REGISTERED NUMBER: 02507588 (England and Wales)

Annual Report and

Financial Statements for the Year Ended 31 December 2019

for

Amey Services Limited

Amey Services Limited

**Contents of the Financial Statements
for the Year Ended 31 December 2019**

Amey Services Limited

Company Information
for the Year Ended 31 December 2019

Directors

A L Fisher
A L Nelson

Company Secretary

Sherard Secretariat Services Limited

Registered Office

Chancery Exchange
10 Furnival Street
London
EC4A 1AB

Auditor

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

Amey 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 Company is principally engaged in the activity of providing employment services on behalf of Amey UK plc Group companies. The costs of the employees are fully recharged to other Amey UK plc Group companies. 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 9 and shows revenue of £576,360,000 (2018 - £610,442,000) and a loss after tax amounting to £135,832,000 (2018 – profit £9,890,000), all of which arose from continuing activities.

On 30 July 2019, the Company granted loan facilities totalling £148,026,000 to fellow group undertakings, Amey LG Limited and Enterprise plc, for £55.2 million and £92.8 million respectively. These are perpetual investment loans with an applicable interest rate of 12-month LIBOR plus 200 basis points, payment of which is at the discretion of loan grantees. Following a review of the carrying value of that investment, an impairment charge of £148.0 million has been included in the results of the Company for this year.

In 2018, the Company recorded a past service pensions charge of £2,949,000 (2019: £nil) arising on the historic equalisation of Guaranteed Minimum Pension benefits between men and women for the years from 1990 to 1997, following the result of a high court judgement.

The Directors remain confident that this overall level of trading activity will be maintained in 2020 though 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 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. For more information on the impact of COVID-19 on the Group, please see note 21 to the financial statements.

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 9.

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 Central Services division of the Group.

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 28 July 2020 and signed on its behalf by:

....
A L Nelson
Director
28 July 2020

Amey 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 to 3 and form part of this report by cross reference.

Dividends

No dividends were paid by the Company during the year (2018 - £nil).

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)

A L Nelson

The following director was appointed after the year end:

A L Fisher (appointed 15 January 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.

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 28 July 2020 and signed on its behalf by:

....

A L Nelson
Director
28 July 2020

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.

Amey Services Limited

Independent auditor's report to the members of Amey Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Amey 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 profit 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 22.

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.

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.

Amey Services Limited

Independent auditor's report to the members of Amey 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.

Andrew Hornby

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Andrew Hornby (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading
United Kingdom

28 July 2020

Amey Services Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	4	576,360	610,442
Cost of sales (including exceptional charge of £nil (2018 - £2,949,000))	7	(558,914)	(598,167)
Operating profit		17,446	12,275
Provision for investments in fellow group companies	6	(148,026)	-
(Loss)/profit before interest and taxation		(130,580)	12,275
Interest receivable and similar income	8	509	759
		(130,071)	13,034
Finance expense	9	(1,093)	(1,931)
(Loss)/profit before taxation	10	(131,164)	11,103
Tax on profit	11	(4,668)	(1,213)
(Loss)/profit for the year		(135,832)	9,890

The notes on pages 13 to 34 form part of these financial statements.

Amey Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £'000	2018 £'000
(Loss)/profit for the year	(135,832)	9,890
Other comprehensive (loss)/income items:		
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on pension scheme (note 18)	(7,996)	28,141
Movement on deferred tax relating to deficit on post-employment benefit obligations	1,359	(4,782)
Other comprehensive (loss)/income for the year, net of income tax	(6,637)	23,359
Total comprehensive (loss)/income for the year	(142,469)	33,249

The notes on pages 13 to 34 form part of these financial statements.

Amey Services Limited (Registered number: 02507588)

Balance Sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	12	-	-
Current assets			
Debtors: amounts falling due within one year	13	44,541	188,150
Debtors: amounts falling due after more than one year	13	2,533	3,225
Cash at bank and in hand		187	191
		47,261	191,566
Creditors:			
Amounts falling due within one year	14	(26,595)	(22,378)
Net current assets		20,666	169,188
Total assets less current liabilities		20,666	169,188
Provisions for liabilities - post employment benefit obligations	15	(12,915)	(18,968)
Net assets		7,751	150,220
Capital and reserves			
Share capital	17	157,200	157,200
Retained deficit		(149,449)	(6,980)
Shareholders' funds		7,751	150,220

The financial statements were approved by the Board of Directors on 28 July 2020 and signed on its behalf by:

....

A L Nelson
Director
28 July 2020

The notes on pages 13 to 34 form part of these financial statements.

Amey Services Limited

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

	Share capital £'000	Retained deficit £'000	Total £'000
At 1 January 2018	157,200	(40,229)	116,971
Profit for the year	-	9,890	9,890
Other comprehensive income	-	23,359	23,359
Total comprehensive income	-	33,249	33,249
At 31 December 2018	157,200	(6,980)	150,220

	Share capital £'000	Retained deficit £'000	Total £'000
At 1 January 2019	157,200	(6,980)	150,220
Loss for the year	-	(135,832)	(135,832)
Other comprehensive loss		(6,637)	(6,637)
Total comprehensive loss	-	(142,469)	(142,469)
At 31 December 2019	157,200	(149,449)	7,751

The notes on pages 13 to 34 form part of these financial statements.

1 General information

The principal activity of Amey Services Limited (the Company) is providing employment services on behalf of Amey UK plc Group companies and it operates principally within the UK. The costs of the employees are fully recharged to other Amey UK plc Group companies. 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.

New standards or interpretations that are applicable to the Company for accounting periods commencing on or after 1 January 2020 are not expected to have a significant impact on the Company financial statements.

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.

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 19. 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 sensitives such as the implication arising from contractor failures, treatment plant stability, lower sale proceeds and COVID-19 and concluded that it has enough headroom to manage these events. There are also a number of actions that management can take in order to mitigate any significant reduction in headroom from these one-off sensitivities, including delaying Ferrovial management fees and interest and also payments to suppliers.

2 Accounting policies (continued)

Going concern (continued)

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

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

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

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

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

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

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).

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

Revenue is the total amount receivable by the Company for goods supplied and services provided, excluding VAT and trade discounts.

Investment in subsidiary undertakings

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

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.

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.

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.

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.

(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.

2 Accounting policies (continued)

Financial instruments (continued)

Classification and measurement of financial liabilities (continued)

(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.

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.

Creditors

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

Pension costs - defined contribution schemes

All contributions to defined contribution schemes are recognised as an expense when they fall due.

2 Accounting policies (continued)

Post employment benefit obligations - defined benefit pension schemes

The Company accounts for post-employment benefits arising on defined benefit pension schemes in accordance with IAS 19.

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

Pension scheme deficits, to the extent that they are considered payable, are recognised in full and presented as part of provisions for liabilities.

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:

The Company believes that the most critical accounting policies and significant areas of judgement and estimation arise from the accounting for post-employment benefits arising on defined benefit pension schemes under IAS 19 (Employee Benefits)

IAS 19
Post-employment benefits arising on defined benefit pension schemes are accounted for in accordance with the advice of independent qualified actuaries, but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and member longevity that underpin their valuations.

4 Revenue

Revenue is wholly attributable to the principal activity providing employment services on behalf of Amey UK plc Group companies. The costs of the employees are fully recharged to other Amey UK plc Group companies. All revenue arises solely in the UK.

5 Employees and Directors

	2019 £'000	2018 £'000
Wages and salaries	483,308	523,482
Social security costs	45,339	49,413
Other pension costs – defined contribution schemes	27,056	18,762
Other pension costs – defined benefit schemes	3,211	6,510
	558,914	598,167

5 Employees and Directors (continued)

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

	2019	2018
Total	14,406	16,476

The equivalent average monthly number of employees working full time would be as follows:

	2019	2018
Total full time equivalent (FTE)	13,316	15,552

FTE is where a full time employment role is fulfilled by a number of part-time employees.

Details of the remuneration of the Directors, whose services are of a non-executive nature and who are also directors of the Company's intermediate parent undertaking, Amey UK plc, are disclosed in that company's financial statements. Their remuneration is deemed to be wholly attributable to their services to that company.

The Company operates principally as an employment agent on behalf of Amey UK plc Group companies. All costs of employees are fully recharged to other Group companies.

6 Provision for investments in fellow group companies

	2019 £'000	2018 £'000
Impairment charge for the year	148,026	-

The carrying value of the equity investment loans made during the year has been impaired in full in 2019. These provisions reflect the difficult trading conditions being experienced by the companies invested in (see note 12).

7 Exceptional items

	2019 £'000	2018 £'000
Guaranteed minimum pension equalisation of past service charge	-	2,949

In 2018, the Company recorded a past service pensions charge of £2,949,000 arising on the historic equalisation of Guaranteed Minimum Pension benefits between men and women for the years from 1990 to 1997, following the result of a recent high court judgement.

8 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from fellow group undertakings	509	759

9 Finance expense

	2019 £'000	2018 £'000
Other interest payable	806	760
Finance expense on post employment benefit obligations	287	1,171
	1,093	1,931

10 Profit before taxation

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

11 Taxation

	2019	2018
Analysis of tax expense	£'000	£'000
Current tax		
Tax - current year	1,327	594
Tax - adjustment in respect of prior periods	578	-
Total current tax	1,905	594
Deferred tax - current year charge	2,388	1,356
Deferred tax - adjustment in respect of prior period	375	(737)
Total deferred tax	2,763	619
Total tax expense in income statement	4,668	1,213

11 Taxation (continued)

Factors affecting the tax 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)/profit before income tax	(131,164)	11,103
Tax on profit calculated at standard rate	(24,920)	2,110
Effects of:		
Increase/(decrease) in tax from adjustment for prior periods	953	(737)
Expenses not deductible/income not taxable	792	-
Tax effect of asset impairments not deductible in determining taxable profits	28,124	-
Deferred tax expense/(credit) relating to changes in tax rates or laws	-	(160)
Difference between deferred tax rate and standard tax rate	(281)	-
Tax expense	4,668	1,213

Tax effects relating to effects of other comprehensive income/(expense)

	Gross £'000	Tax £'000	2019 Net £'000
Actuarial loss on pension scheme	(7,996)	1,359	(6,637)
Total Comprehensive income/(expense)	(7,996)	1,359	(6,637)

	Gross £'000	Tax £'000	2018 Net £'000
Actuarial gain on pension scheme	28,141	(4,782)	23,359
Total Comprehensive income/(expense)	28,141	(4,782)	23,359

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 £298,000 as at 31 December 2019.

12 Investments

On 30 July 2019, the Company granted loan facilities totalling £148,026,000 to fellow group undertakings, Amey LG Limited and Enterprise plc, for £55.2 million and £92.8 million respectively. These are perpetual investment loans with an applicable interest rate of 12-month LIBOR plus 200 basis points, payment of which is at the discretion of loan grantees.

	Investment in fellow group companies £'000
Equity loans to fellow group companies	
At 1 January 2019	-
Additions	148,026
At 31 December 2019	148,026
Provision for impairment	
At 1 January 2019	-
Provision for impairment arising in the year	148,026
At 31 December 2019	148,026
Carrying amount	
At 31 December 2019	-
At 31 December 2018	-

The carrying value of the equity investment loans made during the year has been impaired in full in 2019. These provisions reflect the difficult trading conditions being experienced by the companies invested in.

13 Trade and other receivables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	577	4,438
Amounts owed by group undertakings	42,819	182,148
Amounts owed by joint ventures	69	63
Other debtors	1,076	789
Deferred tax asset (see note 16)	-	712
	44,541	188,150
Amounts falling due after more than one year:		
Deferred tax asset (see note 16)	2,533	3,225
Aggregate amounts	47,074	191,375

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.

14 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	25	239
Social security and other taxes	17,055	14,272
Amounts owed to group undertakings	1,052	339
Other creditors	8,357	7,433
Accruals and deferred income	106	95
	26,595	22,378

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.

15 Provisions for liabilities

	2019 £'000	2018 £'000
Post employment benefit obligations (see note 18)	12,915	18,968

16 Deferred tax asset

The deferred tax asset arises in respect of:

	£'000
Balance at 1 January 2019	3,937
Charged to income statement during the year (other timing differences)	(374)
Charged to income statement during the year (post employment obligations)	(2,389)
Credited to other comprehensive income during the year (post employment obligations)	1,359
At 31 December 2019	2,533

	2019 £'000	2018 £'000
Deferred tax asset comprises:		
Other timing differences	338	712
Post employment benefit obligations	2,195	3,225
Balance at 31 December	2,533	3,937
Falling due within one year	-	712
Falling due after more than one year	2,533	3,225
Aggregate amount	2,533	3,937

The Company has recognised deferred tax assets only in respect of other timing differences and net pension schemed deficits as the reversal of those items is foreseeable in future periods. All deferred tax assets have been recognised in full.

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

17 Share capital

Ordinary shares of £1 each	Number	£'000
Authorised, issued and fully paid at 31 December 2018	157,200,002	157,200
Authorised, issued and fully paid at 31 December 2019	157,200,002	157,200

18 Post employment benefit obligations

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

The principal defined benefit schemes are as follows:

- Amey OS Pension Scheme APS section previously offered to eligible staff that had not been transferred into the Group via acquisition or outsourcing. However, this scheme does include staff that transferred out of the Ministry of Defence at the time the Comax business separated from the Defence Evaluation and Research Agency. This scheme is closed to new entrants and future accrual ceased for existing members with effect from 5 April 2012
- Railways Pension Scheme provides for those eligible employees who are working within Amey Rail Limited, Amey OWR Limited or elsewhere in the Group. Amey has two shared-cost sections; the Amey Rail and Owen Williams Sections. The Group accounts for its share of the separately identified assets and liabilities of these Sections.
- Citrus Pension Scheme, this scheme is now closed to new entrants and future accrual ceased for existing members with effect from 31 October 2016. The Group accounts for its share of the separately identified assets and liabilities of this scheme.

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

18 Post employment benefit obligations (continued)

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

	Date of Valuation
Amey OS Pension Scheme - all sections	30 September 2017
Railways Pension Scheme	31 December 2016
Citrus Pension Scheme	31 March 2018

The principal actuarial assumptions used are as follows:

	2019 %	2018 %
Rate of increase in salaries	Nil to 1.85	1.9 to 3.35
Rate of increase in pensions in payment	1.60 - 3.65	2.45 - 5.00
Discount rate	2.05	2.85
Inflation assumption - RPI	3.05	3.25
Inflation assumption - CPI	2.05	2.25

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

	2019 Years	2018 Years
Remaining life of a member aged 65		
- men	19.7 - 23.5	21.8 - 23.4
- women	23.3 - 26.2	23.8 - 25.0
Remaining life of a member aged 45		
- men	21.1 - 26.3	23.2 - 26.2
- women	24.8 - 28.6	25.3 - 26.5

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

The amount recognised in the balance sheet was as follows:

	2019 £'000	2018 £'000
Fair value of scheme assets	742,475	669,421
Present value of funded obligations	(754,930)	(687,930)
	(12,455)	(18,509)
Present value of scheme liabilities arising from unfunded schemes	(460)	(459)
Liability	(12,915)	(18,968)

18 Post employment benefit obligations (continued)

The amount recognised in the income statement was as follows:

	2019 £'000	2018 £'000
Current service cost	2,665	2,771
Past service charge	-	2,949
Administrative expenses paid	546	790
Finance expense	287	1,171
Total income statement charge	3,498	7,681

Pension costs and credits, excluding interest, is charged to cost of sales. The best estimate of the contributions expected to be paid to the defined pension scheme for the next financial year is £2,584,000 (2018 - £2,276,000) for regular payments and £15,178,000 (2018 - £15,271,000) for additional top-up payments.

The amount recognised in other comprehensive income was as follows:

	2019 £'000	2018 £'000
Actuarial (losses)/gains	(7,996)	28,141
Total (expense)/income recognised in the SOCI	(7,996)	28,141

Actuarial gains and losses have been reported in the SOCI. The Company's share of the actual performance of fund assets was an increase of £78,914,000 (2018 - decrease of £7,452,000).

The movements in the balance sheet liability were as follows:

	2019 £'000	2018 £'000
At 1 January	(18,968)	(55,086)
Amounts recognised in operating profit or loss	(3,498)	(7,681)
Amounts taken to the Statement of Comprehensive Income	(7,996)	28,141
Employer contributions	2,276	2,088
Employer contributions - additional top-up payments	15,271	13,570
At 31 December	(12,915)	(18,968)

18 Post employment benefit obligations (continued)

Scheme obligations

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

	2019 £'000	2018 £'000
Present value at start of year	688,389	741,064
Current service cost	2,692	5,752
Actuarial gains and losses arising from changes in financial assumptions	65,777	(52,254)
Actuarial gains and losses arising from experience adjustments	2,138	-
Interest cost	19,282	17,832
Benefits paid	(22,888)	(24,005)
Present value at end of year	755,390	688,389

Scheme assets

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

	2019 £'000	2018 £'000
Fair value at start of year	669,421	685,978
Interest income	18,995	16,661
Actuarial gains and losses arising from changes in financial assumptions	59,919	(24,113)
Employer contributions - regular payments	2,276	2,088
Employer contributions - additional top-up payments	15,271	13,570
Contributions by scheme participants	27	32
Benefits paid	(22,888)	(24,005)
Administrative expenses paid	(546)	(790)
Fair value at end of year	742,475	669,421

Analysis of assets

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

	2019 £'000	2018 £'000
Cash and cash equivalents	30,888	2,816
Equity instruments	214,258	165,283
Real estate	44,927	39,890
Corporate bonds	132,254	93,312
Government bonds	320,148	368,120
	742,475	669,421

18 Post employment benefit obligations (continued)

Sensitivity analysis

The sensitivity of the balance sheet position to changes in the key assumptions is set out below:

	Increase in liability on the balance sheet £'000
+0.5% change to the RPI assumption	50,022
-0.5% change to discount rate assumed	64,636
Members' life expectancy increases by one year	32,800

Post balance sheet event – COVID-19 pandemic

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

At 31 December 2019,the obligation stood at a funding level 98.3% with a deficit of £12.45 million. By early March the funding level had dropped, as equity markets started to fall in reaction to the onset of the pandemic. However, as the crisis deepened, the funding level increased, despite stock markets and gilt yields falling. The pension scheme assets are diversified and not heavily invested in equities, whilst some schemes are significantly hedged (90%+) against interest rate and inflation risks (through derivative and insurance products). This protected the assets from the full impact of the downturn. As for obligations, liabilities are measured using AA corporate bond yields which increased significantly due to tightening liquidity and the markedly higher default risk. This reduced the liabilities by a greater amount than the reductions noted on assets. By the end of April, the markets had re-aligned and the funding level slightly reduced since the year end and stabilised since that date.

19 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, bank account pooling arrangements, Group VAT registrations 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.

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.

20 Capital commitments

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

21 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.

22 Controlling parties

The immediate parent undertaking is Amey plc.

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 Furnival Road
London EC4A 1AB
United Kingdom