets includes contract rights that arose in respect of a certain contracts acquired from Timemarks in a prior period, engaged in the maintenance of gas installations, and is being amortised over 20 years.

Intangible assets amortisation is recorded as cost of sales in the income statement.

Enterprise Managed Services Limited

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

13 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2019	3,324	10,724	14,048
Additions arising on the adoption of IFRS 16	2,003	-	2,003
Additions	1	24	25
Disposals	(239)	(2,822)	(3,061)
At 31 December 2019	5,089	7,926	13,015
Depreciation			
At 1 January 2019	2,721	8,695	11,416
Charge for the year	1,052	633	1,685
Provision for impairment	-	129	129
Eliminated on disposal	(198)	(2,185)	(2,383)
At 31 December 2019	3,575	7,272	10,847
Net book value			
At 31 December 2019	1,514	654	2,168
At 31 December 2018	603	2,029	2,632

Included within the net book value of tangible fixed assets is £2,165,000 (2018 - £1,697,000) in respect of assets held under finance leases. Additions of tangible fixed assets held under finance leases and similar hire purchase contracts during the year of £2.0 million arose on the adoption of IFRS 16, Leases. The depreciation charge for the year for assets held under finance leases and similar hire purchase contracts was £0.9 million (2018 - £0.6million).

Enterprise Managed Services Limited

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

14 Investments

	2019 £'000	2018 £'000
Shares in group undertakings	30,797	61,448
	<u>30,797</u>	<u>61,448</u>
Subsidiaries		Shares in group undertakings £'000
Cost or valuation		
At 1 January 2019		81,131
Additions		<u>8,000</u>
At 31 December 2019		<u>89,131</u>
Provision for impairment		
At 1 January 2019		19,683
Charge for the year		<u>38,651</u>
At 31 December 2019		<u>58,334</u>
Carrying amount		
At 31 December 2019		<u>30,797</u>
At 31 December 2018		<u>61,448</u>

On 11 July 2019, the Company subscribed to additional investment of £8.0 million in the share capital of its subsidiary undertaking, Amey Power Services Limited.

Additional provisions totalling £38.7 million have been made against the carrying value of the shares held in subsidiary undertakings. This provision reflects the difficult trading conditions being experienced by the company invested in.

Enterprise Managed Services Limited

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

14 Investments (continued)

At 31 December 2019, the Company held share capital of the following subsidiary undertakings, none of which are publicly traded. All subsidiary undertakings are incorporated in England and Wales and operate principally in the UK (unless otherwise indicated).

Undertaking	Nature of business	Class of share capital held	Share capital held
Amey Defence Services Limited	Facilities management and buildings maintenance	Ordinary	100%
Amey Defence Services (Housing) Limited	Housing maintenance on behalf of the MOD	Ordinary	100%
Amey Metering Limited	Metering services	Ordinary share	100%
Amey Power Services Limited	Power network maintenance	Ordinary share	100%
Byzak Limited *	Water systems maintenance	Ordinary share	100%
EnterpriseManchester Partnership Limited	Environmental services	Ordinary share	80%
C.F.M. Building Services Limited (Scotland)	Buildings maintenance	Ordinary share	100%
Fleet and Plant Hire Limited	Specialist fleet support services	Ordinary share	100%
Globemile Limited	Holding company	Ordinary share	100%

* indicates investment held indirectly

Wholly owned dormant subsidiary undertakings

Access Hire Services Limited

Byzak Contractors (Scotland) Limited – undergoing members voluntary liquidation

Enterprise Fleet Limited

Enterprise Managed Services (BPS) Limited

Registered offices

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

Undertaking	Registered office
C.F.M. Building Services Limited	Southside House, 135 Fifty Pitches Road, Carnold Business Park, Glasgow, G51 4EB
Fleet and Plant Hire Limited	The Matchworks Pavillions 3 and 4, Garston, Liverpool, L19 2PH

15 Inventories

	2019	2018
	£'000	£'000
Raw materials and consumables	98	770

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****16 Trade and other receivables**

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	1,119	3,108
Amounts recoverable on contracts	22,620	34,432
Amounts owed by group undertakings	309,371	329,662
Amounts owed by Ferrovial, S.A. group undertakings	-	635
Amounts owed by joint ventures	1	1
Other debtors	246	6,767
Deferred tax asset (see note 22)	-	1,830
Prepayments and accrued income	11,843	11,525
	<u>345,200</u>	<u>387,960</u>
Amounts falling due after more than one year:		
Prepayments and accrued income	691	1,726
Deferred tax asset (see note 22)	1,949	-
	<u>2,640</u>	<u>1,726</u>
Aggregate amounts	<u>347,840</u>	<u>389,686</u>

Amounts owed by group undertakings are unsecured and are repayable on demand. There is no difference between the book value and the fair value of amounts owed by group undertakings.

17 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Other creditors	202	8,631
Finance leases (see note 19)	419	107
Trade creditors	29,104	41,783
Social security and other taxes	3,330	8,879
Amounts owed to group undertakings	340,669	305,294
Accruals and deferred income	43,018	56,308
	<u>416,742</u>	<u>421,002</u>

The obligations under finance leases are secured over the assets to which they relate. Amounts due to fellow group undertakings are unsecured and are payable on demand. There is no difference between the book value and the fair value of amounts owed to group undertakings.

Enterprise Managed Services Limited

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

18 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Finance leases (see note 19)	1,077	560

19 Financial liabilities - borrowings

	2019 £'000	2018 £'000
Current:		
Finance leases (see note 20)	419	107
Non-current:		
Finance leases (see note 20)	1,077	560
Total	1,496	667

Terms and debt repayment schedule:

	1 year or less £'000	1-2 years £'000	2-5 years £'000	Total 2019 £'000
Finance leases	419	334	743	1,496
	419	334	743	1,496

	1 year or less £'000	1-2 years £'000	2-5 years £'000	Total 2018 £'000
Finance leases	107	560	-	667
	107	560	-	667

20 Leasing agreements

Finance leases

Minimum lease payments under non-cancellable finance leases on land and buildings fall due as follows: -

	2019 £'000	2018 £'000
Gross obligations repayable:		
Within one year	436	107
In 1 to 2 years	360	560
In 2 to 5 years	859	-
	1,655	667
Impact of future finance costs	(159)	-
Net obligations as reported on the balance sheet	1,496	667

Enterprise Managed Services Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****20 Leasing agreements (continued)****Finance leases - additional disclosures**

The changes in finance leases are set out below: -

	2019 £'000	2018 £'000
At 1 January	667	1,707
Impact of adoption of IFRS 16, Leases-recognition of finance leases	2,003	-
Interest payable on finance lease	88	67
Repayment of finance lease principal	(1,174)	(1,040)
Payment of finance lease interest	(88)	(67)
At 31 December	1,496	667

The Company's leasing activities comprise rentals of property. Short-term rentals of less than twelve months and low value assets of less than €5,000 are treated as other lease commitment rentals with all long-term and high value assets accounted for as finance leases. All future cash flows arising on leases are considered when measuring finance leases and are based on the contractual terms of the lease agreed. The Company's leasing arrangements do not have any variable payment mechanisms and no residual values have been ascribed to the leases. The Company has not entered into any sale or leaseback type of transaction. As at 31 December 2019, there were no leases not yet commenced to which the Company was committed (2018 - none). The average interest rate applied on finance leases both on adoption of IFRS 16 and during the year was 3.9%. The Company has taken advantage of the practical expedients available in IFRS 16 to apply a single discount rate to a portfolio of leases and to apply accounting for short-term leases for which the lease term ends within twelve months of the date of transition to IFRS 16.

Lease commitments

Minimum lease payments under non-cancellable leases on land and buildings fall due as follows:

	2019 £'000	2018 £'000
Within one year	-	584
In two to five years	-	1,499
In over five years	-	202
	-	2,285

Lease commitments relate to many small agreements, none of which are deemed significant enough for separate disclosure. The £nil commitment for 2019 relates to other lease commitments that are now accounted for as finance leases in accordance with IFRS16, which has been adopted during the year.

Enterprise Managed Services Limited

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

21 Provisions for liabilities

	2019 £'000	2018 £'000
Contract loss and claims provision	1,695	4,786
	<u>1,695</u>	<u>4,786</u>

	Contract loss and claims provision £'000
At 1 January 2019	4,786
Utilised during the year	<u>(3,091)</u>
At 31 December 2019	<u>1,695</u>

22 Deferred tax asset

	£'000
Balance at 1 January 2019	1,830
Credited to Income Statement during year	<u>119</u>
Balance at 31 December 2019	<u>1,949</u>

	2019 £'000	2018 £'000
Deferred tax asset comprises:		
Other timing differences	964	960
Deferred capital allowances	<u>985</u>	<u>870</u>
Balance at 31 December	<u>1,949</u>	<u>1,830</u>
Falling due within one year	-	1,830
Falling due after more than one year	<u>1,949</u>	<u>-</u>

The Company has recognised deferred tax assets in full in respect of deferred capital allowances and other timing differences as the reversal of those items is foreseeable in future periods. Deferred tax assets on trading losses held by the Company have been recognised dependent on the availability of trading profits of the Amey Group that are expected to arise in the foreseeable future and which can be accessed by the Company.

	2019 £'000	2018 £'000
Unrecognised deferred tax comprises:		
Capital losses	<u>2,486</u>	<u>16</u>
	<u>2,486</u>	<u>16</u>

All deferred tax assets have been measured at a rate of 17% (2018 - 17%).

Enterprise Managed Services Limited

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

23 Share capital

Ordinary shares of £1 each	Number	£'000
Authorised and issued at 1 January 2018, 31 December 2018 and 31 December 2019	3,000	3

24 Contingent liabilities

As a member of the Amey UK plc Group of Companies, the Company is a participating guarantor in respect of certain Group borrowings, the Group VAT registration and HMRC UK Corporation Tax Group Payment arrangement and is jointly and severally liable with other group companies for the total Group balances outstanding. At 31 December 2019, the only net liabilities arising across the Amey Group were £64,000,000 (2018 - £nil) in respect of Group borrowings and £31,332,000 (2018 - £27,937,000) in respect of VAT.

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

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

There were no other contingent liabilities at 31 December 2019 or at 31 December 2018.

25 Capital commitments

The Company had no capital commitments at 31 December 2019 or at 31 December 2018.

Enterprise Managed Services Limited

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

26 Change in accounting policies - transition to IFRS 16 Leases

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

	Balance at 1 January 2019 £'000	Transition to IFRS 16 £'000	Balance at 1 January 2019 Post IFRS 16 £'000
Fixed assets			
Intangible assets	7,997	-	7,997
Tangible assets	2,632	2,003	4,635
Investments	61,448	-	61,448
	<u>72,077</u>	<u>2,003</u>	<u>74,080</u>
Current assets			
Inventories	770	-	770
Debtors: amounts falling due within one year	387,960	-	387,960
Debtors: amounts falling due after more than one year	1,726	-	1,726
Cash at bank and in hand	5,029	-	5,029
	<u>395,485</u>	<u>-</u>	<u>395,485</u>
Creditors:			
Amounts falling due within one year	(421,002)	(463)	(421,465)
Net current liabilities	<u>(25,517)</u>	<u>(463)</u>	<u>(25,980)</u>
Total assets less current liabilities	46,560	1,540	48,100
Creditors:			
Amounts falling due after more than one year	(560)	(1,540)	(2,100)
Provisions for liabilities	(4,786)	-	(4,786)
Net assets	<u>41,214</u>	<u>-</u>	<u>41,214</u>
Capital and reserves			
Share capital	3	-	3
Retained earnings	41,211	-	41,211
Shareholders' funds	<u>41,214</u>	<u>-</u>	<u>41,214</u>

The impact of the application of IFRS 16 Leases is to increase tangible assets (short leasehold) by £2,003,000 to increase creditors: amounts falling due within one year (finance lease creditor) by £463,000 and creditors: amounts falling due after more than one year (finance lease creditor) by £1,540,000. There is no impact on previously reported profits and losses, and no impact on shareholder funds as at 31 December 2018.

Enterprise Managed Services Limited

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

27 Post balance sheet event

COVID-19 pandemic impact on the Amey Group (the "Group")

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

In the first part of 2020, the Group has been responding to the impact of the pandemic on its operations and cash flows. Management have looked at both a moderate and a severe revenue shortfall scenario and both of these scenarios have been further sensitised under the assumption that there is a return to normal trading over a medium term and over a longer term. The impact on the forecast profits of the Group of the above scenarios is a range between £30 million and £50 million. The pandemic will also have a consequential impact on the value of investments held by the Company. Given the COVID-19 pandemic occurred after the Balance sheet date in the UK, these valuation changes are a non-adjusting post balance sheet event and have not been reflected in the valuations at 31 December 2019.

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

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

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

Enterprise Managed Services Limited

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

27 Post balance sheet event (continued)

COVID-19 pandemic impact on the Amey Group (the "Group") (continued)

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

Issue of other equity instrument

On 10 July 2020, a fellow Amey group company, Enterprise plc, granted an equity loan facility to the Company for a total amount of £30.0 million. This is a perpetual loan with an applicable interest rate of 12-month LIBOR plus 200 basis points.

This 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 lenders.

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.

28 Controlling parties

The immediate parent undertaking is Amey Utility Services Limited.

The ultimate parent undertaking and the largest group to consolidate these financial statements is Ferrovial, S.A., a company incorporated in Spain.

The Company is wholly owned by both the immediate and ultimate parent undertaking.

Copies of the Ferrovial, S.A. consolidated financial statements can be obtained from:

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

or from the Ferrovial, S.A. website: www.ferrovial.com

The parent of the smallest group in which these financial statements are consolidated is Amey UK plc, incorporated in England and Wales.

Copies of those consolidated financial statements can be obtained from the registered office of Amey UK plc:

The Company Secretary
Amey UK plc
Chancery Exchange
10 Fumival Street
London EC4A 1AB
United Kingdom