

ENSIGN HIGHWAYS LIMITED

ANNUAL REPORT

AS AT 31 DECEMBER 2019

Company Number: 05133561

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ENSIGN HIGHWAYS LIMITED

COMPANY INFORMATION

Directors	F. Bidard E. Brangier E. Scheer
Secretary	G. Stanton
Company Number	05133561
Registered Office	Wallage Lane Rowfant Crawley West Sussex RH10 4NF
Independent Auditor	Mazars LLP Tower Bridge House St. Katharine's Way London E1W 1DD
Solicitors	Thomson Snell & Passmore 3 Lonsdale Gardens Tunbridge Wells Kent TN1 1NX
Bankers	Lloyds Bank Plc City Office Bailey Drive Gillingham Business Park ME8 0LS

ENSIGN HIGHWAYS LIMITED

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ENSIGN HIGHWAYS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their Strategic Report for Ensign Highways Limited (the "Company") for the year ended 31 December 2019.

Principal activities and review of the business

The principal activity of the Company is to act as highway maintenance contractors, specifically to operate a Private Finance Initiative (PFI) contract with Portsmouth City Council. The contract, which is for a duration of 25 years, commenced on 31 January 2005. The Company completed the core investment work stage of the contract in 2009 and moved into the life cycle replacement phase, during which a reduced level of investment in tangible fixed assets will occur.

Future developments

The directors do not expect any change in the Company's principal activities in the foreseeable future.

On 31 January 2020, the UK stopped being a member of the European Union ("EU") but will continue to follow all of the EU's rules and its trading relationship will remain the same until 31 December 2020. There is an expectation that there will be no immediate change to the Company's corporate structure and financial reporting requirements, however, the board will monitor events to determine how the Company will be affected over the long term. Other than the general macro-economic environment over which there is no control, it is the board's view that it will be business as usual for the coming months.

Results and performance

The profit for the year, after taxation amounted to £2,211,105 (2018: £2,138,311).
The directors recommend payment of a final dividend of £500,000 (2018: £700,000).
The performance of the Company is in line with expectations.

Key financial indicators

The directors monitor the activities and performance of the Company on a regular basis. The indicators set out below have been used by the board to assess the performance over the year to 31 December 2019.
The level of activity and results are in line with expectations.

	2019	2018	Change
	£'m	£'m	
Turnover	28.9	28.2	2%
Operating profit	6.1	5.8	5%

Non-financial key performance indicators

The directors monitor the activities and performance of the PFI contract on a regular basis through the service points awarded by Portsmouth City Council against service level issues.
The cumulative number of service points at the end of 12-months ending 31 December 2019 is 7 (2018: 14) which is representative of a good level of performance. This performance is confirmed by the results of the 2019 National Highway and Transport (NHT) Annual Survey.

Outlook

The Company will continue to perform the contract and will seek to be awarded further work by Portsmouth City Council.

ENSIGN HIGHWAYS LIMITED

Principal risks and uncertainties

The directors monitor the performance of the PFI contract against the initial financial model on a regular basis to ensure that there are no unforeseen divergences from the plan.

As with many local authorities in the United Kingdom, Portsmouth City Council has indicated that some savings will be needed on the PFI contract in the coming years. The Company is willing to assist the council in achieving this.

As is the case throughout the Colas Group, the Company regards safety as its number one priority and no action is taken which is likely to compromise this strategic objective.

Covid-19

The Company has been closely monitoring the ongoing COVID-19 pandemic with its client Portsmouth City Council and Colas Limited (sub-contractor) to establish how it can continue working safely during the lockdown. The Company responded to the crisis positively, by implementing Colas Limited Business Continuity Plan and found ways to keep the business active through the implementation of COVID-19 safe working practices.

This report was approved by the board and signed by order of the board by:



G. Stanton
Secretary

Date : 30.06.20

ENSIGN HIGHWAYS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their report and the financial statements for Ensign Highways Limited for the year ended 31 December 2019.

Directors

The directors who held office during the period and up to the signing of these financial statements were:

F. Bidard
E. Brangier
R. Llobregat (resigned 27.3.2019)
E. Scheer (appointed 27.3.2019)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

Indemnification of directors

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for directors who held office during the year.

Disclosure in the Strategic Report

As permitted by Paragraph 1A of schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report. These matters relate to the principal activities, review of the business, key performance indicators, future developments, and principal risks and uncertainties.

Disclosure of information to auditor

Each director has taken all the necessary steps they ought to have taken in order to make themselves aware of any information relevant to the audit, establish that the auditor is aware of that information and that there is no information relevant to the audit of which the Company's auditor is unaware.

Auditor

The auditor, Mazars LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment is proposed at the Annual General Meeting.

This report was approved by the board and signed by order of the board by:



G. Stanton
Secretary

Date : 30.06.20

Opinion

We have audited the financial statements of Ensign Highways Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the Company financial statements, which is not modified, we draw your attention to the directors' view on the impact of COVID-19 as disclosed on page 2, and the consideration in going concern basis of preparation on page 9 and non-adjusting post balance sheet events on page 18.

Since the reporting date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The full impact following the recent emergence of COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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 this regard

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of 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 Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENSIGN HIGHWAYS LIMITED

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit 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.



William Neale Bussey (Senior Statutory Auditor)
for and on behalf of Mazars LLP,

Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD

Date: 1 JULY 2020

ENSIGN HIGHWAYS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

<i>Continuing operations</i>	Notes	2019	2018
		£	£
Turnover	4	28,879,713	28,228,738
Cost of sales		(16,842,678)	(16,472,450)
Gross profit		12,037,035	11,756,288
Administrative expenses		(5,938,121)	(5,945,635)
Operating profit	5	6,098,914	5,810,653
Interest receivable and similar income		11,800	3,203
Interest payable and similar charges	9	(2,844,451)	(3,129,143)
Profit on ordinary activities before taxation		3,266,263	2,684,713
Tax on profit on ordinary activities	10,	(1,055,158)	(546,402)
Profit for the financial year attributable to owners of the Company		2,211,105	2,138,311
Other comprehensive income		-	-
Total comprehensive income attributable to owners of the Company		2,211,105	2,138,311

The notes on pages 9 to 18 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Notes	2019		2018	
		£	£	£	£
Noncurrent assets					
Tangible fixed assets	12		38 066 976		39 734 553
Debtors - due after one year	13		1 903 193		2 108 941
			<u>39 970 169</u>		<u>41 843 494</u>
Current assets					
Derivative financial instrument	14	9 232 782		9 819 093	
Debtors - due within one year	13	526 950		781 090	
Cash at bank and in hand		13 240 018		13 820 869	
		<u>22 999 750</u>		<u>24 421 052</u>	
Creditors: amounts falling due within one year	15	(8 416 299)		(8 871 069)	
Derivative financial instrument	14	<u>(9 232 782)</u>		<u>(9 819 093)</u>	
Net current assets			5 350 669		5 730 890
Total assets less current liabilities			<u>45 320 838</u>		<u>47 574 384</u>
Creditors: amounts falling due after more than one year	16		(37 690 157)		(41 413 049)
Deferred taxation	17		(590 583)		(632 342)
Net assets			<u>7 040 098</u>		<u>5 528 993</u>
Capital and reserves					
Called up share capital	18		100		100
Retained earnings			7 039 998		5 528 893
Total shareholders' funds			<u>7 040 098</u>		<u>5 528 993</u>

These financial statements were approved by the Directors and authorised for issue and are signed on their behalf by:

E. Brangier
Director
Date :



30.06.20

F. Bldard
Director
Date :



30/06/2020

The notes on pages 9 to 18 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2019

	Called up share capital £	Retained earnings £	Total Equity £
At 1 January 2019	100	5,528,893	5,528,993
Comprehensive Income for the year			
Profit for the financial year	-	2,211,105	2,211,105
Other comprehensive income for the financial year	-	-	-
Total comprehensive income for the year	-	2,211,105	2,211,105
Contribution by and distribution to owners			
Dividends (Note 11)	-	(700,000)	(700,000)
Total contribution by and distributions to owners	-	(700,000)	(700,000)
At 31 December 2019	100	7,039,998	7,040,098

	Called up share capital £	Retained earnings £	Total Equity £
At 1 January 2018	100	4,190,582	4,190,682
Comprehensive Income for the year			
Profit for the financial year	-	2,138,311	2,138,311
Other comprehensive income for the financial year	-	-	-
Total comprehensive income for the year	-	2,138,311	2,138,311
Contribution by and distribution to owners			
Dividends (Note 11)	-	(800,000)	(800,000)
Total contribution by and distributions to owners	-	(800,000)	(800,000)
At 31 December 2018	100	5,528,893	5,528,993

Reserves

The share capital account includes the nominal value for all shares issued and fully paid.

The capital redemption reserve is created to maintain the capital of the Company.

Retained earnings includes the accumulated profits and losses arising from the Income Statement and the Statement of Changes in Equity attributable to equity shareholders net of distributions to shareholders.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1 General information

Ensign Highways Limited (the "Company") is a company limited by shares, incorporated in England and Wales. The address of its registered office is Wallage Lane, Rowfant, Crawley, West Sussex, RH10 4NF. The address of its principal place of business is Walton Road, Farlington, Portsmouth, Hants, PO6 1TA. These financial statements have been presented in Pound Sterling (£) as this is the currency of the primary economic environment in which the Company operates.

2 Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards, including FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"). These financial statements have been prepared under the historical cost convention except for derivative financial instruments which are stated at fair value.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions including notification of and no objection to, the use of exemptions by the Company's shareholders.

In preparing these financial statements, the Company has taken advantage of the following exemptions :

- the requirement of Section 4 *Statement of Financial Position* paragraph 4.12 (a)(iv);
- the requirement of Section 7 *Statement of Cash Flows* and section 3 *Financial Statement Presentation* paragraph 3.17 (d);
- the requirement of certain disclosures under FRS 102.26 *Share Based Payments* ;
- the requirement of Section 11 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29 providing the equivalent disclosures required by the FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated; and
- the requirement of Section 33 *Related Party Disclosures* paragraph 33.7.

2.2 Going concern

After reviewing the Company forecasts and projections, the directors have a reasonable expectation that the Company has adequate resource to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Such consideration covers a period of at least 12 months from the date of approval of the financial statements and is based on:

- (i) the impact of Covid-19 after discussing it with Portsmouth City Council (PCC) and Colas Limited (sub-contractor) (see note 21);
- (ii) the main contract is a 25 year contract;
- (iii) the financial model forecast is used as a tool to monitor activities and performance;
- (iv) operating results are positive; and
- (v) cash position (excluding long term loans) is positive.

2.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for provision of services, net of sales-related taxes.

Under the PFI contract with Portsmouth City Council, the Company has two principal revenue streams : contractual revenues and call-off revenues.

Contractual revenues are a fixed annual amount subject to annual indexation. Whilst the indexation reflects the projected increase of the underlying cost base, should this change, the basis for recognition of revenue will be re-assessed.

Call-off revenues relate to short projects for which revenue is recognised on completion of the project and longer projects for which revenue is recognised on a long-term contract basis. Where the outcome of a long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs.

2 Accounting policies (continued)

2.4 Taxation

The tax expense for the year comprises current and deferred tax. Tax currently payable, relating to UK corporation tax, is calculated on the basis of the tax rates and laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax is recognised on all timing differences that have originated but not reversed at the reporting date. Transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future give rise to a deferred tax liability or asset. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted as at the reporting date, that are expected to apply to the reversal of the timing difference. The tax expense is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense.

Deferred income tax assets are recognised only to the extent that, on the basis of all available evidence, it is deemed probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and there is the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.5 Tangible fixed assets and depreciation

Tangible fixed assets are recognised at cost less accumulated depreciation and provision for impairment losses. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold land and buildings	over the lease term
Road construction	3 to 25 years
Fixtures, fittings and equipment	7 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

2.6 Capitalisation of interest

Interest incurred in financing the core investment works under the PFI contract with Portsmouth City Council has been capitalised as part of the costs of the related tangible fixed assets.

2.7 Impairment of assets

At each reporting date the Company reviews the carrying value of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset, or cash generating unit. The present value calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset, and from its ultimate disposal, applying an appropriate discount rate to those future cash flows.

Where the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognised immediately in profit or loss. An impairment loss recognised for all assets is reversed in a subsequent period if, and only if, the reasons for the impairment loss have ceased to apply. Impairment losses are charged to profit or loss in administration expenses.

2.8 Bid costs

Bid costs (in respect of the Company's PFI contract with Portsmouth City Council) incurred once it was considered virtually certain that the Company would be awarded the contract, being the date that the Company was awarded preferred bidder status, were capitalised as prepayments. The prepayments are being amortised over the life of the contract which is 25 years.

2 Accounting policies (continued)

2.9 Employee benefits

Group defined benefit pension plan

The Company has employees who are members of the defined benefit pension scheme which is operated by Colas Limited, one of the immediate parent undertakings' shareholders. As the Company is unable to identify its share of the underlying assets and liabilities of the scheme, there is no stated policy in place to allocate the Group's defined benefit cost to the Company, and the amounts charged are not considered material, the pension scheme is accounted for as a defined contribution scheme.

Share based payments

Bouygues SA (the Company's ultimate parent company) operates a share option scheme under which options over shares in Bouygues SA have been granted to certain Company Directors and employees. The Directors do not consider the associated share based payment charge of approximately £935 (2018: £935) to be material and, as permitted by FRS 102, the Company has applied the exemptions available in respect of share based payments.

2.10 Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments are measured at fair value which is determined using valuation statements from the 3rd party provider.

Basic financial assets

Basic financial assets, which include debtors, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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

2 Accounting policies (continued)

2.10 Financial instruments (continued)

Basic financial liabilities

Basic financial liabilities, including creditors and bank loans are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

3 Significant judgements and estimates

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates and assumptions concerning the future. It also requires management to exercise their judgement in the process of applying the Company's accounting policies.

Application of accounting policies in the preparation of the financial statements requires the Board of Directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Details regarding areas of judgement or uncertainty deemed significant in these financial statements are highlighted below.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Fair value of the financial instrument

The Company holds an interest rate swap derivative which is recognised at fair value. As the fair value of the derivative contract cannot be measured based on quoted price in active markets or on the price of a recent transaction for an identical instrument, the fair value is measured using valuation techniques. The inputs to these valuation models are taken from observable markets. The key inputs into valuing the derivative contract are future interest rates and credit risks. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4 Turnover

	2019	2018
	£	£
Contractual revenues	26,566,171	25,998,030
Call-off revenues	2,313,542	2,230,708
	<u>28,879,713</u>	<u>28,228,738</u>

5 Operating profit

	2019	2018
	£	£
<i>This is stated after charging:</i>		
Depreciation of owned assets	4,951,227	5,085,933
Amortisation of deferred bid costs	205,759	205,759
	<u>5,156,986</u>	<u>5,291,692</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6 Auditor's remuneration

	2019	2018
	£	£
Fees payable for the Company's auditors for - the audit of the Company's accounts	27,500	19,250
	<u>27,500</u>	<u>19,250</u>

Audit fees payable also includes fees payable by Company's immediate parent undertaking Ensign Highways Holdings Limited.

7 Employee benefits

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

	2019	2018
Administration	<u>8</u>	<u>8</u>

Staff costs

	2019	2018
	£	£
Wages and salaries	391,126	320,214
Social security costs	100,330	35,556
Pension costs	20,585	15,021
	<u>512,041</u>	<u>370,791</u>

8 Directors' remuneration

	2019	2018
	£	£
Emoluments	<u>177,246</u>	<u>159,705</u>

Number of Directors who received and exercised Bouygues SA share options in respect of qualifying services.	<u>1</u>	<u>1</u>
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One director was paid by the Company for his service to the Company and was granted share options in the ultimate parent Company Bouygues SA. The other directors were paid by Colas SA for their services to the group as a whole and it is not possible to determine the amount relating to their services to the Company.

9 Interest payable and similar charges

	2019	2018
	£	£
Interest payable on bank loan	2,561,779	2,788,501
Interest payable on loan from group undertaking	282,672	340,642
	<u>2,844,451</u>	<u>3,129,143</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10 Taxation

	2019	2018
	£	£
(a) Current tax		
UK Corporation tax based on the result for the year at 19% (2018 : 19%)	862,294	588,245
Adjustment in respect of prior year	234,623	(4)
	<u>1,096,917</u>	<u>588,241</u>
Deferred tax		
Origination and reversal of timing differences	(41,759)	(41,839)
Tax on profit on ordinary activities	<u>1,055,158</u>	<u>546,402</u>
	2019	2018
	£	£
(b) Factors affecting current tax charge		
Profit on ordinary activities before tax	<u>3,266,263</u>	<u>2,684,713</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 : 19%)	620,590	510,095
<i>Effects of:</i>		
Items not deductible for tax purposes	199,945	36,311
Adjustment to tax charge in respect of prior year	234,623	(4)
Total tax on profit on ordinary activities	<u>1,055,158</u>	<u>546,402</u>

The adjustment to the tax charge in respect of prior year relates to corporate interest restriction and group relief for which the Company pays 80% of the benefit.

(c) Factors affecting future tax rates

The rate of corporation tax was reduced from 20% to 19.00% with effect from 1 April 2017. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17.00% from 1 April 2020. Deferred tax balances at the reporting date are measured at 17% (2018: 17%). During the March 2020 Budget, the UK Government announced that the reduction in rate would be cancelled and the 19% rate retained from 1 April 2020. The effect of this had not been substantively enacted by the balance sheet date and therefore has not been reflected in these accounts.

11 Dividend on equity shares

	2019	2018
	£	£
(a) Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 December 2018 of £7,000 per share and £8,000 per share for year ended 31 December 2017	700,000	800,000
(b) Proposed final dividend not recognised in the year:		
Proposed final dividend for the year ended 31 December 2019 of £5,000 per share and £7,000 per share for year ended 31 December 2018	500,000	700,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

12 Tangible fixed assets

	Leasehold land and buildings	Road construction	Fixtures, fittings and equipment	Total
	£	£	£	£
Cost				
At 1 January 2019	1,217,962	90,903,127	83,920	92,205,009
Additions	-	3,283,650	-	3,283,650
At 31 December 2019	1,217,962	94,186,777	83,920	95,488,659
Depreciation				
At 1 January 2019	673,511	51,713,025	83,920	52,470,456
Charge for the year	48,396	4,902,831	-	4,951,227
At 31 December 2019	721,907	56,615,856	83,920	57,421,683
Net book value				
At 31 December 2019	496,055	37,570,921	-	38,066,976
At 31 December 2018	544,451	39,190,102	-	39,734,553

The total capitalised finance costs included in the cost of tangible assets is £6,580,632 (2018 : £6,580,632).

13 Debtors

	2019	2018
	£	£
Amounts falling due within one year		
Trade debtors	194,139	477,674
Corporation tax receivable	125,951	96,556
Prepayments	206,860	206,860
	526,950	781,090
Amounts falling due after one year		
Prepayments	1,903,193	2,108,941
	2,430,143	2,890,031

Prepayments relate to deferred bid costs which are being amortised over the term of the contract which is 25 years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**14 Derivative financial instruments**

To ensure that Portsmouth City Council are able to pay a fixed monthly fee for the duration of the 25 years of the road rehabilitation and maintenance PFI contract, an interest rate swap was set up in August 2004. The interest rate is then fixed at 5.451%. This swap is a floating rate receiver, fixed rate payer. Its par value is perfectly in line with the draw down and repayment schedule of the non-recourse loan in order to fix the cost of the monthly fee received.

The impact of the market value of the interest rate swap set up for the contract with Portsmouth City Council *i.e.* (£9,232,782) (2018 : (£9,819,093)), including accrued interest not yet due, is fully offset by the market value of the embedded derivative instrument regarding the fixed fee paid by Portsmouth City Council *i.e.* £9,232,782 (2018 : £9,819,093).

The fair value of the interest rate swap is determined using valuation techniques that utilise observable and non-observable inputs to estimate the expected discounted cash flows as determined by the issuer of the derivative contract.

	Fair value		Notional value	
	2019	2018	2019	2018
	£	£	£	£
Interest rate swap	9,232,782	9,819,093	38,828,362	42,473,256

15 Creditors: amounts falling due within one year	2019	2018
	£	£
Loan from group undertaking	480,000	480,000
Bank loan	3,245,221	3,696,607
Trade creditors	9,716	11,055
Other creditors	270,671	342,614
Amounts owed to group undertakings	2,860,422	2,797,800
Accruals and deferred income	1,550,269	1,542,993
	<u>8,416,299</u>	<u>8,871,069</u>

The amounts owed to group undertakings are interest free and repayable on demand.

16 Creditors: amounts falling due after more than one year	2019	2018
	£	£
Loan from group undertaking	1,580,000	2,060,000
Bank loan	36,134,028	39,379,249
	<u>37,714,028</u>	<u>41,439,249</u>
Less deferred loan issue costs	(23,871)	(26,200)
	<u>37,690,157</u>	<u>41,413,049</u>
	2019	2018
	£	£
Maturity of debt		
More than 1 year and not more than 2 years	3,640,988	3,725,221
More than 2 years and not more than 5 years	14,691,734	13,811,320
More than five years	19,357,435	23,876,508
	<u>37,690,157</u>	<u>41,413,049</u>

The Company has a commercial loan with Lloyds Bank plc for a total of £39,379,249 (2018 : £43,075,856) bearing interest at a rate of 0.9% above LIBOR. The Company has taken out an interest rate swap to fix the interest rate on this loan at 5.451%.

The loan is payable in instalments, has a final repayment date of January 2028, and is secured by way of a fixed charge over the assets of the Company.

The loan from group was entered into in 2004 and bears interest at a rate of 12.40% *per annum*.

The loan from group is payable in instalments, and has a final repayment date of July 2030.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

17 Deferred taxation	2019	2018
	£	£
At 1 January	(632,342)	(674,181)
Credit for the year to the profit and loss account	41,759	41,839
At 31 December	<u>(590,583)</u>	<u>(632,342)</u>
The deferred taxation provision comprises:		
Other timing differences	(531,360)	(576,109)
Accelerated capital allowances	(59,223)	(56,233)
	<u>(590,583)</u>	<u>(632,342)</u>

At the commencement of the PFI contract, the Company capitalised finance costs of £6,580,632 as part of tangible fixed assets. These tangible fixed assets are being depreciated over the contract term of 25 years. For tax purposes, these items were treated as revenue expenditure, thus giving rise to 'other timing differences'.

18 Share capital	2019	2018
	£	£
Allotted, called up and fully paid:		
Equity Shares		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

The ordinary shares of the Company carry no right to fixed income and one voting right per share.

19 Pension costs

The Company participates in the Colas Limited group defined benefit scheme, a defined benefit scheme the assets of which are held separately from the assets of the group. The financial statements of Colas Limited contain particulars of the scheme's latest actuarial valuation. The Company's contributions are affected by the deficit in the scheme, however it is not possible to identify the Company's share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis as there is no stated or contractual policy in place for allocating the cost. The scheme is therefore accounted for as if it were a defined contribution scheme.

The pension charge for the year was £20,585 (2018 : £15,093) and there were no outstanding contributions at the year end.

20 Parent undertaking and ultimate parent undertaking

The immediate parent undertaking of the Company is Ensign Highways Holdings Limited, a company registered in England and Wales.

Ensign Highways Holding Limited is a 50% joint venture between Colas SA and Colas Limited. The financial statements of the Company are incorporated in the financial statements which form part of the annual report of the Colas SA group of companies. Colas SA is the parent company of the smallest group of which this Company is a member and for which group financial statements are prepared. Colas SA is incorporated and operating in France and is listed on the Paris stock exchange.

Colas SA's ultimate parent undertaking and controlling party is Bouygues SA, which is incorporated in France.

Bouygues SA is the parent company of the largest group of which this Company is a member and for which group financial statements are prepared. Copies of Bouygues SA consolidated financial statements are publicly available and may be obtained from the company at 32, Avenue Hoche, 75378, Paris, CEDEX 08, France.

21 Subsequent events

Covid-19

Following governmental guidance on COVID-19, the Company operates, since 17 March 2020, a working-from-home policy supported by the Colas SA IT infrastructure which allows the Company to perform without limitations.

Additionally Ensign Highways Limited and Colas Limited (sub-contractor) have considered the risk to the safety of their personnel and the public arising from COVID-19 together with restrictions relating to self-isolating and social distancing and potential consequential tensions on the supply chain.

Consequently, in order to minimise associated disruption and potential friction, the Company after consultation with Portsmouth City Council (PCC) and its sub-contractor have agreed, a series of measures in relation to the services, with the effect of minimising the workforce presence on site whilst maintaining key elements of the services with regard to safety and availability of the highway network.

The proposal was issued on 27 March 2020 and agreed by PCC (by exchange of emails) with effect from 30 March 2020. The agreed measures and their duration will be kept under review, but are likely to last for so long as current government policy and guidance in relation to COVID-19 remains in place.

Colas Limited (sub-contractor) have considered Government's Coronavirus Job Retention Scheme (CJRS) and have furloughed about 80 personnel. The Company has confirmed to PCC that any corresponding savings made by the sub-contractor will be passed entirely to PCC on a back to back basis.

This collaborative approach and the agreed measures are fully in line with the Government's guidance note regarding PFI/PF2 and COVID-19 of 2 April 2020:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878059/2020_04_02_PFI_and_COVID19_final.docx.pdf

The approach, developed and implemented before the guidance was issued, illustrates, and demonstrates full support to and co-operation with PCC in respect of its response to COVID-19.

Furthermore, the PFI/PF2 guidance confirms two key points in relation to the on-going project revenues:

- COVID-19 is not to be considered as an event of force majeure, thus removing the risk of termination (incidentally COVID-19 does not fall under the restricted definition of Force Majeure under the Portsmouth PFI contract);

- Normal unitary charge payments should be maintained with locally agreed moderation to contract requirements and standards and payment and performance mechanism arrangements.

In the current circumstances, based on the Government policy and guidance the Company and its sub-contractor Colas Limited will provide full support and co-operation to PCC

Ensign's assessment is that neither its revenue stream nor its costs structure are likely to be materially impacted by COVID-19.