

Amey UK plc

Annual Report and Financial Statements

Year ended 31 December 2017

Company number: 04736639



Contents**Contents**

1 to 2	Chief Executive Officer's Summary
3 to 13	Strategic Report
14 to 20	Report of the Directors
21 to 23	Independent auditor's report to the members of Amey UK plc
24	Financial Statements
24	Group income statement
25	Group statement of comprehensive income
26	Group balance sheet
27	Group statement of changes in equity
28	Group cash flow statement
29 to 73	Notes forming part of the Group financial statements
74	Company balance sheet
75	Company statement of changes in equity
76 to 79	Notes forming part of the Company financial statements

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Chief Executive Officer's Summary

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

Safety is a key priority and our Target Zero campaign continues. A new structure within our HSEQ team and safety leadership training contributed to an encouraging 11% reduction in our All Injury Rate. In 2017 we also worked to improve significantly the Amey employee Lost Time Injury Rate to 1.0, marking a considerable reduction on 2016 result.

Although market conditions continue to present challenges in some sectors, Amey has performed well, in comparison with many competitors. An improvement of 0.9% in our pre-exceptional gross profit margin, which generated a positive cash flow of £32 million, confirms satisfactory progress on the 'Fit 4 the Future' programme.

Phase two of our transformation programme, Fit 4 the Future, has been instrumental in returning the group to underlying profitability, improving customer relationships and minimising risks. Through this structured approach, we have established strong governance, clear accountability and a solid platform for delivery in 2018.

A new central business improvement function is supporting and challenging the business units on cost control and efficiency, while a comprehensive programme to simplify and rationalise our processes is now under way with the aim of creating full visibility for cost revenue and value, along with more effective frontline operational systems. Meanwhile, a new leadership programme has been equipping our account leaders and frontline supervisors with key skills and we are continuing to invest in emerging talent with an enhanced graduate programme. We have also focused on innovation bringing creative solutions to market including our 'Tech Trio' implementation in North Yorkshire, which sees three processes for the treatment of residual waste - mechanical treatment, anaerobic digestion and energy from waste (EfW) - co-located on one site as a single installation for the first time.

Throughout the year our business units were reshaped and we have had a number of business and tendering successes across the board including: -

- The commissioning of significant waste processing and treatment facilities in Milton Keynes and North Yorkshire establishing us a key player in this market, and we continue to develop further opportunities in waste management solutions.
- Our delivery for the country's biggest water companies enhanced by a £30 million three-year mains renewal contract for Severn Trent. The Utilities business has also been preparing for the AMP7 tendering period and has also secured further contracts for the power portfolio.
- We maintained our position as one of the UK's leading street lighting providers with new contracts in Manchester and East Renfrewshire and continued to transform Sheffield with the Streets Ahead highways maintenance and management contract, achieving the biggest overall improvement in public satisfaction out of 112 local authorities.
- Consulting and Rail had a solid performance, particularly in rail, which due to increased confidence has taken on Carillion's rail business. In total last year Consulting and Rail together added £700 million to our order book with major contract wins at home and abroad. These include the TransPennine electrification, the design of the A96 dualling in Scotland, and road upgrades and asset management support contracts in Australia and in the USA.

The alignment of the facilities management, defence and justice businesses into one customer-facing business unit under a new Managing Director has positioned it for growth and in August we received a two-year extension to the GEOAmey contract for prison escort and custody services in England and Wales. Following the liquidation of Carillion in early 2018, Amey has provided continuity in its defence joint ventures held with Carillion and has ensured the business has operated as usual. We have also taken on a number of Carillion's contracts in other service areas, particularly rail.

In line with our parent company, Ferrovial, Amey early adopted IFRS 15 in 2017 and introduced a more rigorous revenue recognition policy which has been rolled out and fully embedded in the business. The 2017 revenues of £2.2 billion are now reported under this new, tougher, more exacting, revenue recognition accounting standard. A reduction to shareholders' funds of £202 million arising on adoption was recorded, though the balance sheet has also been strengthened via a £200 million capitalisation of parent company loans.

Chief Executive Officer's Summary (continued)

Throughout the year, we continued to reduce our exposure to risk across the business by negotiating an early exit to a number of loss-making contracts in facilities management, highways, utilities and environmental services. This deliberate programme combined with business turnaround activity has substantially increased the stability and predictability of the business.

We have been involved in a dispute with Birmingham City Council over the last 36 months regarding the scope of our contractual obligations in the core investment period, and recent communications from the Council make it clear that an exceptional provision of £208.5 million needs to be accounted for in our 2017 results. This is in respect of undertaking additional investment during the initial phase of the contract as well as expectation of high deductions and penalties to be applied by the Council. Discussions are on-going with the Council and the provision made is expected to cover all outcomes anticipated at this current time.

Better Places is our new corporate strategy, introduced in March. It sets out our roadmap for long-term growth and value creation as we focus on higher margin sectors such as rail, consulting and defence, while becoming the leanest cost operator in price-led markets. Whenever we can, we will bring multiple in-house capabilities together and will target strategic opportunities to take on full responsibility for assets across their lifecycle. We are committed to focusing on our customers' needs by engaging with government departments and industry to make a positive impact and contribution to national debate around infrastructure.

Despite the difficulties Amey has faced on the Birmingham contract, 2017 has been very positive for the business and completes a significant part of the evolution of Amey. The launch in April of our new values – Putting People First, Delivering Great Service and Creating Better Solutions has helped our employees understand their role in achieving Amey's goal of creating better places to live, work and travel. All Amey employees are part of the journey and I thank them for their support and efforts in affecting the turnaround of our company. I am looking forward to 2018 and continuing the solid growth, and I am satisfied the organisation is on strong footing to achieve all measures of its strategic objectives.

In 2017, we paid approximately £1.7bn to our supply chain, which comprises approximately 6,900 suppliers of varying sizes and expertise. We value our relationship with every one of our suppliers and we know that to deliver on our promise of creating better places to live, work and travel, we need to ensure that our suppliers are managed well and paid on time. We are taking a number of steps to improve our processes including paying invoices up to £10,000 on a weekly basis, which will help hundreds of small businesses to operate in an industry characterised by high costs.



Andy Milner
Chief Executive Officer, Amey
30 May 2018

Divisional and Business Update

Highways

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

For Highways, 2017 has been a year of stabilisation following its creation from two separate divisions the previous year. The structures and processes that we put in place have led to improvements in performance, greater predictability and improved service delivery. We have also seen a step change in the business unit's safety record, with a 30% year-on-year improvement in the All Incident Rate.

The business unit's revenues in 2017 totalled £512 million (2016: £542 million). Operating losses before exceptional items were £14.2 million (2016: £70.2 million).

In 2017, the business unit incurred an exceptional cost of £208.5 million (2016: £8.0 million exceptional income) in respect of the dispute on the Birmingham City Council contract. During negotiations with the Council that took place in 2017, a certain amount of investment was expected to take place after the closure of the Core Investment Period (CIP) and during the operational phase of the contract, as part of a type of services known as "Lifecycle". Recent communications from the Council make clear that the previous expectation is no longer realistic and that the CIP phase will now remain open until the Milestone works are completed. Amey also expected, following the Court of Appeal judgment in favour of the Council, that the extraordinarily high amounts of penalties and deductions levied in the first two months of 2018 would be reduced to a more reasonable level, as seen in previous years. However, it now appears that the Council will continue to apply deductions at high levels. Accordingly, Amey has reviewed the likely amount and provided to that level. We do not agree with the level of deductions and will attempt to overturn them with the mechanisms provided in the contract. Amey has also requested permission to appeal before the Supreme Court.

Our improved delivery performance has helped to extend current contracts, for example in securing a two-year extension to our highways maintenance contract with Kent County Council, to August 2020. Meanwhile our capital works teams have been delivering large infrastructure schemes across Staffordshire and Birmingham. These include creating access roads and structures for the 400-acre 2,500 home Branston Locks development near Burton-upon-Trent; and delivering segregated cross-city cycle 'super-highways' as part of the Birmingham Cycle Revolution.

New work during 2017 includes a four-year contract with East Renfrewshire Council to upgrade, maintain and repair the Council's 15,000 street lights, 1,000 illuminated signs and traffic bollards; and a programme to replace 56,000 street lights with LED in Manchester, thus maintaining Amey's position as one of the leading street lighting providers in the country.

In the first five years of Sheffield's Streets Ahead highways maintenance and management contract, (2012-2017), we have helped transform the city's roads from some of the poorest-rated in the country to some of the best – every day resurfacing more than a mile of footway and over half a mile of roadway. The annual National Highways and Transport survey has shown that public satisfaction with the state of Sheffield's streets has doubled since the start of our contract, and that the city has made the biggest overall improvement out of 112 local authorities. Over the 20 years of the contract, we will continue to improve the highway infrastructure of the city.

Part of the Streets Ahead programme includes the replacement of trees across the city to ensure that Sheffield City Council can comply with its legal duty to maintain its highways. The programme has gathered lots of attention locally and in the media. Around 6,000 of Sheffield's 36,000 street trees were replaced by the end of 2017, with 600 additional trees being planted before the end of the contract.

- A street tree is only marked for replacement under the Streets Ahead contract if it is dead, dying, diseased, dangerous, damaging (i.e. causing damage to footpaths, private property or roads) or discriminatory.
- The total estimated number of street trees to be replaced over the full contract period amounts to less than 0.3% of the city's overall tree stock.

Divisional and Business Update

Highways (*continued*)

- Over 65,000 trees have been planted across Sheffield in the last three years, including those planted as part of the Streets Ahead contract and those in parks and woodlands included in the Council's community forestry programme.
- We know from our household surveys and feedback that the vast majority of residents in Sheffield want the work completed. Less than 7% of households surveyed across the city were against our proposals for street tree replacement on their road and the vast majority of residents either didn't respond or were in favour.

Through collaborative discussions with our clients, we negotiated exits for some challenging contracts, reducing financial impact and risks for the business unit. A number of other contracts came to the end of their natural term during the year and have been demobilised. These include Calderdale Metropolitan Borough Council, Hampshire County Council, Plymouth City Council and Isle of Anglesey County Council.

Throughout the year, we have had a focus on 'back to basics' and have been streamlining our operations by putting in place good governance, disciplined monthly reviews and thorough financial scrutiny. The aim has been to further embed predictability and always deliver what we promise. We have taken various services such as traffic management back in-house where we feel they will perform more effectively. These moves have been recognised by our clients and we have seen a significant improvement in customer satisfaction levels.

This continuous improvement will continue, placing Highways in a better position to bid for selective strategic contracts during 2018 and beyond.

Utilities

The Utilities business unit maintains vital infrastructure across the UK. It takes care of the utility networks for many water and power companies and their thousands of customers, by delivering repairs, renewals, upgrades, and capital projects, as well as providing smart metering services.

In 2017, Utilities transformed some challenging areas and secured additional contracts as we continued our strategy of protect and grow.

The business unit's revenue in 2017 totalled £530 million (2016: £580 million). Operating losses, including share of profit after tax of joint ventures, were £22.7 million (2016: £5.5 million profits).

Our delivery of clean and waste water infrastructure services to United Utilities, Severn Trent, Yorkshire Water, Scottish Water and Welsh Water continued to perform well in 2017, and our 20-year relationship with Severn Trent was enhanced further when we secured an additional £30 million three-year mains renewal contract. We are also working closely to support this client in its significant transformation project to meet the changing needs of the water industry and become more end-user focused.

Among the contracts added to our power portfolio throughout the year were a vegetation management contract for Scottish Power in North Wales, worth £10.5 million over three years, and a two-year, £30 million contract to build a 400kV substation at Tomatin in Scotland.

Meanwhile, we have exited loss-making contracts, including Affinity Water, where a mutual contract termination was agreed, and demobilisation was completed at the end of October.

Energy smart metering contracts have been a challenge to government, energy companies and contractors alike, with all parties underestimating the complexities involved. Our contracts with EDF, Npower and Scottish Power have had a substantial impact on this business unit, which we addressed in 2017 by renegotiating our rates for these works. We are now well placed to maximise the opportunities that this growing market provides.

Divisional and Business Update

Utilities (*continued*)

The senior leadership team has been strengthened with the introduction of three new business directors, as well as a new HSEQ director. Through Amey's Fit 4 the Future programme, we have concentrated on creating a standardised, lean and efficient operating model ready for a return to profit in 2018. We are entering a key period with many of the water companies tendering services in line with AMP7 (Asset Management Period running from 2020-25). This holds great potential to expand our business with existing and new clients.

Utilities is one of Amey's largest business units, employing around 2,500 people with a further 2,000 in the supply chain. Much of our work is customer-facing, dealing with incidents, reconnecting water supplies, and installing meters inside customers' properties. Differentiating ourselves through our customer service is vitally important – and is reflected in our external, regulatory customer satisfaction scores on behalf of our clients. These showed in 2017, for example, that Welsh Water was rated number one for clean water, and that United Utilities is consistently in the upper quartile for customer service.

Our United Utilities teams were presented with a *Ground Engineering* award in July for their prompt and innovative work the previous year when dealing with a 40ft-deep sink hole which appeared on Mancunian Way dual carriageway in Manchester City Centre.

Consulting and Rail

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

In 2017, this business unit had a very positive year, adding £700 million to the order book and strengthening our Consulting brand.

The business unit's revenue, including share of joint venture revenues, totalled £551 million in 2017 (2016: £486 million). Operating profits, including share of profit after tax of joint ventures, were £67.6 million (2016: £43.6 million).

Consulting employs 3,000 experts in design, planning, asset management and strategy, delivering over £200 million of revenue a year. In November 2017, the business launched its own Amey brand to boost its external profile and increase our clients' awareness of its unique capabilities.

A major work in progress is the dualling of the A96 between Huntly and Aberdeen, a joint venture with Arup. During 2017 Consulting delivered the feasibility study and detailed design.

In Melbourne, Australia, we are designing enhancements to the city's Western Route in conjunction with our sister company Broadspectrum. Leveraging our 15-year experience of running metro line assets in London, we also won asset management contracts for both the New York Transportation Authority and Sydney trains.

Our Aviation team had a successful year, with a 90% bid success rate securing over £5 million worth of contracts. The team advises Heathrow, Birmingham and Gatwick airports on the management of critical assets to enhance passenger and aircraft flow and is also working with Airbus, a new private sector client, on runway landing plans for its new Beluga aircraft.

Combining rail and consulting expertise, the business unit's TPT team specialises in maximising rail station retail opportunities to drive revenue for Southeastern, South West Trains, Translink and Crossrail. In 2017 it generated £2 million of new business.

We were delighted when 27-year old graduate planner Gergely Raccuja won the prestigious Wolfson Economics Prize – second in size only to the Nobel prize – for his idea of a mileage-based road tax. Gergely now works in our strategic consulting team.

Divisional and Business Update

Consulting and Rail (*continued*)

The division is also one of the UK's principal rail systems contractors, with expertise in track, signalling and electrification systems. We are also responsible for inspecting Network Rail assets such as stations and bridges. Rail business has had a solid year of growth.

This year saw the conclusion of a 15-year PPP contract with Tube Lines in London. In that time, we have helped the Jubilee, Northern and Piccadilly underground lines to be 30% more cost-effective and have improved reliability by 80%, as measured by lost customer hours.

In October 2017, we were awarded the £350 million TransPennine route upgrade between Manchester and Leeds, together with alliance partners BAM Nuttall and Arup. Other Network Rail awards this year include the Bolton to Wigan electrification and the Neville Hill track projects, worth £37 million and £7 million respectively.

In July, we successfully mobilised the Manchester Metrolink with joint venture partner Keolis, earning immediate praise from this new customer for successfully resolving a communications network failure and putting in place a plan to deal with this legacy issue. This builds on the success of delivering together on Docklands Light Railway.

Throughout 2017 we continued to meet every milestone in the high profile Great Western electrification project, and on 2 January 2018 the first of GWR's new Electrostar trains began service between Maidenhead and Didcot. The new, longer trains in the 45-strong electric fleet will offer commuters thousands more seats every day.

As part of S&C North Alliance – a partnership between AmeySersa, Amey OWR and Network Rail – we received two national rail awards for enabling trains to enter service at the full 125mph speed after overnight works. We were also recognised for the Ordsall Chord, a feat of engineering that involved building a new track linking three rail stations around protected structures in Manchester's city centre.

The business remains focused on achieving target zero with the introduction of a number of mandated safety policies on late change, preparation for safety, dynamic risk safety and design for safety. The business unit's accident incident rate improved by 22% over the year from 3.2 to 2.5.

This business unit has been instrumental in creating the Girl Guides' new Engineering badge – another step forward in inspiring a new generation of female engineers.

Divisional and Business Update

Environmental Services

Our Environmental Services business unit contributes to a better environment by collecting and processing waste for recycling and reuse – and, increasingly, to generate electricity and other useful by-products. Our clients are local authorities and commercial organisations.

The year 2017 was a period of transformation for Environmental Services. The commissioning of significant waste processing and treatment facilities has brought us closer to becoming a key player in this market.

The business unit's revenues in 2017, including share of revenues of joint ventures, totalled £336 million (2016: £339 million). Operating losses were £15.5 million (2016: £5.6 million loss). This was in part due to reductions in revenue on collections in the South of England and the Isle of Wight contracts with profits also impacted by delayed completion on capital works in the PFI waste subcontracts.

During 2017 we were preparing two waste processing and treatment facilities – one in Milton Keynes and the other in North Yorkshire – for service. Each of these Waste Recovery Parks uses a unique combination of three technologies for separation, treatment and recovery of household and commercial waste. For example, the pre-mechanical treatment of black bag waste extracts organic and food waste for the anaerobic digester, which in turn creates bio-gas and a compost-like material for use on brownfield sites. Both sites produce electricity to the National Grid. At Milton Keynes, the concerted effort of 300 people on site helped us recover from a setback in 2016 when specialist contractor Energos went into administration. This 140,000-tonne capacity plant received its first waste in May 2017 and went on to process 82,000 tonnes before the end of the year. The North Yorkshire facility was made ready for service and in 2018 it will process waste from local authorities as well as commercial organisations as it grows to its full 320,000 capacity. Over 100 new jobs have already been created at the site.

At Waterbeach Waste Management Park in Cambridgeshire, we have submitted planning permission for a £200 million investment for a new energy-from-waste facility on site, which will handle up to 250,000 tonnes of waste a year, with options to develop solar, wind and store power ready to export to the grid at peak demand.

The Isle of Wight Waste Management Park will be partly commissioned in 2018 and will include both mechanical treatment and energy-from-waste technologies.

In the municipal sector, we successfully mobilised and established two 10-year waste collection contracts for local authorities in Surrey, with another two to follow in early 2018. Our strategy of being more selective in this sector means we will end some loss-making contracts, including Peterborough, in 2018.

We continue to grow our business in providing waste management solutions for commercial organisations and to consider opportunities presented by the marketplace, such as processing fuel waste, developing micro-energy from waste solutions, power production for the grid, and waste water treatment.

We are proud to have reduced our safety All Incident Rate by 37% in 2017 and to have developed the use of smart wearable technology so our people working in household waste recycling centres can record their interaction with the public and improve customer services.

Divisional and Business Update

Facilities Management, Justice & Defence

This division provides, delivers and maintains infrastructure, assets and services to clients in the public sector. It thrives on delivering complex projects and services in challenging environments.

It was a year of consolidation for this business unit as we drew together facilities management, defence and justice to create a business unit that is better aligned to our chosen markets in the public sector. The synergies created over the course of the year have helped to form a market-facing business with a greater emphasis on key customer relationships.

The business unit's revenue, including share of joint venture revenues, totalled £655 million in 2017 (2016: £656 million). Operating profits, including share of profit after tax of joint ventures, were £15.7 million (2016: £31.5 million).

The arrival in August of Amanda Fisher, a Managing Director with a strong facilities management and defence background, has created a new leadership ethos. She has reinvigorated and strengthened her leadership team, making senior appointments to support the business growth, including a new Digital Transformation Director and Director of Energy. The bar has been raised on talent, with a focus on operational leadership and investment in skills development.

The new business unit is now one of our largest in terms of size and geographical reach, providing facilities management services to over 10,000 buildings and 100,000 homes across the UK. The past year has seen a more strategic understanding of drivers and outcomes required from our clients, creating a business delivery model that brings increased productivity and efficiency while giving greater customer service.

In 2017, while continuing to deliver against our contractual obligations in facilities management, we have exited poor performing and loss-making contracts and implemented a recovery plan for the onerous total facilities management (TFM) contract with London Boroughs.

In our Justice business, we help manage courts and provide TFM in 61 prisons. GEOAmey supervises and transports over 12,500 prisoners every week, and through the MTCnovo-owned Community Rehabilitation Companies, we support the rehabilitation of thousands of offenders back into the community. Working as a strategic partner to the Ministry of Justice on the development of the prison escort service, GEOAmey secured a two-year contract extension to August 2020.

The defence sector is a growth market and we are focusing on identifying and realising opportunities, supporting our clients along the way. Our joint ventures have performed well, delivering complex projects in challenging environments. With our joint venture partners, we handled the relocation of all service families returning to the UK and maintained accommodation for military personnel and their families in 45,000 homes. We managed and maintained 23,000 buildings and 26 airfields for the Ministry of Defence and provided the Armed Forces with construction and engineering equipment, maintaining and distributing over 2,300 vehicles worldwide.

This business unit's main achievement in 2017 has been to create a strong foundation. With the arrival of Amanda Fisher, momentum is accelerating in improving margins and cost-efficiencies, and there is now clear roadmap for 2018 and beyond, creating a platform to help our clients thrive.

Health & Safety

While we never take health and safety for granted, we are pleased to see improvements in our performance in 2017 as our efforts to reach Target Zero continue to be stepped up.

Our All Injury Rate (which includes employees and suppliers) improved by 9%, from 4.89 in 2016 to 4.43 in 2017. Reporting of injuries, diseases, and dangerous occurrences, (RIDDOR), reduced by 23%, from 0.39 in 2016 to 0.30 in 2017. We also saw a more health and safety-aware workforce, with 27% more Close Calls being reported in 2017. Internally, our annual employee survey showed that 93% of our people believed that Amey takes health and safety in the workplace seriously, up from 92% in 2016.

In 2017, over 140 leaders took part in strategic safety leadership training which covered personal action and responsibility. The programme, now extended to account leads and managers, will continue into 2018. A new HSEQ support structure has introduced Health and Safety, Environment and Quality Business Partners, to better support and influence the operating business.

Our safety efforts within our business units was rewarded when Utilities, Highways, and Consulting and Rail each received a Royal Society for the Prevention of Accidents (RoSPA) Award. Our Environmental Services team was awarded the Best Internal Communications at CIPR's Scotland Pride Awards, for their Safety Week.

Closely intertwined with safety is health and wellbeing. We want to look after our employees and we know that someone who is over-tired or not fully fit is at greater risk of injury to themselves, their colleagues, or even the environment. In 2017 we took part in trials, in partnership with our parent company Ferrovial for wearable technology that monitors heart rates, oxygen and activity levels. We have also been harnessing AI technology to develop simulations for safety training.

Environment

We recognise that as a Group of significant scale, the ways in which we deliver our services have the potential to add significant environmental and sustainability value to our clients, communities, stakeholders and the environment.

Through 2017, we have continued to focus on the main elements of our scope 1 and 2 carbon emissions. We have made significant progress with our scope 2 emissions, particularly with the proportion of our electricity that is procured from renewable sources, which increased from 75% in 2016 to 98% in 2017. We have also maintained our drive to reduce both the impact of our fleet operations and heating control in our buildings, and this has resulted in 5.7% reduction in our scope 1 emissions through reduction in fuel and natural gas consumption. Our overall carbon footprint in 2017 reduced by 7.3%.

We have increasingly been examining the type and quantity of natural materials we use, seeking to move to a circular model to help reduce resource use, extend lifecycles and minimise wastage. Examples include the use of mobile asphalt mixer and heaters which allow hot material production on site. To help progress this agenda further within the industry, we have joined Business in the Communities' Taskforce on the Circular Economy.

Our People

Our people have always been at the core of our business and we recognise this by continuously investing in their skills, development and wellbeing. In 2017 we further enhanced our focus on diversity and inclusion, as well as launching a new initiative to help our people understand their role in achieving the Group's goal of 'creating better places to live, work and travel'.

Amey continues to evolve and change and we have taken steps in 2017 to ensure that all our 19,000 employees understand the direction of the Group and want to join us on our journey.

Our transformation programme, Fit 4 the Future, has moved into its second phase, focusing on Process, Performance, Leadership and Direction. To support the operational and cultural changes that this will bring, nearly 1,000 account leaders and supervisors began a leadership and upskilling programme known as Leaders Creating Better Places. New business improvement teams have now been put in place to help business units boost their efficiency and maximise performance, and throughout the year, many people were involved in reviewing, simplifying and standardising hundreds of processes and systems.

In April, we launched Amey's new values – Putting People First, Delivering Great Service and Creating Better Solutions – as part of the wider Amey Story, a narrative to help people understand the Group's goals and strategy, and the role they play in Amey's history and future. Rolled out through a series of roadshows and team briefings, and supported by a 350-strong network of Changemakers throughout the Group, the Amey Story had reached 75% of employees by the end of the year.

Meanwhile, we continued to invest in emerging talent. In 2017 we recruited 60 new graduates and 80 apprentices – bringing the total working across our business to 137 and 169 respectively – and are providing them with a structured, engaging and stimulating environment to develop their careers. Our new graduate programme, launched in January, offers five career pathways with professional qualifications and dedicated training, allowing us to recruit talent all year around. A new undergraduate programme for current students further extends our commitment to inspire and recruit new talent. We provide a diverse range of apprenticeships across the UK and give each of our apprentices the opportunity to complete the Gold Duke of Edinburgh Award. As well as supporting apprenticeships, the new Apprenticeship Levy introduced in April has allowed us to offer existing employees the chance to study and to learn new skills for their chosen career paths.

We recognise the competitive advantage of employing people with a diverse range of experiences and our strategy for Equality Diversity and Inclusion (EDI) aims to create a business in which every person works in an inclusive environment. All our supervisors and account leaders now receive EDI training within their core leadership programme and equality assessments have been introduced into our regular site health and safety assessments.

Every part of our business took part in our annual Inclusion Week at the end of September and over 1,000 people now participate in diversity networks. Our Executive team is now 27% female and 18% BAME, a positive shift that better reflects the diversity of our workforce. For the past three years, we have been working with the National Centre for Diversity, which provides an independent assessment of our practices. After a thorough review of the business, in 2017 the Centre awarded us Leaders in Diversity accreditation – its highest award – and the first one given to a multi-sector business.

In wellbeing, we have directed our efforts to mental health. In May 2017, we signed the Time to Change Pledge to signify our commitment to changing how we think and act about mental health, and make sure employees who are facing these problems feel supported in a proactive, consistent way. A new Mental Health Ambassador network, made up of 70 employees across different levels and areas of the business, is helping colleagues to talk about mental health in a positive way and break down the stigma that surrounds it. We also linked with Mental Health First Aid England to train people to spot symptoms of mental health conditions, offer initial assistance and guide a person towards the support that they need.

Amey continues to hold the prestigious Investors in People Gold status and is committed to upholding those standards into the future.

Social Value

Our social value activity is based on four key priorities to help create a long-term positive impact; inspiring people, supporting local enterprise, protecting the environment and transforming communities.

We aim to help create sustainable communities through an engagement programme that runs right through Amey. Every one of our employees can take one paid volunteer day a year, enabling them to help our charity partners or a cause of their choice. In 2017, around 1,700 employees – about 15% of the workforce – volunteered for a range of organisations including the YHA, the Trussell Trust, the Wildlife Trusts and the Poppy Factory.

This year has seen our 500th apprentice take part in the Duke of Edinburgh's ('DofE') Gold Award since we began our partnership with the organisation 15 years ago; a partnership which aims to raise awareness of the need and importance to develop and support young people. In 2017 we introduced DofE Award champions to further encourage young people from areas of social deprivation to take part in this challenging, rewarding, and inspirational scheme. We also saw Amey employees from across the UK taking part in the DofE's first ever Adventure challenge - hiking 50km over two days in the Peak District.

Amey continues to support the UK's Armed Forces community and this year we re-signed the Armed Forces Corporate covenant. In support of this we have been providing employment opportunities to ex-veterans and have strengthened our partnership with SSAFA, the armed forces charity, taking part in numerous 'Big Brew Up' events across the UK.

We have been a supporter of social enterprise for a number of years, working with organisations such as Blue Sky and Recycling Lives who employ and support ex-offenders to find long-term jobs. In 2017 we solidified this, by signing up to the Buy Social Corporate Challenge; a challenge to collectively spend £1 billion by 2020 in supply chains on social enterprises. To encourage the wider community to engage we are also sponsors of Enactus, an organisation that helps young people to discover and harness their entrepreneurial skills by setting up social enterprises. Our leaders provide valuable coaching, mentoring and advice.

Key Performance Indicators (KPIs)

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

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

Principal Risks and Uncertainties

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

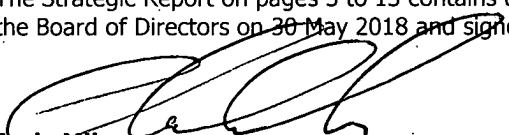
- **Contract claims and disputes** – Many of the Group's contracts with public sector clients include a significant amount of risk transfer in relation to the delivery of key services. Failure to deliver services in accordance with required KPI levels can result in performance deductions and/or disputes arising with a client. Each business unit undertakes regular reviews of its contract performance and the Amey Executive reviews the key contracts across the Group on a monthly basis. A number of initiatives are in place across the Group to monitor, manage, and improve contract management to ensure contractual compliance.
- **Contract retention, new business and competitive pressures** – The Group seeks to manage the risk of losing contracts by the provision of added value services, improving the quality of services provided and by maintaining strong relationships with key customers. Against the current economic and political climate of austerity, the pipeline of new contracts may be increased or reduced in line with local authority, government and utilities regulators' spending plans in the UK. The Group is able to adapt its capabilities and resources to meet any significant change arising from both the overall work pipeline and increased competitive pressures. Dedicated resources are devoted to securing new contracts. As investment in the bidding process is only recouped in the event of securing a new contract, the Group regularly reviews the risks and rewards potentially arising. The Group also endeavours to restrict expenditure in the early stage of a bid, when the certainty of success is less.
- **Cash and credit risk** - The Group's credit risk is primarily attributable to its non-public sector trade receivables. However, there are significant amounts of trade receivables due from public sector clients. Credit risk is managed by running credit checks on new clients and by monitoring payments against contractual agreements. The Group monitors cash flow as part of its day-to-day control procedures. In addition, the Directors regularly review the Group's cash flow projections to ensure that appropriate facilities are available to be drawn upon as necessary. The management of credit risk, interest rate risk, funding and liquidity risk and foreign exchange risk is further explained in note 14 to the Group financial statements. The objectives and policies of managing the financial risk of the Group are also outlined in note 14.
- **Reputational risk** - As a major supplier of services to local authorities and Government, the Group recognises the reputational risk inherent in continuing to deliver added value and reliable performance on our contracts. The Group also recognises the importance of reputational risk when bidding for new contracts. In respect of loss of reputation due to tax avoidance, the Group has been assessed as 'Low Risk' by Her Majesty's Revenue and Customs (HMRC) in the UK. This is based on an open and co-operative relationship with HMRC supported by strong internal controls, clear governance at board level and a commitment to manage the Group's tax affairs in an ethical and commercial manner.
- **Effective account management of compliance and efficiency** – Effective account management, and ensuring our people have the equipped with the right skills and resources, has been a key priority for the Group. Without effective account management lack of compliance and/or achievement of optimum efficiencies and commercial outputs cannot be attained. Amey has a number of initiatives in place to improve its account management. These initiatives are referenced throughout this report and include our ongoing commitment to the Fit 4 the Future programme, development of our people to ensuring compliance and accountability, and business audit and assurance.
- **Health and safety** – Amey operates in a number of complex, high risk environments such as rail networks, railways, airports, utilities, defence establishments, civil engineering structures, schools and industrial plants. It also operates a significant fleet of rail and road vehicles. Health and safety is a priority for the Group and a robust governance structure is in place to ensure compliance and proactivity. Further details on approach to health and safety are set out on page 9.

Principal Risks and Uncertainties (*continued*)

- **Information security and data protection** – The implementation of the General Data Protection Regulation has brought a renewed focus to the Group's management of information, including personal data. In addition, the constantly evolving transformation from hard copy data to soft copy data, and the ability to protect the Group's IT systems from the threat of attack, continues to be a key focus.
- **Government procurement policy** – Government's strategy for future investment in the markets in which Amey operates will affect the new opportunities available to Amey. In addition to the reduced commitment for new infrastructure opportunities, the UK's restrictive procurement processes, often with little opportunity to propose changes to contract terms, means the Group must evaluate such opportunities with some scrutiny to ascertain whether it can accommodate those risks or else remove itself from a particular opportunity.
- **People, culture and values** – People are a priority for Amey. Ensuring our people have the right skills and resources to undertake their roles is a key focus for the Group. Aligning our people to the Group's culture and values and ensuring consistency across the Group is also critical. See page 10 above for further details on Amey's people.
- **Regulatory requirements** – The markets within which the Group operates give rise to a considerable number of regulatory requirements, with regulators naturally taking a proactive interest in ensuring compliance. Operational risks are managed by the individual business units together with support from central functions and the Group's Executive reviews the management thereof to ensure consistency of high standards across the Group. Corporate regulatory requirements are coordinated by central functions and similarly reviewed by the Group's Executive.
- **Other risks include -**
 - operational risks threatening the continuity of business operations such as the failure of information systems, loss of key infrastructure and the recruitment and retention of key staff; and
 - financial and commercial risks which include the failure to meet financial business plans, availability of funding, pension fund liabilities and delays or cost over-runs in major programmes.

Strategic Report Approval

The Strategic Report on pages 3 to 13 contains the strategic review of the business for 2017. This Report was approved by the Board of Directors on 30 May 2018 and signed on its behalf by:



Andy Milner
Chief Executive Officer, Amey
30 May 2018

Report of the Directors

The Directors present their annual report together with the audited financial statements of the Amey UK plc group of companies (Amey or the Group) for the year ended 31 December 2017. Amey UK plc (the Company) is incorporated in England and Wales and is the holding Company of a Group whose subsidiary companies and joint venture undertakings are listed in note 24 to the financial statements.

Strategic report

The Chief Executive Officer's summary statement on pages 1 to 2 and the corporate commentary on pages 3 to 13 describe the principal activities of the Group, the development and performance of the Group's business during 2017 and the position of the Group at the end of the year.

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

Results and dividends

The Group income statement is set out on page 24 and shows a loss after tax for the year amounting to £188.9 million (2016: £26.6 million loss) on group revenue of £2.20 billion (2016: £2.23 billion).

The operating profit is stated after charging all operating costs and before net finance expense and tax. The operating loss on continuing operations was £168.8 million (2016: £15.8 million). Net operating exceptional costs arising in 2017 totalled £204.5 million (2016: £34.0 million) which arose on the unfavourable outcome on the dispute on the Birmingham contract and the revision of that contract's revenue recognition and costs (£208.5 million cost) and on the disposal of joint venture investments (£4.0 million profit). The exceptional cost in 2016 was primarily in respect of contract disputes and claims (£6.9 million); a Group redundancy programme (£17.3 million) and a loss on the refinancing of a PFI joint venture (£9.8 million).

The overall gross profit and operating profit before exceptional items were respectively £137.4 million and £35.8 million (2016: £119.8 million and £18.1 million) representing a margin of 6.3% and 1.6% (2016: 5.4% and 0.8%). Administrative expenses were reduced to £110.4 million (2016: £113.8 million) before exceptional reorganisation costs.

Net finance expense on continuing operations was £21.1 million (2016: £28.0 million). The Group's share of profit after tax of joint ventures was £8.7 million (2016: £2.4 million) which was adversely impacted in 2016 by an exceptional charge of £9.8 million arising on the refinancing of the Sheffield PFI joint venture.

Cash flows from operating activities were £31.9 million inflow (2016: £7.5 million outflow).

Equity shareholder funds at 31 December 2017 were £246.3 million (2016: £376.8 million). No interim dividend was paid during the current or preceding year. The Directors do not recommend the payment of a final dividend. The reduction in equity shareholder funds reflects the retained loss for the year of £188.9 million and actuarial gains on pension schemes of £66.6 million.

In line with Ferrovial, S.A., the Group's parent undertaking, the Group has adopted IFRS 15: Revenue from Contracts with Customers during the current financial year. The net impact on equity shareholders' funds of adopting IFRS 15 was a net reduction to equity of £202.0 million. Further information can be found in note 1 (b) (i) to the Group financial statements.

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

Report of the Directors *(continued)*

Post balance sheet events – issue of other equity instrument

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

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

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

Directors

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

I Tyler (Chairman) (appointed 1 January 2018)
 S Olivares (Vice-chairman)
 A Camacho
 A Garcia
 F Gonzalez de Canales Moyano
 A Nelson
 A Milner
 C Hui (appointed 26 January 2017)
 Sir Richard Mottram (resigned 31 December 2017)

Employee involvement and employment policies

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

Employee engagement

The Group's policy is to have open and regular communication with all Group employees through both formal and informal processes that are regularly reviewed and developed. Employees are provided with information about the Group through Chief Executive Officer briefings, 'Hub' (the employee magazine) and 'Amey Brief', a monthly briefing pack for people managers to discuss news and updates with their teams. This is in addition to communications direct to employees on specific matters.

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

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

The Group also conducted an employee survey during 2017 which has assisted the Directors' understanding of the areas which required action to improve the business.

Report of the Directors (*continued*)

Employee involvement and employment policies (*continued*)

Rewards, recognition and performance

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

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

The Investors in People Champion award recognises that a strong learning culture is promoted across Amey. Managers are required to provide performance management support to every employee in the form of annual objectives setting and end-of-year performance appraisal. Employees are encouraged to be actively involved in setting their objectives and work projects for the year ahead.

Diversity and inclusion

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

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

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

During 2017, the Group achieved the prestigious 'Leaders in Diversity Accreditation' following an independent survey by National Centre for Diversity of over 1,500 Group employees, senior leaders and suppliers which assessed the focus on diversity and inclusion.

Disabled employees

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

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

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

Report of the Directors (*continued*)**Employee involvement and employment policies (*continued*)*****Modern Slavery Act***

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

The Group's supply chains include:

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

All procurement of services and supplies is undertaken by trained procurement specialists. The Group aims to build long-term sustainable relationships with its suppliers encouraging collaborative working and exchange of innovative and good industry practices. The Group has in place systems to evaluate new suppliers as part of the on-boarding process and to identify, assess and monitor potential risk areas in its supply chain. During 2017, there was continued engagement with the supply chain extending communications on Group values and specifically on the Act.

Policy on slavery and human trafficking:

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

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

Due diligence processes for slavery and human trafficking:

The Group has carried out a risk-based analysis on its own operations and within its supply chain having special regard for the location of those operations and type of service. Further risk analysis is ongoing as part of the Group's risk management system to ensure compliance.

Training:

To ensure a high level of understanding of the risks of modern slavery and human trafficking in its supply chain members, the Group is providing web-based training to a wider group of staff to promote awareness of, to identify and address potential modern slavery risks.

Report of the Directors (*continued*)

Corporate Governance

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

Operation of the Board

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

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

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

System of internal control and risk management

The Board has established a continuous process for identifying, evaluating and managing the significant risks facing the Group. A Risk Management Committee meets quarterly, reporting to the Board and to the Executive Committee. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has a clearly defined approvals procedure with a schedule of authorities which is reviewed by the Board and which is in effect throughout the Group. Compliance with this is reviewed as part of the Internal Audit process.

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

IT systems

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

Internal audit

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

Report of the Directors (continued)**Going concern**

The Group is financed through a mixture of shareholder equity, intercompany debt from Ferrovial companies, finance leases, non-recourse project-related bank term loans, other bank loans and overdrafts. Details of all bank loans and their maturity are set out in note 19 to the financial statements whilst details of finance risks are set out in note 14.

Group cash balances available at 31 December 2017 were £162 million. The Group also continues to hold banking facilities 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 UK plc. These agreements total £160 million and mature in July 2021. The Group's facilities were improved in 2016 through two credit facilities of £70 million and £80 million from Landmille Limited, a subsidiary of Ferrovial S.A., both of which automatically renew annually. At the balance sheet date £150 million was drawn down on these facilities. In addition, the Group's five-year loan from Landmille Limited of £177.5 million was automatically rolled over on an annual basis in March 2018 and Ferrovial have also approved additional funds of up to £75 million which will be made available to the Group, if required.

After making enquiries, the Directors have no reason to believe that amounts remaining to be drawn down under the existing bank loan or intercompany facilities will not be forthcoming and they believe that the Group will be able to renew these medium-term facilities in advance of their expiry. The Directors have also considered the cash generative nature of the business and also the impact of being part of the wider Ferrovial, S.A. group of which this Group is a member. Ferrovial, S.A. group has also provided additional equity to the Group by way of a £60.0 million other equity instrument issued since 31 December 2017, details of which are contained in note 29 to the Group financial statements. The Directors believe that the Group is well placed to manage its business risks successfully despite the impact of public expenditure reductions in some of its key markets in the UK.

Accordingly, the Directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being the 12 months from the date of signing of these financial statements. The Directors therefore continue to adopt the going concern basis in preparing these financial statements.

Political donations

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

Auditor

Deloitte LLP has expressed their willingness to continue in office as Auditor. In accordance with s487 of the Companies Act 2006, Deloitte LLP will be reappointed as Auditor to the Company for the year to 31 December 2018.

Report of the Directors (continued)**Directors' responsibilities statement**

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Parent Company financial statements Directors are required to:

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

In preparing the Group financial statements, IFRS requires that the Directors:


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

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

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

Statement of Directors as to disclosure of information to auditor

In accordance with the provisions of s418 of the Companies Act 2006, each of the Directors at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all of the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Jayne Bowie
Company Secretary, Amey UK plc
30 May 2018

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Amey UK plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group statement of cash flows; and
- the related notes 1 to 42.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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.

Independent auditor's report to the members of Amey UK plc (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 Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.



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

30 May 2018

Group income statement

Annual Report and Financial Statements 2017

Group income statement for the year ended 31 December 2017

		Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total
Note	2017	2017	2017	2017	2016	2016	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Continuing operations:							
Total revenue		2,581,278	-	2,581,278	2,591,024	-	2,591,024
Less: share of revenue of joint ventures		(383,089)	-	(383,089)	(358,563)	-	(358,563)
Group revenue	2	2,198,189	-	2,198,189	2,232,461	-	2,232,461
Cost of sales		(2,060,784)	(208,500)	(2,269,284)	(2,112,689)	(6,939)	(2,119,628)
Gross profit (loss)		137,405	(208,500)	(71,095)	119,772	(6,939)	112,833
Administration expenses		(110,381)	-	(110,381)	(113,814)	(17,283)	(131,097)
Share of profit after tax of joint ventures	2	8,743	-	8,743	12,179	(9,758)	2,421
Profit on disposal of joint venture investments		-	3,964	3,964	-	-	-
Operating profit (loss)	2,4	35,767	(204,536)	(168,769)	18,137	(33,980)	(15,843)
Finance income		19,582	-	19,582	12,864	-	12,864
Finance costs		(40,640)	-	(40,640)	(40,899)	-	(40,899)
Net finance expense	7	(21,058)	-	(21,058)	(28,035)	-	(28,035)
Profit (loss) before tax		14,709	(204,536)	(189,827)	(9,898)	(33,980)	(43,878)
Tax credit	8	891	-	891	12,453	4,844	17,297
Profit (loss) after tax for the year		15,600	(204,536)	(188,936)	2,555	(29,136)	(26,581)
Attributable to:							
Equity holders of the Company		19,124	(204,536)	(185,412)	5,156	(29,136)	(23,980)
Minority interests		(3,524)	-	(3,524)	(2,601)	-	(2,601)
		15,600	(204,536)	(188,936)	2,555	(29,136)	(26,581)

The notes on pages 29 to 73 form part of these Group financial statements.

Group statement of comprehensive income for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Loss after tax for the year		(188,936)	(26,581)
Other comprehensive income (expense)			
<i>Items not subject to recycling:</i>			
Actuarial gains (losses) and adjustments on pension schemes	20	66,579	(125,958)
Deferred tax on pension schemes	8	(11,318)	18,900
<i>Items subject to recycling:</i>			
Gain (loss) on change in fair value of derivatives	14	2,617	(7,926)
Deferred tax on derivatives	8	(438)	951
Share of joint ventures' other comprehensive income (expense)			
- gain (loss) on change in fair value of derivatives	14	3,052	(13,133)
- deferred tax on derivatives		(518)	1,933
- derivatives recycled through profit and loss	14	476	10,610
- deferred tax on recycled amounts		(115)	(1,804)
Other comprehensive income (expense) for the year after tax		60,335	(116,427)
Total comprehensive expense for the year		(128,601)	(143,008)
Attributable to:			
Equity holders of the Company		(125,765)	(136,919)
Minority interests		(2,836)	(6,089)
		(128,601)	(143,008)

The notes on pages 29 to 73 form part of these Group financial statements.

Group balance sheet

Annual Report and Financial Statements 2017

Group balance sheet as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Goodwill on acquisition of subsidiary undertakings	9	735,764	735,764
Other intangible assets	10	93,882	114,597
Property, plant and equipment	11	54,130	59,615
Investments in joint ventures	12	96,712	96,911
Deferred tax assets	8	68,934	37,635
PFI/PPP Financial assets	13	62,645	59,665
Derivative financial instruments		107	-
Trade and other receivables	15	38,739	65,399
		1,150,913	1,169,586
Current assets			
Inventories	16	34,009	18,793
PFI/PPP Financial assets	13	11,998	12,991
Derivative financial instruments		852	-
Trade and other receivables	15	452,191	579,703
Current tax assets		14,070	18,531
Cash and cash equivalents	17	215,881	173,317
		729,001	803,335
Total assets		1,879,914	1,972,921
Current liabilities			
Trade and other payables	18	(660,979)	(609,348)
Ferrovial, S.A. group loans	18	(581)	(555)
Current tax liabilities		(4,144)	(2,314)
Provisions for other liabilities and charges	21	(117,612)	(14,426)
External borrowings	19	(4,093)	(4,526)
		(787,409)	(631,169)
Non-current liabilities			
Trade and other payables	18	(4,308)	(12,684)
Ferrovial, S.A. group loans	18	(397,742)	(575,543)
Derivative financial instruments		(19,612)	(21,270)
Deferred tax liabilities	8	(61,807)	(58,239)
Retirement benefit obligations	20	(56,450)	(147,173)
Provisions for other liabilities and charges	21	(250,030)	(91,193)
External borrowings	19	(56,293)	(58,829)
		(846,242)	(964,931)
Total liabilities		(1,633,651)	(1,596,100)
Net assets		246,263	376,821
Capital and reserves			
Share capital	22	203,677	3,677
Share premium account		153,134	153,134
Other reserve		61,887	61,887
Hedge reserve		(27,309)	(31,695)
Retained (deficit) earnings		(140,937)	185,249
Equity attributable to equity holders of the Company		250,452	372,252
Minority interests		(4,189)	4,569
Total equity		246,263	376,821

The notes on pages 29 to 73 form part of these Group financial statements. The financial statements on pages 24 to 73 were approved and authorised for issue by the Board of Directors on 30 May 2018 and signed on its behalf by:


Andy Milner
 Director
 30 May 2018

Group statement of changes in equity

Annual Report and Financial Statements 2017

Group statement of changes in equity for the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Hedge reserve £'000	Retained (deficit) earnings £'000	Minority interests £'000	Total equity £'000
At 1 January 2016	3,677	153,134	61,887	-	(25,814)	316,287	10,658	519,829
Loss after tax for the year	-	-	-	-	-	(23,980)	(2,601)	(26,581)
Other comprehensive expense	-	-	-	-	(5,881)	(107,058)	(3,488)	(116,427)
At 31 December 2016	3,677	153,134	61,887	-	(31,695)	185,249	4,569	376,821
Impact of transition to IFRS 15 (note 1 (b) (i))	-	-	-	-	-	(196,035)	(5,922)	(201,957)
At 1 January 2017	3,677	153,134	61,887	-	(31,695)	(10,786)	(1,353)	174,864
Issue of share capital in the year (note 22)	200,000	-	-	-	-	-	-	200,000
Loss after tax for the year	-	-	-	-	-	(185,412)	(3,524)	(188,936)
Other comprehensive income	-	-	-	-	4,386	55,261	688	60,335
At 31 December 2017	203,677	153,134	61,887	-	(27,309)	(140,937)	(4,189)	246,263
Post balance sheet event:								
Issue of other equity instrument (note 29)	-	-	-	60,000	-	-	-	60,000
Proforma equity at 31 December 2017	203,677	153,134	61,887	60,000	(27,309)	(140,937)	(4,189)	306,263

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

The notes on pages 29 to 73 form part of these Group financial statements.

Group cash flow statement

Annual Report and Financial Statements 2017

Group cash flow statement for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Cash flows generated from operating activities	23	31,860	(7,482)
Income tax received (paid)		8,241	(784)
		40,101	(8,266)
Cash flows from investing activities			
Purchase of property, plant and equipment and other intangible assets		(6,295)	(7,887)
Disposal of property, plant and equipment and other intangible assets		2,881	25,651
Acquisition of equity in and loan advances made to joint ventures		(5,880)	(24,495)
Repayment of loan advances made to joint ventures		2,491	6,623
Disposal of loans to joint ventures, cash paid		13,860	-
Interest received		8,102	8,005
Dividends received from joint ventures		6,830	4,584
		21,989	12,481
Cash flows from financing activities			
Repayment of bank loans		(1,996)	(1,100)
Movements on loans with Ferrovial, S.A. subsidiary undertakings		(179,211)	131,619
Repayment of finance leases		(3,099)	(16,522)
Interest paid		(35,220)	(34,469)
Increase in share capital		200,000	-
		(19,526)	79,528
Net increase in cash and cash equivalents		42,564	83,743
Cash and cash equivalents at 1 January		173,317	89,574
Cash and cash equivalents at 31 December	17	215,881	173,317

The notes on pages 29 to 73 form part of these Group financial statements.

Notes forming part of the Group financial statements for the year ended 31 December 2017

1 Accounting policies

These consolidated financial statements have been prepared on a going concern basis using the historic cost convention as modified for the fair value of pension liabilities, financial instruments and other intangible assets arising on acquisition. The suitability of the going concern basis is considered in the Report of the Directors.

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU, relevant to its operations and effective for accounting periods beginning 1 January 2017.

(b) New accounting standards

(i) Early application of IFRS 15, Revenue from Contracts with Customers

Although this new standard is not mandatorily applicable until 1 January 2018, the Group has made use of the option included in the standard to permit early adoption. Following this decision, the Group has changed its accounting policy and updated its internal processes and controls relating to revenue recognition.

IFRS 15 was applied retrospectively, recognising the cumulative effect of initial application as an adjustment to the opening balances for 2017 on the balance sheet, calculated only for those contracts that were not completed contracts at 1 January 2017. Therefore, the comparative information for 2016 was not restated and continues to be presented in accordance with IAS 11 and IAS 18.

The impact, by line item, on the balance sheet as at 1 January 2017 was as follows:

	Balance at 1 January 2017 £'000	Transition to IFRS 15 £'000	Balance at 1 January 2017 Post IFRS 15 £'000
Non-current trade and other receivables	65,399	(39,444)	25,955
Non-current deferred tax assets	37,635	40,546	78,181
Other non-current assets	1,066,552	-	1,066,552
Inventories	18,793	3,206	21,999
Current trade and other receivables	579,703	(169,783)	409,920
Other current assets	204,839	-	204,839
Current liabilities	(631,169)	-	(631,169)
Non-current provisions for other liabilities and charges	(91,193)	(36,482)	(127,675)
Other non-current liabilities	(873,738)	-	(873,738)
Net assets	376,821	(201,957)	174,864
Share capital, premium and other reserves	187,003	-	187,003
Retained earnings	185,249	(196,035)	(10,786)
Minority interests	4,569	(5,922)	(1,353)
Total equity	376,821	(201,957)	174,864

The main impact of the application of IFRS 15 was to reduce the equity attributable to shareholders by £202.0 million, the main balancing entries being a reduction of £209.2 million in the balance of trade and other receivables (mainly amounts to be billed for work performed) and £40.5 million recognised in deferred tax in respect of these adjustments.

1 Accounting policies (continued)**(b) New accounting standards (continued)****(i) Early application of IFRS 15, Revenue from Contracts with Customers (continued)**

The main changes in accounting policies giving rise to these impacts relate mainly to the following three issues:

I. Definition of distinct performance obligations in long-term services contracts and allocation of a price to each obligation. This relates mainly to long-term contracts (more than ten years) where the Group carries out various activities throughout the life of the infrastructure (Capex, Opex and Lifecycle). Under the previous standards, these contracts were regarded as having a single performance obligation, the outcome of which was recognised by reference to the overall revenue from the contract. Under the new standard, unlike the above-mentioned criterion, several performance obligations are recognised (IFRS 15.27), to which the prices established in the contract, provided they are deemed to be market prices, are allocated (IFRS 15.73-80). The effect of this new criterion is to delay the recognition of revenue, insofar as the expected margin on the performance obligations already satisfied is generally lower than that forecast for the contract as a whole. The negative impact of this adjustment on equity attributable to the shareholders amounted to £55.0 million.

II. Change in the method of recognising revenue from contract modifications and transactions subject to variable consideration. In the case of revenue arising from contract modifications, IFRS 15 requires customer approval (IFRS 15.18), a stricter criterion than the probability requirement in the current standards (IAS 11.13 and IAS 18.18).

In the case of transactions subject to variable consideration, the new standard establishes that revenue from the transaction is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (IFRS 15.56-58). The transactions subject to variable consideration include most notably revenue from claims submitted to customers and contractual incentive payments, which were recognised using a probability criterion under the previous standard (IAS 11.14 and 15). This change gives rise to a delay in the recognition of revenue as the new standard establishes stricter criteria.

The negative impact on equity attributable to the shareholders in this connection amounted to £118.9 million.

III. Establishment of a consistent revenue recognition method for contracts with similar characteristics. The new standard requires a consistent revenue recognition method to be used for contracts and performance obligations with similar characteristics (IFRS 15.40). The Group has chosen the output method for measuring the value of assets or services for which control is transferred to the customer over time, provided that the progress of the work performed can be measured on the basis of the contract and during its performance (IFRS 15.B17). 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 component, the applicable output method is that of surveys of performance completed to date, according to which the revenue recognised corresponds to the units of work performed, based on the price allocated thereto. Also, in routine service contracts in which the goods or services are substantially the same and are transferred with the same pattern of consumption, in such a way that the customer receives and consumes the benefits of the goods or services as the entity provides them, the method selected by the Group to recognise revenue is the "time elapsed" output method, whereas costs are recognised on an accrual basis. On the basis of the foregoing, the input method (based on resources consumed) will only be used when the progress of the work cannot be measured reliably by an output method. Application of this rule gives rise to a change of recognition method for certain contracts, and the negative impact on equity attributable to the shareholders is £28.0 million.

(ii) New standards, amendments and interpretations adopted by the European Union mandatorily applicable for the first time in 2017

On 1 January 2017, the following standards which might have an impact on the consolidated financial statements came into force in the European Union: Amendments to IAS 7, Disclosure Initiative, Annual Improvements to IFRSs, 2014-2016 Cycle and Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses. No significant impact on the Group's consolidated financial statements has been identified because of these amendments.

1 Accounting policies (continued)**(b) New accounting standards (continued)****(iii) New standards, amendments and interpretations mandatorily applicable in annual reporting periods subsequent to 2017**

The new standards, amendments and interpretations approved by the IASB but not mandatorily applicable at 31 December 2017 that might have an effect on the Group are as follows:

IFRS 9, Financial Instruments

The impacts identified are less important than those of IFRS 15, since the entities most affected by IFRS 9 are financial institutions. The mandatory application date is 1 January 2018. Set out below is a summary of the main impacts, following an analysis of the three phases of the standard:

- I. **Hedge accounting.** The standard attempts to align hedge accounting more closely with risk management, and the new requirements establish a principle-based approach. IFRS 9 generally permits the designation of specific components of non-financial items and of financial instruments as hedged items, provided they are separately identifiable and reliably measurable and that there is a liquid market for the items concerned (IFRS 9 B.6.3.8 et seq.), and, in certain cases, it specifically permits the hedging of the inflation component of certain financial instruments (IFRS 9 B6.3.13 to 6.3.15). The hedge accounting requirements of IFRS 9 must be applied prospectively and, therefore, there will be no adjustment on initial application and the impact of adopting this standard will be disclosed in the Group's consolidated financial statements for 2018. This impact will depend both on the financial instruments held in 2018, on the changes in the economic conditions affecting the valuation of those instruments, and on the specific results relating to the effectiveness of the future hedging relationships and, therefore, at the date of preparation of these consolidated financial statements, it cannot be estimated reliably.
- II. **Impairment of financial assets.** IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument. The Group intends to avail itself of the simplified approach (measuring the loss allowance at an amount equal to lifetime expected credit losses) for its accounts receivable relating to contracts with customers. In order to implement this approach the Group has established a procedure which not only provides for the write-down of accounts receivable when they are no longer recoverable (incurred losses), but also takes into consideration possible expected losses, based on the evolution of the specific credit risk of the customer, its industry and its country. No significant impact to equity is expected as a result of this revised approach.
- III. **Classification and measurement of financial assets.** A new classification is introduced that reflects the business model within which financial assets are held by the company. No significant impacts are expected to arise from this new classification. The only potential impact for the Group relates to equity instruments, which by defect must be measured at fair value through profit or loss, since at initial recognition it may elect to present subsequent changes in the fair value of these instruments in other comprehensive income. This election is irrevocable and is made for each asset on an individual basis. With regard to financial liabilities, IFRS 9 does not introduce any changes with respect to IAS 39, except for the change in the treatment of renegotiations of financial liabilities that did not result in the derecognition of those liabilities. Nevertheless, no significant impact is expected, since most of the Group's financial assets and liabilities will continue to be measured at amortised cost.

IFRS 16, Leases

The analysis of the impact of IFRS 16 is at an earlier stage than that of the aforementioned standards. IFRS 16 is mandatorily applicable on 1 January 2019 and the Group does not intend to apply the standard early.

Amounts in the balance sheet will be increased due to the recognition of right-of-use assets and financial liabilities for future payment obligations relating to leases classified to date as operating leases. The Group expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset is of low value. Based on the preliminary analysis of the operating leases at the end of the reporting period, an impact of approximately £95.0 million is estimated corresponding to the non-cancellable future minimum lease payments, discounted at the interest rate implicit in each lease considering the type of underlying asset, which could be comparable to the right-of-use asset and the financial liability that would have to be recognised in the balance sheet. This estimate was made by reference to the lease portfolio and market conditions existing at 31 December 2017, although this will change because of variations in underlying assumptions until the standard is effectively applied at 1 January 2019.

1 Accounting policies (continued)**(b) New accounting standards (continued)****(iii) New standards, amendments and interpretations mandatorily applicable in annual reporting periods subsequent to 2017 (continued)**

The new standards, amendments and interpretations approved by the IASB but not yet approved for use in the European Union at 31 December 2017 that might have an effect on the Group are as follows:

New standards, amendments and interpretations		Obligatory application in annual reporting periods beginning on or after:
IFRIC Interpretation 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC Interpretation 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 2	Classification and measurement of share based payment transactions	1 January 2018
Amendments to IAS 40	Investment property	1 January 2018
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
Annual Improvements	2015-2017 cycle	1 January 2019
Amendments to IAS 19	Plan amendments, curtailments and settlements	1 January 2019

None of these standards are expected to have a significant impact for the Group.

(c) Critical accounting estimates and judgements

In the consolidated financial statements for 2017 estimates were made to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- (i) Estimates taken into consideration for the purpose of recognising revenue from contracts with customers including most notably those associated with:
 - determining whether enforceable rights exist, in order to recognise revenue;
 - determining whether a contract modification has been approved;
 - establishing whether the conditions for recognising revenue for variable consideration are met;
 - recognising revenue in relation to a claim or a dispute;
 - establishing whether the contract includes one or several performance obligations, and determining the price allocable to each of them;
 - defining for each performance obligation the applicable method for recognising revenue over time, taking into account that, based on the accounting policy established by the Company, the preferred method is the "survey of performance completed to date" output method (units of production or based on time elapsed), and the "stage of completion measured in terms of costs incurred" input model is applied in those cases in which the services provided are not routine and recurring services and in which the unit price of the units of work to be performed cannot be determined;
 - in the case of contracts recognised using the survey of performance completed to date method, measuring the units completed and the price that can be allocated thereto;
 - in the case of contracts recognised using the "percentage of completion method" input method, defining the costs incurred relative to total contract costs, and the expected profit margin for the contract;
 - determining whether to capitalise bidding costs and mobilisation costs; and
 - making estimates relating to the calculation of the provision for expected losses and deferred expenses.
- (ii) The assessment of possible legal contingencies
- (iii) Estimates regarding the valuation of derivatives and the expected flows associated with them in order to determine the existence of hedging relationships
- (iv) The assessment of possible impairment losses on certain assets
- (v) Business performance projections that affect the estimates of the recoverability of tax assets
- (vi) The assumptions used in the actuarial calculation of pension and other obligations to employees

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8.

1 Accounting policies (continued)**(d) Basis of consolidation**

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

(e) Other principal accounting policies**Business combinations**

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

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

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

Goodwill

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

Other intangible assets

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

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

Joint ventures where the Group exercises joint control

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

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

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

Jointly controlled operations

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

1 Accounting policies (continued)**(e) Other principal accounting policies (continued)****Revenue**

As indicated in note 1 (b) (i) on the first-time application of IFRS 15, the Company changed its revenue recognition policies to adapt them to the provisions of this standard, which was applied early effective 1 January 2017. To ensure uniform application across the various business areas, the Group has developed a common policy. 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 of the stage of completion measured in terms of the costs incurred (input method) is permitted. Under this method, the entity recognises revenue based on the proportion that costs incurred to date bear to the total costs expected to be incurred to complete the work, taking into account the expected margins of the whole project per the latest updated budget. This method involves measuring the proportion of the costs incurred in the work completed to date to the total costs envisaged, and recognising revenue in proportion to total expected revenue. Under this method, the proportion that contract costs incurred bear to the estimated total contract costs is used to determine the revenue to be recognised; by reference to the estimated margin for the entire term of the contract. As indicated above, this method is only applied to complex construction or service contracts with a fixed price ("lump sum") in which it is not possible to break down the units produced and measure them.

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

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

1 Accounting policies (continued)**(e) Other principal accounting policies (continued)****Revenue (continued)****(ii) Recognition of revenue from contract modifications, claims and disputes (continued)**

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

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

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

(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".

Bidding costs and mobilisation costs

In addition to the aforementioned balance sheet balances, the Group also recognises assets relating to the costs of obtaining a contract (bidding costs) and to the costs incurred to fulfil a contract or setup costs (mobilisation costs) that are directly related to the principal contract, provided they will be recovered through performance of the contract. These balances are presented in a separate account under "Inventories". In 2016, these balances were reported as part of "Trade and other receivables".

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

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

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

1 Accounting policies (continued)**(e) Other principal accounting policies (continued)****Revenue (continued)****(v) Provisions relating to contracts with customers**

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

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

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

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

(vi) Financing component

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

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

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

(vii) Sales taxes

All revenue excludes valued added tax.

Property, plant and equipment

The cost of property, plant and equipment is determined in accordance with IAS 16 (Property, Plant and Equipment) and includes only those costs that are directly attributable to bringing the asset into working condition for its intended use.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost of each asset, less its estimated residual value, evenly over its expected useful life, as follows:

Buildings	2% to 2.5% per annum
Leasehold improvements	remaining lease period
Plant and machinery	5% to 33% per annum

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

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

1 Accounting policies (continued)**(e) Other principal accounting policies (continued)****Inventories**

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

Service concession arrangements

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

Deferred tax

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

Leasing and hire purchase contracts

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

Pension costs – defined benefit schemes

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

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

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

Pension costs – defined contribution schemes

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

Share-based payments

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

Foreign currency

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

1 Accounting policies (continued)**(e) Other principal accounting policies (continued)****Financial assets**

The Group classifies its financial assets into one of the following categories, depending on the nature of the asset that was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

- (i) *Financial assets – loans and receivables.* These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables) under PFI/PPP contracts but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment. For PFI/PPP contracts, cost is determined by the fair value of goods and services as adjusted for the expected payment date at the time of providing the services.
- (ii) *Financial assets – fair value through the income statement.* This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.
- (iii) *Financial assets – available-for-sale.* Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognised directly in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the nature of the liability that was acquired. Other than financial liabilities in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

- (i) *Financial liabilities – fair value through the income statement.* This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.
- (ii) *Financial liabilities – other financial liabilities.* Trade payables and other payables are recognised at amortised cost. Bank borrowings are recognised at the amount advanced net of any directly attributable transaction costs. Such interest bearing liabilities are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Finance costs calculated in accordance with this policy are recognised in finance costs in the income statement.

Hedge accounting

Hedge accounting is applied to financial assets and liabilities only where all of the following criteria are met:

- at the inception of the hedge, there is formal designation and documentation of the hedging relationship and of the Group's risk management objective and strategy for undertaking the hedge
- for cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect income or expense
- the cumulative change in the fair value of the hedging instruments is expected to be between 80% and 125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged, i.e. it is expected to be highly effective
- the effectiveness of the hedge can be reliably measured
- the hedge is assessed on a regular basis and remains highly effective

The Group does not hold or issue derivative instruments for speculative purposes, although derivatives not meeting the above criteria are designated for accounting purposes at fair value through the income statement as appropriate.

Derivative financial instruments at fair value - cash flow hedges

The Group uses derivative financial instruments to manage interest rate risk and, where the hedge accounting criteria are met, designates these as cash flow hedges. Changes in the fair value of the effective portion of derivatives that are designated and qualify as hedges are recognised in other comprehensive income. Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of the asset or liability.

Cash and cash equivalents

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

Exceptional items

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

2 Divisional analysis

The Group's divisions and their activities are described in more detail in the Strategic Review on pages 3 to 13.

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

At the start of 2017, the Group restructured its operations such that management responsibility for certain contracts held in the former Utilities & Facilities Management and Rest of Group divisions have now been transferred within the revised divisional structure to a new Facilities Management, Justice and Defence division. The divisional analysis below and the allocation of goodwill to CGU in note 9 for the prior year have been revised accordingly.

	Group revenue 2017 £'000	Share of joint ventures' revenue 2017 £'000	Total revenue 2017 £'000	Group revenue 2016 £'000 <i>revised</i>	Share of joint ventures' revenue 2016 £'000 <i>revised</i>	Total revenue 2016 £'000 <i>revised</i>
Revenue – by division						
Highways	512,703	-	512,703	542,092	-	542,092
Utilities	530,314	-	530,314	580,156	-	580,156
Consulting and Rail	512,326	38,186	550,512	466,295	19,225	485,520
Environmental Services	335,888	-	335,888	338,944	-	338,944
Facilities Management, Justice and Defence	333,583	321,086	654,669	327,428	328,360	655,788
Rest of Group and Central Services (including interdivisional eliminations)	(26,625)	23,817	(2,808)	(22,454)	10,978	(11,476)
	2,198,189	383,089	2,581,278	2,232,461	358,563	2,591,024
Revenue – by geographical location						
United Kingdom	2,156,684	383,089	2,539,773	2,184,308	358,563	2,542,871
Rest of Europe	5,741	-	5,741	7,716	-	7,716
Middle East	4,974	-	4,974	9,176	-	9,176
Australasia	30,122	-	30,122	23,324	-	23,324
North America	668	-	668	7,937	-	7,937
	2,198,189	383,089	2,581,278	2,232,461	358,563	2,591,024

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

2 Divisional analysis (*continued*)

	Group operating profit excluding joint ventures 2017 £'000	Share of profit after tax of joint ventures 2017 £'000	Total operating profit 2017 £'000	Group operating loss excluding joint ventures 2016 £'000 <i>revised</i>	Share of profit after tax of joint ventures 2016 £'000 <i>revised</i>	Total operating loss 2016 £'000 <i>revised</i>
Divisional operating profit (loss) – before exceptional items						
Highways	(14,293)	-	(14,293)	(70,187)	-	(70,187)
Utilities	(22,670)	-	(22,670)	5,549	-	5,549
Consulting and Rail	65,655	1,920	67,575	42,642	1,006	43,648
Environmental Services	(15,492)	-	(15,492)	(5,639)	-	(5,639)
Facilities Management, Justice and Defence	7,460	8,218	15,678	21,531	9,995	31,526
Rest of Group and Central Services	6,364	(1,395)	4,969	12,062	1,178	13,240
	27,024	8,743	35,767	5,958	12,179	18,137
Divisional operating profit (loss) – exceptional items (note 3)						
Highways	(208,500)	-	(208,500)	(6,939)	-	(6,939)
Rest of Group and Central Services	3,964	-	3,964	(17,283)	(9,758)	(27,041)
	(204,536)	-	(204,536)	(24,222)	(9,758)	(33,980)
Divisional operating profit (loss) – after exceptional items						
Highways	(222,793)	-	(222,793)	(77,126)	-	(77,126)
Utilities	(22,670)	-	(22,670)	5,549	-	5,549
Consulting and Rail	65,655	1,920	67,575	42,642	1,006	43,648
Environmental Services	(15,492)	-	(15,492)	(5,639)	-	(5,639)
Facilities Management, Justice and Defence	7,460	8,218	15,678	21,531	9,995	31,526
Rest of Group and Central Services	10,328	(1,395)	8,933	(5,221)	(8,580)	(13,801)
	(177,512)	8,743	(168,769)	(18,264)	2,421	(15,843)

3 Exceptional items

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

	2017 £'000	2016 £'000
Profit on disposal of joint venture investments ⁽ⁱ⁾	(3,964)	-
Birmingham contract dispute ⁽ⁱⁱ⁾	208,500	(8,000)
Hereford contract claim ⁽ⁱⁱⁱ⁾	-	9,872
Cumbria contract claim ^(iv)	-	5,067
Group reorganisation and redundancy programme ^(v)	-	17,283
Charged as part of operating profit	204,536	24,222
Share of Sheffield joint venture refinancing costs (net of tax) ^(vi)	-	9,758
Total exceptional items ^(vii)	204,536	33,980

- (i) In 2017, the Group completed the disposal of a 90% share in the loan investments made to Integrated Bradford joint ventures and also to the Scot Roads joint venture, giving rise to a profit on disposal of £4.0m. The consideration received was £15.4 million.
- (ii) In 2017, the Highways division incurred an exceptional charge of £208.5 million in respect of the impact of unfavourable resolution of the dispute on the Birmingham City Council contract and on-going high level of performance deductions and penalties applied by the Council. In 2016, £8.0 million of the provision made in prior years was released following an initially successful court action with respect to this dispute.
- (iii) In 2016, the Highways division was unsuccessful in defending a claim made by Herefordshire Council which resulted in an exceptional cost of £9.9 million.
- (iv) In 2016, the Highways division also incurred an exceptional charge of £5.1 million in respect of agreement of claims on the Cumbria contract.
- (v) The Group embarked on a significant reorganisation and reorganisation programme during 2016 as part of improving efficiency and lowering costs. The total cost of this programme in 2016 was £17.3 million.
- (vi) As part of re-financing the Sheffield PFI contracts held by a joint venture, significant costs to break the interest rate forward hedge contracts arose in 2016. The Group's share of this cost, after tax, was £9.8 million. The joint venture will incur lower interest costs in future periods.
- (vii) In 2017, no tax impact was recognised in respect of the exceptional items. In 2016, the tax impact was recognised on all exceptional items.

4 Operating profit (loss)

This is stated after charging (crediting):

	2017	2016
	£'000	£'000
Amortisation - other intangible assets	21,560	21,999
Depreciation - owned assets	5,617	8,552
- leased assets	2,119	2,756
Lease rentals - land and buildings	9,626	8,149
- hire of plant and machinery	77,235	75,378
Cost of inventories recognised as an expense	153,158	176,553
Loss (profit) on disposal of property, plant and equipment	2,444	(5,423)
Exceptional items (note 3)	204,536	33,980
Auditor's remuneration - audit of Company and Group financial statements	204	140
- audit of subsidiary undertakings	1,150	816
- audit of joint venture undertakings	125	101
- audit-related assurance services	152	106
- non audit-related assurance services	-	74

5 Employees (including Directors)

Staff costs during the year consisted of:

	2017	2016
	£'000	£'000
Wages and salaries	509,825	534,330
Social security costs	48,050	49,458
Other pension costs arising on defined benefit pension schemes (note 20)	3,799	3,556
Defined benefit pension schemes past service credit (note 20)	(100)	(239)
Other pension costs arising on defined contribution pension schemes	18,294	19,025
	579,868	606,130

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

	2017	2016
	Number	Number
Contract-based employees	16,296	18,541
Management and administration	685	760
	16,981	19,301

6 Directors and key management remuneration

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

	2017	2016
	£'000	£'000
Short-term employee benefits	1,439	1,259
Company contributions to defined contribution scheme	11	17
Performance based Ferrovial, S.A. share-based awards	298	331
Total emoluments	1,748	1,607

Included above are the following amounts in respect of the highest paid Director:

Emoluments	733	700
Company contributions to defined contribution scheme	11	-

During the year, one Director (2016: two) was a member of the Group's defined benefit pension scheme (which has been closed to future accrual) and two Directors (2016: two) were also members of the replacement defined contribution pension scheme.

In addition to the emoluments shown above, compensation for loss of office totalling £nil (2016: £1,012,000) was paid during the year.

Certain other Directors of the Group are paid directly by the Group's parent undertaking and are recharged to the Group as part of a general recharge of costs by those undertakings (see note 27) and included in net operating expenses.

7 Net finance expense

	2017	2016
	£'000	£'000
Finance income		
Interest receivable from bank deposits	33	67
Interest receivable on loans to joint ventures (note 27)	6,799	4,154
Interest receivable on PFI/PPP Financial asset	11,106	4,393
Other interest and similar income	263	82
Interest receivable from Ferrovial, S.A. subsidiary undertakings (note 27)	750	243
Foreign exchange gains	631	3,925
Total finance income on financial assets at amortised cost	19,582	12,864
Finance costs		
Interest payable on borrowings	(4,599)	(4,591)
Interest payable on finance leases	(357)	(1,016)
Interest payable to Ferrovial, S.A. subsidiary undertakings (note 27)	(17,761)	(21,974)
Foreign exchange losses	(2,696)	(6,066)
Other interest and similar charges	(11,617)	(6,298)
Total finance costs on financial liabilities at amortised cost	(37,030)	(39,945)
Finance expense from defined benefit schemes (note 20)	(3,610)	(954)
Total finance costs	(40,640)	(40,899)
Net finance expense	(21,058)	(28,035)

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

8 Tax credit

	2017	2016
	£'000	£'000
Current tax		
UK	-	1,244
Overseas	3,838	4,734
Adjustment in respect of prior years – UK	(865)	11,374
– Overseas	(1,023)	(794)
Current tax credit	1,950	16,558
Deferred tax		
(Charge to) credit from deferred tax provision	(3,404)	3,442
Credit from (charge to) deferred tax asset	6,450	(2,998)
Deferred tax (charge) credit relating to employee benefit obligations	(4,105)	295
Deferred tax (charge) credit	(1,059)	739
Tax credit	891	17,297
Reconciliation of variances from standard rate of UK corporation tax		
Loss on ordinary activities before tax	(189,827)	(43,878)
Add: share of tax of joint ventures	1,683	484
	(188,144)	(43,394)
Loss before tax at the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(36,218)	(8,679)
<i>Adjusted for:</i>		
Expenses not deductible (income deductible) for tax purposes	(2,333)	(691)
Overseas rate differences	988	817
Foreign permanent establishment exemption	(724)	(1,004)
Non-taxable disposals	815	-
Adjustment in respect of prior years	1,542	4,915
Utilisation of unrecognised losses	(550)	(361)
Current year losses not recognised	40,136	7,210
Movement in unrecognised deferred tax on other timing differences	-	(6,827)
Other temporary differences in respect of foreign exchange on goodwill	(2,351)	(8,885)
Impact of change in tax rate	(513)	(3,308)
	792	(16,813)
Less: share of tax of joint ventures	(1,683)	(484)
Tax credit	(891)	(17,297)

The weighted average applicable tax rate was 0.5% (2016: 39.4%). The increase in the effective tax rate is attributable to the utilisation of previously unrecognised deferred tax on other timing differences, other temporary differences in respect of foreign exchange on goodwill (impacted by the significant change in the value of sterling against the euro) and the impact of the change in deferred tax rates less non-recognition of current year tax losses.

8 Tax (continued)

Deferred tax is calculated in full on temporary differences under the liability method using an expected tax rate for the UK of 17% (2016: 17%) on short-term timing differences and 17% (2016: 17%) on long-term timing differences. For balances arising in Spain, an expected tax rate of 25% (2016: 25%) is used. These are the tax rates that have been substantively enacted at the balance sheet date.

The UK Finance Act 2016 included provision for the main rate of corporation tax to reduce from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the Company's future tax charge accordingly.

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

Deferred tax summary

	2017 £'000	2016 £'000
Deferred tax assets recognised	68,934	37,635
Deferred tax liabilities	(61,807)	(58,239)
	7,127	(20,604)

Deferred tax assets

	Accelerated depreciation £'000	Retirement benefit obligations £'000	Tax allowable goodwill £'000	Tax losses £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	1,139	5,823	2,316	-	2,402	11,680
Income statement	3,573	295	(519)	-	(6,052)	(2,703)
SOCI	-	18,900	-	-	951	19,851
Transfer to deferred tax liabilities	39	-	-	-	8,768	8,807
At 31 December 2016	4,751	25,018	1,797	-	6,069	37,635
Impact of transition to IFRS 15 (note 1 (b) (i))	-	-	-	40,546	-	40,546
At 1 January 2017	4,751	25,018	1,797	40,546	6,069	78,181
Income statement	1,513	(4,105)	128	3,734	1,075	2,345
SOCI	-	(11,318)	-	-	(274)	(11,592)
At 31 December 2017	6,264	9,595	1,925	44,280	6,870	68,934

Deferred tax liabilities

	Accelerated capital allowances £'000	Accelerated tax relief on goodwill £'000	Intangible assets acquired £'000	Other temporary differences £'000	Total £'000
At 1 January 2016	4,965	28,629	13,367	5,913	52,874
Income statement	3,754	(3,279)	(2,730)	(1,187)	(3,442)
Transfer from deferred tax assets	39	-	-	8,768	8,807
At 31 December 2016	8,758	25,350	10,637	13,494	58,239
Income statement	965	3,608	(1,482)	313	3,404
SOCI	-	-	-	164	164
At 31 December 2017	9,723	28,958	9,155	13,971	61,807

8 Tax (continued)**Unrecognised deferred tax assets**

	2017	2016
	£'000	£'000
Capital losses	2,796	2,796
Trading losses	42,187	9,008
Accelerated depreciation	57	57
Other temporary differences	65	65
	45,105	11,926

Deferred tax assets have been recognised in respect of timing differences where the reversal of the originating difference is certain to arise in future periods. Deferred tax assets have not been recognised in respect of tax losses carried forward as recognition is dependent on the uncertain future profitability of those specific legal entities in which those losses arise, rather than being available to use within the Group. Capital losses can only be realised in the event of capital gains being realised in future periods.

9 Goodwill on acquisition of subsidiary undertakings

	Cost
	£'000
Carrying amount	
At 1 January 2016	735,887
Adjustment in respect of prior period acquisition	(123)
At 31 December 2016 and at 31 December 2017	735,764

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

	Cost	Cost
	2017	2016
	£'000	£'000
		<i>revised</i>
Highways	138,714	138,714
Utilities	181,371	181,371
Consulting and Rail	218,567	218,567
Environmental Services	110,360	110,360
Facilities Management, Justice and Defence	86,752	86,752
	735,764	735,764

At the start of 2017, the Group restructured its operations such that management responsibility for certain contracts held in the former Utilities & Facilities Management and Rest of Group divisions have now been transferred within the revised divisional structure to a new Facilities Management, Justice and Defence division. The divisional analysis in note 2 and the allocation of goodwill to CGU above for the prior year have been revised accordingly.

The recoverable amounts of goodwill are based on value-in-use which reflects forecast cash flows as derived from approved budgets and plans for the next five years. Projections beyond the forecast period use a terminal growth rate of 2.0% (2016: 2.0%). The underlying assumptions of these cash flows are based on the existing contract order book, on management's past experience and on probability ratios for new business generation. The cash flows have been discounted using a risk-based pre-tax discount rate of 8% (2016: 8%). The value-in-use indicates that sufficient headroom exists for each group of cash generating units such that a reasonably possible change to key assumptions, including a 2% increase to the discount rate and zero terminal growth rate, is unlikely to result in any impairment of goodwill. However, for the Highways and Environmental Services divisions, any adverse change in the underlying assumptions on growth and discount rate could result in an impairment of goodwill.

10 Other intangible assets

	Order books £'000	Customer relationships £'000	Contracts £'000	Software £'000	Total £'000
Cost					
At 1 January 2016	37,909	61,100	119,760	23,967	242,736
Additions	-	-	-	3,092	3,092
Adjustment in respect of prior period addition	(122)	-	-	-	(122)
Reclassification	-	-	-	(1,931)	(1,931)
Disposals	-	-	-	(337)	(337)
At 31 December 2016	37,787	61,100	119,760	24,791	243,438
Additions	-	-	-	1,317	1,317
Disposals	-	-	(77,797)	(602)	(78,399)
At 31 December 2017	37,787	61,100	41,963	25,506	166,356
Amortisation					
At 1 January 2016	16,233	8,517	72,283	12,077	109,110
Charge for the year	6,663	3,096	7,703	4,537	21,999
Reclassification	-	-	-	(1,931)	(1,931)
Disposals	-	-	-	(337)	(337)
At 31 December 2016	22,896	11,613	79,986	14,346	128,841
Charge for the year	6,668	3,096	7,683	4,113	21,560
Disposals	-	-	(77,797)	(130)	(77,927)
At 31 December 2017	29,564	14,709	9,872	18,329	72,474
Carrying amount					
At 31 December 2017	8,223	46,391	32,091	7,177	93,882
At 31 December 2016	14,891	49,487	39,774	10,445	114,597

Customer order books and relationships as at 31 December 2017 arose on the acquisition of Enterprise in 2013 and principally relate to the present value of future income streams expected to arise from secured and unsecured contracts with existing customers. Customer order books are being amortised over a period of six years and customer relationships over a period of twenty years.

The 2016 adjustment to order books arose in respect of acquisition of Travel Point Trading Limited (since renamed Amey TPT Limited) which is being amortised over a period of three years. The reclassification of software in 2016 arose in respect of development costs that had previously been included in prepayments.

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

The remaining other intangible assets arising on contracts principally related to contractual rights acquired with the purchase of the entire business of Jarvis LUL Limited in 2005, which provided key operational management and technical staff to Tube Lines under a secondment agreement. The contractual rights had been capitalised at their cost of £76.0 million and were being amortised over 13 years. Following completion of this contract in 2017, and certain other contracts in earlier years, the fully amortised costs have been written out of the balance sheet.

Software is amortised over periods of up to five years.

11 Property, plant and equipment

	Assets under construction £'000	Fixtures and fittings		Plant and machinery £'000	Total £'000
		Long leasehold £'000	Short leasehold £'000		
Cost					
At 1 January 2016	3,568	31,599	12,639	93,502	141,308
Additions	359	-	283	5,444	6,086
Reclassification	-	3,147	584	33,976	37,707
Disposals	-	-	(690)	(41,868)	(42,558)
At 31 December 2016	3,927	34,746	12,816	91,054	142,543
Additions	99	283	357	6,365	7,104
Disposals	-	-	(6,318)	(22,328)	(28,646)
At 31 December 2017	4,026	35,029	6,855	75,091	121,001
Depreciation					
At 1 January 2016	-	3,360	7,458	45,425	56,243
Provided in year	-	1,169	1,410	8,729	11,308
Reclassification	-	3,147	584	33,976	37,707
Disposals	-	-	(8)	(22,322)	(22,330)
At 31 December 2016	-	7,676	9,444	65,808	82,928
Provided in year	-	(90)	1,246	6,580	7,736
Disposals	-	-	(6,036)	(17,757)	(23,793)
At 31 December 2017	-	7,586	4,654	54,631	66,871
Carrying amount					
At 31 December 2017	4,026	27,443	2,201	20,460	54,130
At 31 December 2016	3,927	27,070	3,372	25,246	59,615

The net book value of plant and machinery held under finance lease and similar hire purchase contracts amounted to £10.6 million (2016: £11.5 million), on which depreciation charged in the year was £2.1 million (2016: £2.8 million).

The reclassification in 2016 represents a correction to the analysis of cost and amortisation and arose in respect of historic disposals of assets acquired as part of the Enterprise acquisition.

12 Investments in joint ventures

	Cost of shares £'000	Share of post- acquisition profits £000	Loan advances £'000	Total £'000
Carrying value				
At 1 January 2016	92	24,038	48,400	72,530
Share of profit after tax for the year	-	2,421	-	2,421
Dividends paid by joint ventures	-	(4,584)	-	(4,584)
Share of movements in the SOCI:				
- derivatives	-	194	-	194
- deferred tax thereon	-	(328)	-	(328)
- derivatives recycled through profit and loss	-	10,610	-	10,610
- deferred tax thereon	-	(1,804)	-	(1,804)
Loan advances	-	-	24,495	24,495
Loan repayments	-	-	(6,623)	(6,623)
At 31 December 2016	92	30,547	66,272	96,911
Additions	1	-	-	1
Share of profit after tax for the year	-	8,743	-	8,743
Dividends paid by joint ventures	-	(6,830)	-	(6,830)
Disposals	(6)	(268)	-	(274)
Share of movements in the SOCI:				
- derivatives	-	2,907	-	2,907
- deferred tax thereon	-	(494)	-	(494)
Loan advances	-	-	12,099	12,099
Loan repayments	-	-	(2,491)	(2,491)
Loan disposals	-	-	(13,860)	(13,860)
At 31 December 2017	87	34,605	62,020	96,712

The Group's joint venture investments, including the percentage of interest held, are set out in note 24.

12 Investments in joint ventures (continued)

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

	2017 £'000	2016 £'000
Share of revenue	383,089	358,563
Share of profit after tax for the year	8,743	2,421
Share of other comprehensive income (expense)	2,895	(2,394)
Share of capital expenditure	867	427
Share of gross assets	570,004	563,497
Share of gross liabilities	(571,032)	(569,060)
Share of net liabilities	(1,028)	(5,563)
Loan advances (note 27)	62,020	66,272
Net investment in joint ventures	60,992	60,709
Included in:		
Investments in joint ventures	96,712	96,911
Provision for joint venture losses (note 21)	(35,720)	(36,202)
	60,992	60,709

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

13 PFI/PPP Financial assets

Financial assets result from the application of IFRIC 12 (Service Concession Arrangements) for PFI/PPP waste management contracts. They are measured initially at fair value of consideration paid and subsequently at amortised cost. The financial asset amounts have corresponding items in PFI/PPP Non-recourse term-loans, which is secured on the assets of the special purpose company, AmeyCespa WM (East) Limited, in which the financial asset arises. The PFI/PPP Financial asset is a fixed rate financial asset and bears interest at an average rate of 6.0% (2016: 6.0%). The Group's credit risk on this financial asset, which is due wholly from Cambridgeshire County Council, is mitigated by maintaining a strong relationship with the Council. The asset is neither past due nor impaired.

14 Financial instruments

Financial risk

The financial risks affecting the Group are as follows:

Financial risk management - interest rate risk

The Group's main interest rate risk arises on bank borrowings where variable rate loans could expose the Group to cash flow interest rate risk.

Financial risk management - credit risk

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

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

Financial risk management - exchange rate risk

The Group's principal exchange rate risk is in respect of intercompany loan balances denominated in euros and the interest cost thereon. The Directors are currently evaluating the options available to address this risk.

Financial risk management - funding and liquidity risk

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

Group Treasury monitors the following activities:

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

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

IFRS 7 (Financial Instruments: Disclosure) requires the Group to analyse its financial assets and liabilities held at fair value according to the valuation basis applied. Level 1 represents fair values based on quoted prices in active markets; Level 2 represents fair values where the valuation uses inputs from quoted prices in active markets; Level 3 represents fair values where any significant valuation input is not based on observable market data. The Group has no Level 1 or Level 3 financial assets or liabilities. During the year, Level 2 financial assets are held by subsidiary undertakings and Level 2 financial liabilities are held by both subsidiary undertakings and the Group's joint venture undertakings.

14 Financial instruments (continued)**Financial risk (continued)**

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

	2017	2016
	£'000	£'000
Losses included in the income statement:		
- in respect of losses recycled to the income statement from reserves and included in the share of joint venture profit after tax	(476)	(10,610)
Gains (losses) included in the SOCI:		
- in respect of derivatives transferred from equity	2,617	(7,926)
- in respect of share of joint ventures change in fair value of derivatives	3,052	(13,133)
- in respect of losses recycled to the income statement from reserves	476	10,610

Profits (losses) included in the income statement relate to the Group's share of the ineffective portion of cash flow hedges held by the Group and joint ventures, and for the share of the joint venture profit after tax relate to fair value losses recycled to the income statement as a result of the breaking of the derivative. Gains (losses) included in the SOCI relate to changes in the fair value of the effective portion of derivatives held by the Group and joint ventures that are designated and qualify as cash flow hedges, and also in respect of fair value losses recycled to the income statement.

As a condition of lending, the PFI/PPP subsidiaries and joint ventures are required to take out interest rate hedges to fix the interest rate to hedge against cash flow interest rate risk until the debt has been repaid. The last of these hedges expires in 2034 for subsidiaries and 2039 for joint ventures. The group has also taken out foreign exchanges rate hedges to cover risk on purchasing commitments in foreign currencies. The last of these hedges expires in 2019.

All Group financial assets, with the exception of derivatives, are classified as loans and receivables and all financial liabilities, with the exception of derivatives, are classified as other financial liabilities measured at amortised cost.

Interest and exchange rate risks

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

	Decrease of 0.5% in market interest rates £'000	Increase of 0.5% in market interest rates £'000
Impact on income statement and equity from net payables with Ferrovial, S.A. subsidiary undertakings at 31 December 2017	1,654	(1,654)

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

The impact on net finance costs of a 10% change in the value of sterling against the euro would have been £3.4 million, based on the euro amounts held on the Group balance sheet.

14 Financial instruments (continued)**Capital structure**

The Group manages its external borrowings, Ferrovial, S.A. group loans and equity as capital. The Group's principal objective is to ensure that the Group has sufficient capital to fund its operations. In developing business plans, management consider the likely capital requirements and how to fund these requirements. Additional capital is funded by using the least-cost source at the time of fund-raising. At the year end, the Group's capital was as follows:

	2017 £'000	2016 £'000
Finance lease liabilities	9,478	10,451
PFI/PPP Non-recourse term loans	50,908	52,904
Current Ferrovial, S.A. group loans (note 27)	581	555
Non-current Ferrovial, S.A. group loans (note 27)	397,742	575,543
Total external borrowings and Ferrovial, S.A. group loans	458,709	639,453
Total equity	246,263	376,821
	704,972	1,016,274

The Group is not subject to any externally-imposed capital requirements.

15 Trade and other receivables

	2017 £'000	2016 £'000
Current		
Trade receivables	122,381	101,013
Amounts recoverable on contracts	211,271	359,582
Amounts due from joint ventures (note 27)	34,186	25,764
Amounts due from Ferrovial, S.A. subsidiary undertakings (note 27)	6,894	4,510
Other debtors	33,345	40,045
Prepayments and accrued income	44,114	48,789
	452,191	579,703
Non-current		
Amounts recoverable on contracts	22,530	56,288
Amounts due from Ferrovial Servicios, S.A. subsidiary undertakings (note 27)	16,209	9,111
	38,739	65,399

There was no difference between the book value of the amounts due from Ferrovial, S.A. subsidiary undertakings and their equivalent fair values for 2017 and 2016. Fair value has been based on carrying amount.

15 Trade and other receivables (continued)

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

	2017 £'000	2016 £'000
At 1 January	8,586	5,212
Utilised	(1,822)	(385)
Charged to income statement	329	3,759
At 31 December	7,093	8,586

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

	2017 £'000	2016 £'000
Not past due	92,165	53,014
Up to 2 months past due	17,371	33,845
More than 2 months past due	12,845	14,154
	122,381	101,013

16 Inventories

	2017 £'000	2016 £'000
Raw materials and consumable stocks	11,824	18,793
Bid and mobilisation costs	22,185	-
	34,009	18,793

17 Cash and cash equivalents

	2017 %	2017 £'000	2016 %	2016 £'000
Cash balances held at floating rate	0.1	215,881	0.1	173,317

Included within cash balances is £53.6 million (2016: £50.3 million) relating to jointly controlled and other operations in which the Group has restricted control. Individual bank balances and overdrafts have been offset where cash pooling and set-off arrangements are in place.

Of the cash balances held above, £199,492,000 (2016: £161,676,000) is held in the UK, £15,000 (2016: £19,000) is held in Spain and £16,374,000 (2016: £11,622,000) is held elsewhere overseas.

18 Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	253,765	237,726
Payments received on account	3,973	4,635
Amounts due to Landmille Limited (note 27)	581	555
Amounts due to Ferrovial Servicios, S.A. subsidiary undertakings (note 27)	3,868	1,182
Amounts due to joint ventures (note 27)	779	727
Other creditors	68,551	55,109
Deferred income	72,081	46,104
Accruals	257,962	263,865
	661,560	609,903
<i>As presented on the balance sheet:</i>		
Trade and other payables	660,979	609,348
Ferrovial, S.A. group loans (note 27)	581	555
	661,560	609,903
Non-current		
Amounts due to Landmille Limited (note 27)		
- in more than 1 year but not more than 2 years	327,500	377,500
- in more than 2 years but not more than 5 years	41,092	169,500
Amounts due to other Ferrovial, S.A. subsidiary undertakings (note 27)		
- in more than 2 years but not more than 5 years	29,150	28,543
Other creditors		
- in more than 1 year but not more than 2 years	3,599	7,169
- in more than 2 years but not more than 5 years	709	1,000
Deferred income		
- in more than 1 year but not more than 2 years	-	4,515
	402,050	588,227
<i>As presented on the balance sheet:</i>		
Trade and other payables	4,308	12,684
Ferrovial, S.A. group loans (note 27)	397,742	575,543
	402,050	588,227

The non-current amounts shown above due to Landmille Limited have been subordinated in favour of the unsecured bank loans with recourse to the Group balance sheet.

19 External borrowings

	Current 2017 £'000	Non- current 2017 £'000	Current 2016 £'000	Non- current 2016 £'000
Finance lease liabilities	2,860	6,618	2,473	7,978
PFI/PPP Non-recourse term loans	1,233	49,675	2,053	50,851
	4,093	56,293	4,526	58,829

	Expiry Date	Interest Rate	2017 £'000	2016 £'000
PFI/PPP Non-recourse term loans	2034	Fixed	50,908	52,904
			50,908	52,904

The Group also has undrawn floating rate bank loan facilities totalling £160 million, which all mature on 23 July 2022.

External borrowings mature as follows:

	Finance lease liabilities 2017 £'000	PFI/PPP Non- recourse term loans 2017 £'000	Total 2017 £'000
Due within 1 year	2,860	1,233	4,093
Due within 2 to 5 years	6,214	4,478	10,692
Due after more than 5 years	404	45,197	45,601
	9,478	50,908	60,386
	2016 £'000	2016 £'000	2016 £'000
Due within 1 year	2,473	2,053	4,526
Due within 2 to 5 years	7,978	3,261	11,239
Due after more than 5 years	-	47,590	47,590
	10,451	52,904	63,355

19 External borrowings (continued)

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

The weighted average interest rate for PFI/PPP Non-recourse term loans was 1.50% (2016: 1.50%). The interest rate on the finance lease liabilities are fixed at an average rate of 3.5% (2016: 3.9%).

There was no difference between the external borrowings shown above and their equivalent fair values for 2017 and 2016. Fair value has been based on carrying amount.

Liquidity risk

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

	Finance lease liabilities 2017 £'000	PFI/PPP Non- recourse term loans 2017 £'000	Total 2017 £'000
Due within 1 year	3,136	1,712	4,848
Due within 2 to 5 years	6,570	7,244	13,814
Due after more than 5 years	414	50,255	50,669
Total	10,120	59,211	69,331
Less: impact of future finance costs	(642)	(8,303)	(8,945)
As reported on the balance sheet	9,478	50,908	60,386
	2016 £'000	2016 £'000	2016 £'000
Due within 1 year	2,823	2,920	5,743
Due within 2 to 5 years	8,499	6,026	14,525
Due after more than 5 years	-	53,185	53,185
Total	11,322	62,131	73,453
Less: impact of future finance costs	(871)	(9,227)	(10,098)
As reported on the balance sheet	10,451	52,904	63,355

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

20 Retirement benefit schemes

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

Defined contribution schemes

The principal defined contribution schemes are as follows:

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

The pension expense recognised in the income statement in respect of defined contribution schemes was £18.3 million (2016: £19.0 million).

Defined benefit schemes

The principal defined benefit schemes are as follows:

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

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

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2017 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 latest valuation
Amey OS Pension Scheme – APS section	not applicable – new scheme
Amey OS Pension Scheme – Amey section	31 March 2017
Amey OS Pension Scheme – Accord section	31 March 2015
Railways Pension Scheme	31 December 2013
Citrus Pension Scheme	31 March 2015
West Yorkshire Pension Fund	31 March 2016
West Midlands Pension Fund	31 March 2016

20 Retirement benefit schemes (continued)**Defined benefit schemes (continued)**

The principal actuarial assumptions used are as follows:

	2017 %	2016 %
Rate of increase in salaries	1.9 to 3.55	1.9 to 3.7
Rate of increase in pensions in payment	2.25 – 5.00	1.75 – 3.75
Discount rate	2.45	2.65
Inflation assumption – RPI	3.25	3.4
Inflation assumption – CPI	2.25	2.4

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

	2017 Years	2016 Years
Remaining life of a member aged 65		
- men	21.7 – 23.3	21.8 – 23.4
- women	22.9 – 26.0	23.3 – 25.9
Remaining life of a member aged 45		
- men	23.1 – 26.1	23.5 – 26.0
- women	24.4 – 28.4	25.2 – 28.3

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 19.0 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:

	2017 £'000	2016 £'000
Present value of funded obligations	(921,249)	(953,160)
Fair value of plan assets	865,287	806,604
Deficit	(55,962)	(146,556)
Present value of unfunded obligations	(488)	(617)
Liability on the balance sheet	(56,450)	(147,173)

The amount recognised in the income statement was as follows:

	2017 £'000	2016 £'000
Current service cost (note 5)	3,799	3,556
Other pension credits, including plan amendments and settlements (note 5)	(100)	(239)
Total included under staff costs	3,699	3,317
Pension scheme administration costs	2,256	1,913
Finance expense	3,610	954
Total income statement charge	9,565	6,184

20 Retirement benefit schemes (continued)**Defined benefit schemes (continued)**

The Group recorded a past service credit of £0.1 million in 2017 from discontinuing unfunded unapproved retirement benefits to a member and from a 'Wind Up Lump Sum' exercise for the former Amey Pension Scheme, and £0.2 million in 2016 from the closure of the Citrus Pension Scheme to future accrual of benefits.

Pension expense, excluding interest, is charged to contracts or overhead based on a share of scheme members and is included in cost of sales: net operating expenses. The best estimate of the contributions expected to be paid to the defined benefit schemes for the next financial year is £3.9 million for regular payments and £13.2 million for additional top-up payments.

The amount recognised in other comprehensive income was as follows:

	2017 £'000	2016 £'000
Actuarial (gains) losses	(66,579)	125,958
Total (income) expense recognised in the SOCI	(66,579)	125,958

Actuarial gains and losses have been reported in the SOCI. The Group's share of the actual performance of fund assets was an increase of £60.6 million (2016: £111.8 million).

The movements in the balance sheet liability were as follows:

	2017 £'000	2016 £'000
At 1 January	147,173	32,366
Total income statement charge	9,565	6,184
Total (income) expense recognised in the SOCI	(66,579)	125,958
Employer contributions – regular payments	(3,111)	(4,046)
Employer contributions – additional top-up payments	(30,598)	(13,289)
At 31 December	56,450	147,173

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

	2017 £'000	2016 £'000
At 1 January	953,777	736,406
Liabilities extinguished on settlements	(1,429)	-
Service cost, including employees' share	3,973	4,173
Interest cost	24,784	28,235
Actuarial (gains) losses	(27,157)	210,515
Curtailment gains	-	(239)
Benefits paid	(32,211)	(25,313)
At 31 December	921,737	953,777

20 Retirement benefit schemes (continued)**Defined benefit schemes (continued)**

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

	2017 £'000	2016 £'000
At 1 January	806,604	704,040
Assets extinguished on settlements	(1,329)	-
Interest on assets	21,174	27,281
Actuarial gains	39,422	84,557
Administration expenses	(2,256)	(1,913)
Contributions from employees	174	617
Employer contributions – regular payments	3,111	4,046
Employer contributions – additional top-up payments	30,598	13,289
Benefits paid	(32,211)	(25,313)
At 31 December	865,287	806,604

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

	2017 £'000	2016 £'000
Equities	244,268	236,618
Corporate bonds	103,432	62,814
Government bonds	412,216	418,159
Property	55,517	53,071
Cash and cash equivalents	49,854	35,942
	865,287	806,604

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

Assumption	Increase in liability on the balance sheet £'000
+0.5% change to the RPI assumption	60,800
-0.5% change to discount rate assumed	82,900
Members' life expectancy increases by one year	24,000

20 Retirement benefit schemes (continued)**Defined benefit schemes (continued)**

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

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

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

Inflation risk: Many of the Schemes' benefits are linked to inflation, and as a result higher expectations of future inflation leads to a higher value being placed on the liabilities. However, there are caps on the level of inflationary increases which protects the Schemes in the extent of extreme inflation. The Schemes each hold assets to match a specified proportion of movements in inflation. The remainder of the assets are unaffected by (i.e. fixed interest bonds) or loosely correlated with (i.e. equities and property) inflation, meaning that an increase in inflation will also increase the deficit. The extent to which the Schemes' liabilities move due to inflation varies on a scheme by scheme basis, influenced by the benefits provided by the individual pension schemes. For example, the Amey OS pension scheme is less sensitive to movements in inflation compared to the Amey Pension Scheme. Liabilities will also increase should actual inflation be higher than expected in the liability valuation.

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

21 Provisions for other liabilities and charges

	Onerous lease provision £'000	Insurance reserve £'000	Contract loss and claims provision £'000	Joint venture loss provision £'000	Landfill site provision £'000	Total £'000
At 1 January 2016	1,683	10,655	63,134	25,136	4,000	104,608
Income statement	-	3,655	(494)	-	373	3,534
Utilisation	(450)	(1,992)	(11,147)	-	-	(13,589)
Share of movements of joint ventures in the SOCI	-	-	-	11,066	-	11,066
At 31 December 2016	1,233	12,318	51,493	36,202	4,373	105,619
Impact of transition to IFRS 15 (note 1 (b) (i))	-	-	36,482	-	-	36,482
At 1 January 2017	1,233	12,318	87,975	36,202	4,373	142,101
Income statement	500	7,568	217,763	-	337	226,168
Transfers	-	-	6,033	-	-	6,033
Utilisation	-	(4,254)	(1,924)	-	-	(6,178)
Share of movements of joint ventures in the SOCI	-	-	-	(121)	-	(121)
Disposals	-	-	-	(361)	-	(361)
At 31 December 2017	1,733	15,632	309,847	35,720	4,710	367,642
<i>As presented on the balance sheet:</i>						
Current liabilities	426	2,400	114,786	-	-	117,612
Non-current liabilities	1,307	13,232	195,061	35,720	4,710	250,030
At 31 December 2017	1,733	15,632	309,847	35,720	4,710	367,642
Current liabilities	426	-	14,000	-	-	14,426
Non-current liabilities	807	12,318	37,493	36,202	4,373	91,193
At 31 December 2016	1,233	12,318	51,493	36,202	4,373	105,619

The onerous lease provision is in respect of property leases and is expected to be utilised over the remaining lease terms. The insurance reserve represents claims made for which the Group is considered liable and will be utilised as the claims arise. The contract loss and claims provision represents estimated losses arising from disputes and future contract losses, which will both be utilised as the losses arise. The joint venture loss provision represents the Group's share of losses recognised which principally arise from deficits on fair value of derivatives and will reverse over the period over which those derivatives are held. The landfill site provision represents the Group's post-closure cost for site restoration and aftercare for up to sixty years. Provisions have not been discounted as the impact of such discounting is immaterial.

The £36.5 million IFRS 15 adjustment relates to the revenue uplift traded and collected from the Birmingham City Council over the period from 2013 to 2016 but which was disputed by the Council at the date of transition. Since the Council have now been successful leading to its expected return, it is now treated as a provision.

22 Share capital

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

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

23 Cash flow generated from operating activities

	2017 £'000	2016 £'000
Loss before tax	(189,827)	(43,878)
Adjustment for net finance expense		
Finance income	(19,582)	(12,864)
Finance costs	40,640	40,899
	21,058	28,035
Adjustment for non-cash movements		
Depreciation of property, plant and equipment	7,736	11,308
Amortisation of intangible assets	21,560	21,999
Non-cash pension credit	(27,754)	(12,105)
Share of profit after tax of joint ventures	(8,743)	(2,421)
Loss (profit) on disposal of property, plant and equipment	2,444	(5,423)
Profit on disposal of joint venture investments	(3,964)	-
Non-cash provisions movement	226,168	3,534
	217,447	16,892
Movement in working capital		
Increase in inventories	(12,010)	(121)
Increase in receivables	(40,797)	(63,214)
Increase in payables	42,167	68,393
Utilisation of provisions	(6,178)	(13,589)
	(16,818)	(8,531)
Cash flow generated from operating activities	31,860	(7,482)

24 Subsidiary undertakings, joint venture undertakings and jointly controlled operations

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

Active subsidiary undertaking	Nature of business
Amey Holdings Limited	Holding company
Amey plc	Holding company
Accord Limited	Holding company
Amey Community Limited	Building support services
Amey Construction Limited	Highway management and maintenance
Amey Consulting Australia Pty Limited (<i>Australia</i>)	Highway management and maintenance (<i>Australia</i>)
Amey Consulting LLC (<i>Qatar</i>) (49%)	Highway management and maintenance (<i>Qatar</i>)
Amey Consulting USA, Inc. (<i>USA</i>)	Highway management and maintenance (<i>USA</i>)
Amey Finance Services Limited	Group insurance activities
Amey Fleet Services Limited	Specialist fleet support services
Amey Group Information Services Limited	Group IT services
Amey Group Services Limited	Group central services
Amey Highways Limited	Highway management and maintenance
Amey Investments Limited	Investment holdings
Amey LG Limited	Highway management and maintenance
Amey LUL 2 Limited	Sub-surface rail management services
Amey Mechanical and Electrical Services Limited	Building support services
Amey Metering Limited	Metering services
Amey OW Limited	Professional services to highways market
Amey OWR Limited	Professional services to rail market
Amey Power Services Limited	Power network maintenance
Amey Programme Management Limited	Building support services
Amey Public Services LLP (67%)	Highway management and maintenance
Amey Rail Limited	Rail services, management and maintenance
Amey Roads (North Lanarkshire) Limited (67%)	Highway management and maintenance
Amey Services Limited	Payroll services
Amey TPT Limited	Professional services to rail market
Amey Utility Services Limited	Utilities network maintenance
Amey Ventures Limited	Bid management
Amey Ventures Asset Holdings Limited	Investment holdings
Amey Ventures Management Services Limited	Investment management
Amey Wye Valley Limited (80%)	Highways maintenance and other services
AmeyCespa Limited (50%)	Waste management
AmeyCespa (AWRP) ODC Limited (50%)	Waste management
AmeyCespa (East) Limited (50%)	Waste management
AmeyCespa (East) Holdings Limited (50%)	Holding company
AmeyCespa (IOW) SPV Limited	Waste management
AmeyCespa (MK) ODC Limited (50%)	Waste management
AmeyCespa Services (East) Limited (50%)	Waste management
AmeyCespa WM (East) Limited (50%)	Waste management
A.R.M. Services Group Limited	Holding company
Brophy Grounds Maintenance Limited	Environmental services
Byzak Limited	Water systems maintenance
C.F.M. Building Services Limited (<i>Scotland</i>)	Buildings maintenance
Enterprise plc	Holding company
Enterprise (AOL) Limited	Environmental services and highways maintenance
Enterprise (Venture Partner) Limited	Investment holdings
Enterprise Holding Company No.1 Limited	Holding company
Enterprise Managed Services Limited	Utilities network maintenance and environmental services
EnterpriseManchester Partnership Limited (80%)	Environmental services
Enterprise Public Services Limited	Holding company
Fleet and Plant Hire Limited	Specialist fleet support services
Globemile Limited	Holding company
Heating and Building Maintenance Company Limited	Facilities management
MRS Environmental Services Limited	Environmental services
Nationwide Distribution Services Limited	Highways maintenance and other services
Novo Community Limited	Rehabilitation and offender management services
Sherard Secretariat Services Limited	Company secretarial services
Slough Enterprise Limited	Environmental services

24 Subsidiary undertakings, joint venture undertakings and jointly controlled operations (continued)**Dormant subsidiary undertaking**

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

* Company is in member's voluntary liquidation

Amey Equitix Smart Meters 1 Holdings Limited, Amey Equitix Smart Meters 1 SPV Limited and Amey MAP Services all have financial periods ending on 28 February. Accord Network Management Limited, EnterpriseManchester Partnership Limited and Enterprise Foundation (ETR) Limited all have financial periods ending on 31 March. Amey Wye Valley Limited has a financial period ending on 30 June. All other subsidiary undertakings have financial periods ending on 31 December. Where a subsidiary undertaking does not have a coterminous year end, interim financial statements have been prepared.

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

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

Joint venture undertaking	Nature of business	2017 % held	2016 % held
ALC (FMC) Limited	PFI asset management concession for the MOD	50.0	50.0
Amey Birmingham Highways Holdings Limited	PFI Highways concession in Birmingham	33.3	33.3
Amey Birmingham Highways Limited	PFI Highways concession in Birmingham	33.3	33.3
Amey FMP Belfast Strategic Partnership Hold Co Limited	Managing development of schools and libraries in Northern Ireland	70.0	70.0
Amey FMP Belfast Strategic Partnership SP Co Limited	Managing development of schools and libraries in Northern Ireland	70.0	70.0
Amey Hallam Highways Holdings Limited	PFI Highways concession in Sheffield	33.3	33.3
Amey Hallam Highways Limited	PFI Highways concession in Sheffield	33.3	33.3
Amey Infrastructure Management (1) Limited	Investment holdings	50.0	-
Amey Ventures Investments Limited	Investment holdings	10.0	10.0
Amey-Webber LLC (USA)	Highways maintenance	51.0	51.0
AmeyCespa (AWRP) Holding Co Limited	PFI waste management concession	16.7	16.7
AmeyCespa (AWRP) SPV Limited	PFI waste management concession	16.7	16.7
AmeyCespa (MK) Holding Co Limited	PFI waste management concession	50.0	50.0
AmeyCespa (MK) SPV Limited	PFI waste management concession	50.0	50.0
Amey VTOL Limited	Railways maintenance	60.0	-
CarillionAmey Limited	Facilities management and buildings maintenance	50.0	50.0
CarillionAmey (Housing Prime) Limited	Housing maintenance on behalf of the MOD	33.3	33.3
EduAction (Waltham Forest) Limited	Education support services outsourcing	50.0	50.0
GEO Amey PECS Limited	Prisoner escort and custody services	50.0	50.0
Integrated Bradford Hold Co Two Limited	PFI schools concession in Bradford	3.0	6.0
Integrated Bradford LEP Limited	PFI schools concession in Bradford	20.0	40.0
Integrated Bradford LEP Fin Co One Limited	PFI schools concession in Bradford	20.0	40.0
Integrated Bradford PSP Limited	PFI schools concession in Bradford	25.0	50.0
Integrated Bradford SPV Two Limited	PFI schools concession in Bradford	3.0	6.0
Keolis Amey Docklands Limited	Railways maintenance	30.0	30.0
Keolis Amey Metrolink Limited	Railways maintenance	40.0	40.0
Ventia Boral Amey NSW Pty Limited (Australia)	Highways management and maintenance (Australia)	22.2	22.2
Ventia Boral Amey QLD Pty Limited (Australia)	Highways management and maintenance (Australia)	20.0	20.0
MTCnovo Limited	Rehabilitation and offender management services	50.0	50.0
Scot Roads Partnership Holdings Limited (Scotland)	Highways maintenance	20.0	20.0
Scot Roads Partnership Project Limited (Scotland)	Highways maintenance	20.0	20.0
Scot Roads Partnership Finance Limited (Scotland)	Highways maintenance	20.0	20.0
The London Community Rehabilitation Company Limited	Rehabilitation and offender management services	50.0	50.0
The Thames Valley Community Rehabilitation Company Limited	Rehabilitation and offender management services	50.0	50.0

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

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

Joint venture undertaking	Nature of business	2017 % held	2016 % held
AHL Holdings (Manchester) Limited	PFI street lighting concession	5.0	5.0
Amey Highways Lighting (Manchester) Limited	PFI street lighting concession	5.0	5.0
AHL Holdings (Wakefield) Limited	PFI street lighting concession	5.0	5.0
Amey Highways Lighting (Wakefield) Limited	PFI street lighting concession	5.0	5.0
ALC (Superholdco) Limited	PFI asset management concession for the MOD	5.0	5.0
ALC (Holdco) Limited	PFI asset management concession for the MOD	5.0	5.0
ALC (SPC) Limited	PFI asset management concession for the MOD	5.0	5.0
Amey Belfast Schools Partnership Hold Co Limited	PFI schools concession	10.0	10.0
Amey Belfast Schools Partnership PFI Co Limited	PFI schools concession	10.0	10.0
Amey Lighting (Norfolk) Holdings Limited	PFI street lighting concession	10.0	10.0
Amey Lighting (Norfolk) Limited	PFI street lighting concession	10.0	10.0
Amey Roads NI Holdings Limited (Northern Ireland)	PFI highways concession in Northern Ireland	5.0	5.0
Amey Roads NI Limited (Northern Ireland)	PFI highways concession in Northern Ireland	5.0	5.0
Amey Roads NI Financial Limited (Northern Ireland)	PFI highways concession in Northern Ireland	5.0	5.0
E4D&G Holdco Limited	PFI schools concession in Dumfries & Galloway	8.5	8.5
E4D&G Project Co Limited	PFI schools concession in Dumfries & Galloway	8.5	8.5
Integrated Bradford Hold Co One Limited	PFI schools concession in Bradford	4.5	6.5
Integrated Bradford SPV One Limited	PFI schools concession in Bradford	4.5	6.5
RSP (Holdings) Limited (Scotland)	PFI schools concession in Renfrewshire	3.5	3.5
The Renfrewshire Schools Partnership Limited (Scotland)	PFI schools concession in Renfrewshire	3.5	3.5
Services Support (Avon and Somerset) Holdings Limited	PFI courts concession in Bristol	2.0	2.0
Services Support (Avon and Somerset) Limited	PFI courts concession in Bristol	2.0	2.0

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

Jointly controlled operation	Nature of business	2017 % held	2016 % held
Amey Black and Veatch	Water systems maintenance	50.0	50.0
AmeyBroadspectrum (Australia)	Highways management and maintenance	25.0	-
AmeyColas	Rail track maintenance and renewal	50.0	50.0
AmeyInabensa	Rail track maintenance and renewal	50.0	50.0
Amey Lafarge	Highways management and maintenance	70.0	70.0
Amey-Miller Glasgow Schools	Building support services	50.0	50.0
AmeyMouchel	Highways management and maintenance	75.0	75.0
AmeySersa	Rail track maintenance and renewal	70.0	70.0
KeolisAmey	Rail track maintenance and renewal	70.0	-
Ventia Boral Amey New South Wales (Australia)	Highways management and maintenance	20.0	20.0
Ventia Boral Amey Queensland (Australia)	Highways management and maintenance	22.2	22.2

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

All joint ventures undertakings have financial periods ending on 31 December, with the exceptions of EduAction (Waltham Forest) Limited, Amey Roads NI Holdings Limited, Amey Roads NI Limited and Amey Roads NI Financial Limited (all 31 March), Amey Birmingham Highways Holdings Limited and Amey Birmingham Highways Limited (30 June) and Amey VTOL Limited (31 August). Where a joint venture undertaking does not have a coterminous year end, interim financial statements have been prepared.

24 Subsidiary undertakings, joint venture undertakings and jointly controlled operations (continued)**Registered offices**

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

Undertaking	Registered office (United Kingdom, unless otherwise indicated)
AHL Holdings (Manchester) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
AHL Holdings (Wakefield) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Consulting Australia Pty Limited	Level 26, 181 William Street, Melbourne, VIC 3000, Australia
Amey Consulting LLC	Doha, Qatar
Amey Consulting USA, Inc.	1130 Post Oak Boulevard, Suite 1250, Houston, Texas 77056
Amey Highways Lighting (Manchester) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Highways Lighting (Wakefield) Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG
Amey Roads NI Limited	Murray House, Murray Street, Belfast, BT1 6DN
Amey Roads NI Holdings Limited	Murray House, Murray Street, Belfast, BT1 6DN
Amey Roads NI Financial plc	Murray House, Murray Street, Belfast, BT1 6DN
Amey-Webber LLC	1209 Orange Street, Wilmington 19801, Delaware, USA
Byzak Contractors (Scotland) Limited	International House, Stanley Boulevard, Hamilton Intnl Technology Park, Blantyre, Glasgow, G72 0BN
CarillionAmey Limited	84 Salop Street, Wolverhampton, WV3 0SR
CarillionAmey (Housing Prime) Limited	84 Salop Street, Wolverhampton, WV3 0SR
C.F.M. Building Services Limited	Southside House, 135 Fifty Pitches Road, Carnold Business Park, Glasgow, G51 4EB
Enterprise Utility Services (DCE) Limited	West Point, 501 Chester Road, Old Trafford, Manchester, M16 9HU
Enterprise Utility Services (TBC) Limited	West Point, 501 Chester Road, Old Trafford, Manchester, M16 9HU
Fleet and Plant Hire Limited	The Matchworks Pavillions 3 and 4, Garston, Liverpool, L19 2PH
Keolis Amey Docklands Limited	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Keolis Amey Metrolink Limited	Evergreen Building North, 160 Euston Road, London, NW1 2DX
Ventia Boral Amey NSW Pty Limited	Level 4, Tower 1, 495 Victoria Avenue, Chatswood SA, NSW 2067, Australia
Ventia Boral Amey QLD Pty Limited	Level 4, Tower 1, 495 Victoria Avenue, Chatswood SA, NSW 2067, Australia
RSP (Holdings) Limited	Precision House, McNeil Drive, Motherwell, ML1 4UR
Scot Roads Partnership Finance Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
Scot Roads Partnership Holdings Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
Scot Roads Partnership Project Limited	Hermiston House, Unit B M8 Central Business Park, Greenside Road, Newhouse, Motherwell, ML1 5FL
Services Support (Avon & Somerset) Limited	Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ
Services Support (Avon & Somerset) Holdings Limited	Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ
Station Solutions Limited	Union House, 182-194 Union Street, London, SE1 0LH
The Renfrewshire Schools Partnership Limited	Precision House, McNeil Drive, Motherwell, ML1 4UR

25 Financial and capital commitments**Operating leases – lessee**

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

	Land and buildings 2017 £'000	Other 2017 £'000	Land and buildings 2016 £'000	Other 2016 £'000
Within 1 year	7,755	24,675	9,664	24,944
In 2 to 5 years inclusive	16,592	40,428	26,804	47,310
After 5 years	6,789	9,995	9,721	8,377
	31,136	75,098	46,189	80,631

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

Other financial commitments

The Group is committed to contributing subordinated loan capital of £14.0 million (2016: £24.1 million) to joint venture undertakings in 2018.

26 Contingent liabilities

As part of its activities, the Group is subject to contingent liabilities arising from the performance of certain contracts. At 31 December 2017, the Group has provided bank guarantees totalling £239 million (2016: £261 million). In some cases, liabilities not covered by bank guarantees are covered by guarantees granted by fellow Group members, though these do not impact the overall Group. Guarantees have also been provided to joint venture undertakings totalling £642 million (2016: £781 million), of which the most relevant are those provided to the UK Ministries of Defence and Justice for both current and future service provision. Since 31 December 2017, the overall value of the guarantees provided has risen by £552 million following the liquidation of Carillion plc and the Group assuming full responsibility for joint ventures with Carillion plc. A portion of the risk associated with guarantees has been mitigated through third party liability or construction defect insurance policies. The Directors consider the likelihood of a claim arising under these performance bonds, indemnities or guarantees to be remote.

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

The Group claims tax relief in Spain for the amortisation of goodwill arising on the acquisition of UK subsidiaries, as permitted under Spanish law. This law was subject to a challenge by the European Commission on competition grounds in respect of acquisitions after December 2007 (not affecting the Group's goodwill), with their first and second decisions issued in October 2009 and January 2011. In October 2014, the EU Commission issued a new Decision (the third Decision) challenging the amortisation of goodwill that arises from indirect acquisitions, also on competition grounds, affecting any time acquisitions. The Kingdom of Spain, Ferrovial, S.A., Ferrovial Servicios, S.A. and the Group (and other Spanish groups) have brought an appeal in 2016 against the third Commission decision before the EU General Court of Justice that is still pending. In November 2014, the EU General Court of Justice held in favour of Spain on the first and second decisions (the third decision was not part of this appeal, but subject to a separate stayed appeal). In December 2016, following an appeal by the European Commission on a limited point of law, the November 2014 ruling was annulled by the superior EC Court of Justice and the case referred back to the EU General Court, with most of the technical points still subject to judgment. The Spanish tax authorities, in the course of an audit related to year 2006, challenged this amortisation. The disputed claim has been referred to the EU General Court of Justice where the Group remains confident that the claim will be upheld. However, as a result of the December 2016 EU Court of Justice ruling, the Spanish tax authorities requested in 2017 the payment of €28.0 million plus €8.0 million of interest related to the tax amortisation for the years 2006 to 2015. Any payment made will be refunded should the European Courts rule in the Group's favour. The total value of the net tax relief claimed up to 31 December 2017 is £75.9 million (2016: £67.0 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

27 Related party transactions**Joint venture undertakings**

Certain Group subsidiary undertakings hold contracts to design, build and in certain instances maintain and supply other services in relation to PFI projects for the joint ventures. The Group also receives interest income on loans to joint ventures. The Group had the following trading balances with the joint ventures at 31 December 2017:

	2017 £'000	2016 £'000	2017 £'000	2016 £'000
			Interest receivable on loans with joint ventures	
			Revenue	
ALC (FMC) Limited	896	538	-	-
Amey Birmingham Highways Limited	22,437	74,297	2,709	2,491
Amey FMP Belfast Strategic Partnership Hold Co Limited	-	-	24	21
Amey FMP Belfast Strategic Partnership SP Co Limited	274	266	-	-
Amey Hallam Highways Limited	108,616	139,102	1,687	272
Amey Ventures Investments Limited	35,881	30,655	444	445
Amey Infrastructure Management (1) Limited	-	-	15	-
AmeyCespa (AWRP) SPV Limited	62,621	91,075	-	-
AmeyCespa (MK) SPV Limited	5,053	9,227	747	233
CarillionAmey Limited	4,800	4,800	-	-
CarillionAmey (Housing Prime) Limited	1,188	1,188	-	-
GEO Amey PECS Limited	18	622	21	89
Integrated Bradford Hold Co Two Limited	-	-	39	43
Integrated Bradford SPV Two Limited	4,750	4,696	-	-
Integrated Bradford LEP Limited	206	200	-	-
Integrated Bradford PSP Limited	-	-	114	132
MTCnovo Limited	-	-	228	413
Scot Roads Partnership Project Limited	-	-	771	15
	246,740	356,666	6,799	4,154
			Net trading balance owed to (by) the Group	
			Loan amounts outstanding with joint ventures	
Amey Birmingham Highways Limited	22,854	22,853	20,195	18,483
Amey FMP Belfast Strategic Partnership Hold Co Limited	100	100	-	-
Amey FMP Belfast Strategic Partnership SP Co Limited	-	-	194	87
Amey Hallam Highways Limited	16,301	16,301	5,555	323
Amey Infrastructure Management (1) Limited	1,540	-	36	-
Amey Ventures Investments Limited	3,714	3,891	5,186	4,406
AmeyCespa (AWRP) SPV Limited	-	-	(2)	-
AmeyCespa (MK) SPV Holding Co Limited	5,581	5,581	-	-
CarillionAmey Limited	-	-	767	297
CarillionAmey (Housing Prime) Limited	-	-	(54)	16
EduAction (Waltham Forest) Limited	-	-	(723)	(727)
GEO Amey PECS Limited	1,250	3,500	95	227
Integrated Bradford Hold Co Two Limited	-	368	-	-
Integrated Bradford SPV Two Limited	-	-	450	477
Integrated Bradford LEP Limited	-	-	-	66
Integrated Bradford PSP Limited	-	1,065	-	-
Keolis Amey Docklands Limited	-	-	1,062	506
Keolis Amey Metrolink Limited	680	-	423	-
MTCnovo Limited	10,000	10,000	207	861
Scot Roads Partnership Holdings Limited	-	2,613	-	-
Scot Roads Partnership Project Limited	-	-	-	15
Services Support (Avon & Somerset) Limited	-	-	16	-
	62,020	66,272	33,407	25,037

27 Related party transactions (continued)**Ferrovial, S.A. and its subsidiary undertakings**

	2017 £'000	2016 £'000
Income statement		
Net operating expenses	(23,832)	(22,900)
Net finance income	750	243
Net finance cost – Landmille Limited	(17,154)	(21,228)
Net finance cost – Ferroviai Servicios, S.A.	-	(80)
Net finance cost – Other Ferroviai, S.A. companies	(607)	(666)
	(40,843)	(44,631)
Balance sheet		
Trade and other receivables		
Non-current assets – other trade receivables	16,209	9,111
Current assets – other trade receivables	6,894	4,510
Trade and other payables		
Current liabilities – Ferroviai, S.A. group loans	(581)	(555)
Current liabilities – other trade payables	(3,868)	(1,182)
Non-current liabilities – Ferroviai, S.A. group loans	(397,742)	(575,543)
Net liabilities	(379,088)	(563,659)

The Group has been charged operating expenses and net finance costs by Ferroviai Servicios, S.A., a fellow group undertaking, which are disclosed above. The Group has also been charged finance costs by Landmille Limited, a subsidiary undertaking of Ferroviai, S.A. Unless stated otherwise, balances are with Ferroviai Servicios, S.A. and all balances above are as included in the Group balance sheet. Additionally, the Group received £6.0 million (2016: £0.4 million) from Ferroviai Servicios, S.A. in respect of tax losses.

In 2017, the Group recorded a foreign exchange loss of £1.6 million (2016: £5.5 million loss) on its borrowings from, and a foreign exchange gain of £0.2 million (2016: £0.5 million gain) on its deposits with, Ferroviai, S.A. subsidiary undertakings.

Non-current assets represent deposits with Ferroviai Servicios, S.A., which receive interest at a market rate of 0.08% (2016: 0.15%) and a long-term loan to Cespa Ventures Limited, a fellow Ferroviai, S.A. group undertaking, which receives interest at a fixed rate of 12.5 (2016: 12.5%).

Included within the non-current liabilities – Ferroviai, S.A. group loans is an amount due to Landmille Limited of £177.5 million (2016: £377.5 million) which is designated in sterling and which bears interest at LIBOR plus 4.2% (2016: 4.2%). A further amount due to Landmille Limited of £41.1 million (2016: £39.5 million) is designated in euros and is charged interest at the rate of six-month EURIBOR plus 3.5% (2016: six-month EURIBOR plus 3.5%).

In 2016, Landmille Limited provided an additional sterling credit facility of £70.0 million to the Group, which was £70.0 million utilised at the end of the year (2016: £50.0 million utilised). This facility bears interest at one-month LIBOR plus 2.47% to 3.47%, depending on the level of drawdown. Also in 2016, Landmille Limited provided a further sterling credit facility of £80.0 million to the Group, which was fully drawn down at the end of the year (2016: £80.0 million utilised). This facility bears interest at three-month LIBOR plus 1.91.

The amounts due to Landmille Limited shown above have been subordinated in favour of the unsecured bank loans with recourse to the Group balance sheet.

Also included within non-current liabilities are other Ferroviai, S.A. group loans of £29.2 million (2016: £28.5 million) due to Cespa UK Limited, a fellow Ferroviai, S.A. group undertaking, which is designated in sterling and bears interest at market rate (2016: market rate).

28 Share-based payments

The Group participates in the Ferrovial, S.A. group (the parent undertaking) performance-based share award plan. Full details on this plan may be found in the financial statements of Ferrovial, S.A. for the year ended 31 December 2017.

The share-based staff costs recharged by Ferrovial, S.A. in relation to this plan during the year and recognised in the Group's income statement amounted to £0.7 million (2016: £0.3 million).

29 Post balance sheet events

(a) Birmingham contract dispute

In relation with the dispute on the Birmingham City Council, the following events have occurred:

- (i) During negotiations with the Council that took place in 2017, a certain amount of investment was expected to take place after the closure of the Core Investment Period (CIP) and during the operational phase of the contracts as part of Lifecycle. Recent communications from the Council received in 2018, make clear that the CIP phase will now remain open until the Milestone works are completed.
- (ii) On 22 February 2018, the Court of Appeal ruled in favour of the Birmingham City Council, cancelling the High Court's previous judgement in favour of Amey made in 2016. The expectation, following the Court of Appeal judgement, was that the extraordinarily high amounts of penalties and deductions levied in the first two months of the year would be reduced to a more reasonable level, as seen in previous years. However, it now appears that the Council will continue to apply deductions at high levels. Accordingly, the Group has reviewed the likely amount and provided to that level. The Group does not agree with the level of deductions and will attempt to overturn them with the mechanisms provided in the contract.

These facts have been considered when preparing these financial statements and have been treated as an adjusting event after the reporting period. Accordingly, the Group has included an exceptional cost of £208.5 million reflecting the provision needed to undertake additional investments during the initial phase of the contract as well as expectations of high deductions and penalties to be applied by the Council.

The Group has requested permission to appeal the judgement before the Supreme Court.

(b) Issue of other equity instruments

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

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

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

30 Ultimate parent undertaking and controlling party

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

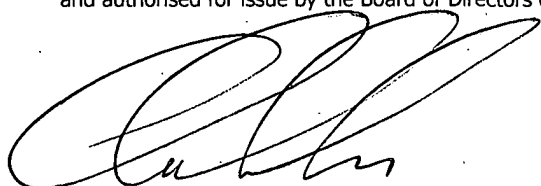
Ferrovial, S.A.
Príncipe de Vergara, 135
28002 Madrid
Spain

Company balance sheet as at 31 December 2017

Company number 04736639	Note	2017 £'000	2016 £'000
Fixed assets			
Investment in subsidiary undertakings	34	497,867	297,867
Current assets			
Trade and other receivables	35	32,323	21,879
Cash and cash equivalents		103	52
Total current assets		32,426	21,931
Creditors – amounts falling due within one year	36	(700)	(349)
Net current assets		31,726	21,582
Total assets less current liabilities		529,593	319,449
Provisions for liabilities	37	(28,958)	(25,350)
Net assets		500,635	294,099
Equity			
Share capital	38	203,677	3,677
Share premium account		153,134	153,134
Other reserve		61,887	61,887
Retained earnings		81,937	75,401
Equity shareholders' funds		500,635	294,099

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement or Statement of Comprehensive Income. The Company reported a profit for the year of £6.5 million (2016: £11.3 million).

The notes on pages 76 to 79 form part of these Company financial statements. The financial statements on pages 74 to 79 were approved and authorised for issue by the Board of Directors on 30 May 2018 and signed on its behalf by:



Andy Milner
Director
30 May 2018

Company statement of changes in equity for the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Other reserve £'000	Other equity instrument £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	3,677	153,134	61,887	-	64,096	282,794
Profit after tax for the year	-	-	-	-	11,305	11,305
At 31 December 2016	3,677	153,134	61,887	-	75,401	294,099
Issue of share capital in the year (note 38)	200,000	-	-	-	-	200,000
Profit after tax for the year	-	-	-	-	6,536	6,536
At 31 December 2017	203,677	153,134	61,887	-	81,937	500,635
Post balance sheet event:						
Issue of other equity instrument (note 41)	-	-	-	60,000	-	60,000
At 31 December 2017	203,677	153,134	61,887	60,000	81,937	560,635

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

The notes on pages 76 to 79 form part of these Group financial statements.

Notes forming part of the Company financial statements for the year ended 31 December 2017

31 General information

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

The Company Secretary and the address of the registered office is as follows: Jayne Bowie, The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, United Kingdom, OX4 4DQ. The address of the principal place of business is Principe de Vergara 135, 28002 Madrid, Spain.

32 Accounting policies

Basis of preparation

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

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

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement': disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities
- Paragraph 38 of IAS 1, 'Presentation of financial statements': comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1
- The following paragraphs of IAS 1:
 - 10(d): statement of cash flows
 - 10(f): a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements
 - 16: statement of compliance with all IFRS
 - 38A: requirement for minimum of two primary statements, including cash flow statements
 - 38B-D: additional comparative information
 - 40A-D: requirements for a third statement of financial position
 - 111: cash flow information
 - 134-136: capital management disclosures
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors': requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective
- The requirements of IAS 24: disclosure of related party transactions entered into between two or more members of a group.

Investment in subsidiary undertakings

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

Deferred tax

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

Foreign currency

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

32 Accounting policies (continued)**Critical accounting estimates and judgements**

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

33 Directors

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

34 Investment in subsidiary undertakings

	Cost of shares £'000
At 1 January 2016 and at 31 December 2016	297,867
Additions during the year	200,000
At 31 December 2017	497,867

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

The subsidiary undertakings of the Company are disclosed in note 24 of the Group financial statements. Except for Amey Holdings Limited, all subsidiary undertakings are held through other subsidiary undertakings. Their activities are described in the Report of the Directors and in the Strategic Report.

35 Trade and other receivables

	2017 £'000	2016 £'000
Amounts falling due within one year		
Tax debtor	4,937	6,063
Prepayments	210	409
	5,147	6,472
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	17,527	12,110
Amounts due from Ferrovial Servicios, S.A.	9,649	3,297
	27,176	15,407
	32,323	21,879

36 Creditors – amounts falling due within one year

	2017	2016
	£'000	£'000
Other creditors	9	9
Accruals	691	340
	700	349

37 Provisions for liabilities

	2017	2016
	£'000	£'000
Deferred tax		
At 1 January	25,350	29,871
Deferred tax credited to the income statement	3,608	(4,521)
At 31 December	28,958	25,350

The deferred tax liability arises in respect of accelerated tax relief of £29.0 million (2016: £25.4 million). Deferred tax has been measured in full using the liability method using an expected tax rate of 25% (2016: 25%), being the rate substantively enacted in Spain at the balance sheet date.

38 Share capital

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

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

39 Financial and capital commitments

The Company had no financial or capital commitments at 31 December 2017 or 31 December 2016.

40 Contingent liabilities

The Company has provided guarantees to joint venture undertakings totalling £642 million (2016: £781 million), of which the most relevant are those provided to the UK Ministries of Defence and Justice for both current and future service provision. Since 31 December 2017, the overall value of the guarantees provided has risen by £552 million following the liquidation of Carillion plc and the Group assuming full responsibility for joint ventures with Carillion plc. A portion of the risk associated with guarantees has been mitigated through third party liability or construction defect insurance policies. The Directors consider the likelihood of a claim arising under these performance bonds or borrowings to be remote.

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

The Company claims tax relief in Spain for the amortisation of goodwill arising on the acquisition of UK subsidiaries, as permitted under Spanish law. This law was subject to a challenge by the European Commission on competition grounds in respect of acquisitions after December 2007 (not affecting the Company's goodwill), with their first and second decisions issued in October 2009 and January 2011. In October 2014, the EU Commission issued a new Decision (the third Decision) challenging the amortisation of goodwill that arises from indirect acquisitions, also on competition grounds, affecting any time acquisitions. The Kingdom of Spain, Ferrovial, S.A., Ferrovial Servicios, S.A. and the Company (and other Spanish groups) have brought an appeal in 2016 against the third Commission decision before the EU General Court of Justice that is still pending. In November 2014, the EU General Court of Justice held in favour of Spain on the first and second decisions (the third decision was not part of this appeal, but subject to a separate stayed appeal). In December 2016, following an appeal by the European Commission on a limited point of law, the November 2014 ruling was annulled by the superior EC Court of Justice and the case referred back to the EU General Court, with most of the technical points still subject to judgement. The Spanish tax authorities, in the course of an audit related to year 2006, challenged this amortisation. The disputed claim has been referred to the EU General Court of Justice where the Company remains confident that the claim will be upheld. However, as a result of the December 2016 EU Court of Justice ruling, the Spanish tax authorities requested in 2017 the payment of €28.0 million plus €8.0 million of interest related to the tax amortisation for the years 2006 to 2015. Any payment made will be refunded should the European Courts rule in the Company's favour. The total value of the net tax relief claimed up to 31 December 2017 is £75.9 million (2016: £67.0 million). The Directors have assessed the likelihood of the tax audit leading to any adjustment as low.

41 Post balance sheet event – issue of other equity instrument

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

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

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

42 Controlling parties

The immediate parent company is Ferrovial Internacional S.L.U., a company incorporated in Spain. The ultimate parent undertaking and the largest group to consolidate these financial statements is Ferrovial, S.A., a company incorporated in Spain. Copies of the Ferrovial, S.A. consolidated financial statements can be obtained from the address below or from the Ferrovial, S.A. website: www.ferrovial.com:

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

The Company is the ultimate holding company in the UK and is registered in England and Wales. It is the parent of the smallest group for which consolidated financial statements are prepared and of which the Company is a member. Copies of the consolidated financial statements can be obtained from the registered office of Amey UK plc at the address below:

The Company Secretary
Amey UK plc
The Sherard Building
Edmund Halley Road
Oxford, OX4 4DQ
United Kingdom