

# 2012



# construct

report and accounts

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BAM Construct UK Limited

# BAM Construct UK Limited

## Report and Accounts 2012

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## Koninklijke BAM Groep nv ('Royal BAM Group') Statement

Throughout Europe and selected markets across the world, BAM continues to demonstrate its ability to undertake complex and demanding projects, meet its customers' expectations and achieve its ambitions to be recognised as one of Europe's leading sustainable construction companies.

Royal BAM Group has three companies which operate in the UK. BAM Construct UK undertakes construction and property services, BAM Nuttall undertakes civil engineering, energy and infrastructure projects and BAM PPP specialises in public private partnerships. Between them, they employ 5,500 people. They work together collaboratively and have the financial stability and technical capability to offer national and regional customers an integrated range of construction and property services from concept and project initiation through to asset management.

BAM companies in the UK are aligned with the Group's values. BAM wishes to be reliable, professional, work sustainably and responsibly and maximise the potential of its people in a proactive, innovative, customer focussed and entrepreneurial way.

BAM's UK companies have continued to perform well in the challenging economic and business environment that continues to persist. Although their turnover in 2012 was lower than the previous year, combined revenue in excess of £1.6 billion is evidence that the BAM brand is a significant force in the UK construction sector. The companies deliver major social and economic infrastructure projects that support growth and development of the UK economy.

The profit contribution from the UK companies improved in 2012 primarily as a result of careful market positioning, project selectivity and improved risk management and project execution.

With their combined forward order books valued at circa £2 billion and with more than 80% of 2013 workload secured, the BAM companies in the UK are set to achieve a stable performance in line with Royal BAM Group's outlook for 2013.

The UK companies have once again achieved high standards of corporate responsibility particularly in respect of campaigns to target zero accidents and provide safe working standards beyond those expected of the industry. The increasing engagement of BAM staff has enhanced the companies' reputation for work in the community and for support of local and national charities. BAM also continues to set and meet challenging KPIs to reduce the impact of our operations on the environment.

The Board of Royal BAM Group takes this opportunity to thank all staff in the UK for their hard work and loyalty. We also thank our UK customers and supply chain partners for their continued support.

### **Martin Rogers**

Member of the Executive Board  
Royal BAM Group

## Group highlights

BAM Construct UK Limited provides construction and plant, design, services engineering, property and facilities management services in the UK through its operating subsidiaries. It is part of the Dutch based Koninklijke BAM Groep n.v. ('Royal BAM Group'), which also owns the UK civil engineering company BAM Nuttall Limited and BAM PPP UK Limited which specialises in PFI investments.

Turnover in excess of £917m in 2012 producing a profitable performance and continued strong cash balances make the BAM Construct UK Limited group of companies one of the largest construction groups in the UK.

### Review of the business

Group turnover



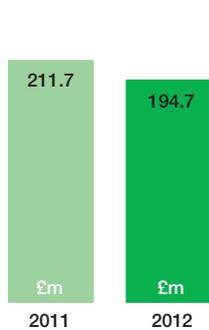
Profit before taxation



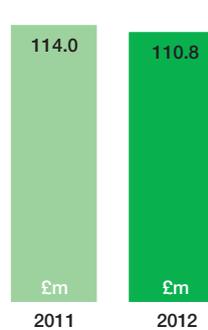
Year-end construction work in hand



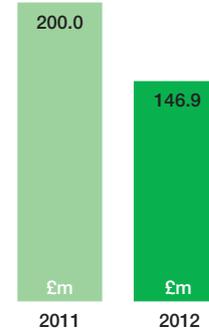
Cash and cash equivalents



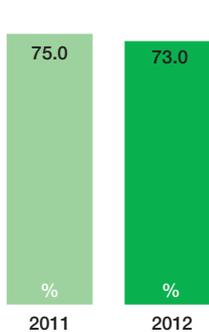
Shareholder's funds at year-end



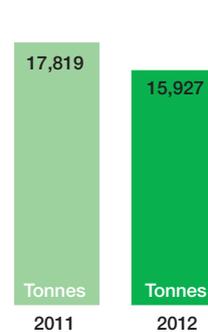
Working capital



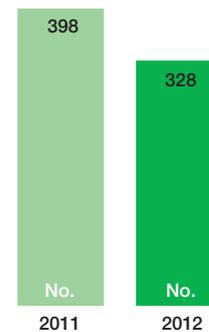
% of site Zero harm



CO<sub>2</sub> emissions



All accident reports



## Chief Executive's review



2012, as expected, was another challenging year for everyone in the construction and property services sector in Britain. My priority along with my board is to maintain a sustainable business that works with leading organisations and companies in the United Kingdom who want high value services. Our goal is to create buildings which fulfill our customers' expectations and vision.

### Maintaining a well balanced portfolio

According to a Euroconstruct Country Report published in December 2012, construction output in the non-residential British market fell by 6.6% last year. This was caused mainly by lower output in the health care, education and commercial property sections. Euroconstruct expects the impact of cuts in government spending on health and education sectors to continue for the next few years. BAM Construct UK Limited is maintaining its resilience in these sectors through its successful participation in key national and regional frameworks all over Britain such as the national contractors' framework in England run by the Education Funding Agency.

Euroconstruct reports signs of a private sector recovery in the UK resulting in a demand for offices. We are confident that our excellent track record in offices, such as the BREEAM outstanding headquarters in Manchester for the Co-operative Group, and the National Centre for Network Rail in Milton Keynes, will stand to us, and we will compete vigorously for new projects in this market.

### 2012 performance

BAM Construct UK Limited, ('the group') ('BAM') achieved a positive performance in 2012, although one that continues to reflect the impact of intense price competition on margins and heightened risk factors such as instability in the supply

chain. Turnover for BAM Construct UK group was £ 917.2m (2011: £945.9m) generating profit before tax of £13.9m and a margin of 1.4% (2011: £11.5m and 1.2% respectively). At the end of 2012, we had £194.7m of overall liquidity balances (2011: £211.7m) including amounts on deposit with our ultimate parent Koninklijke BAM Groep nv. ('Royal BAM Group')

BAM Construction Limited ('BAM Construction') is our largest business. It is organised in seven regional units across Britain. Some of our competitors have restructured and closed local operations in the past year. While we are a major national contractor, and part of a successful European enterprise, Royal BAM Group, we remain committed to a regional structure and local delivery of our collective skills and expertise so that we stay close to our customers and local environments. Our regional structure also enables us to source supply chains and services locally to maximise the positive impact of our projects on the local economy. We also have architecture, design services and engineering services business units that enable us to offer a comprehensive and integrated service.

BAM FM Limited ('BAM FM') offers hard and soft facilities management. The board has significant expansion plans to grow its turnover to £100m by 2018. As part of this growth strategy, the company commenced discussions in autumn 2012 on the acquisition of Sutton Group Limited and its subsidiary Sutton Maintenance Limited. The transaction was completed successfully in early 2013. The acquisition will add approximately £13m to BAM FM's turnover in 2013 and will enable the company to broaden the range of services it offers and to access a wider customer base.

BAM Properties Limited engages in retail and commercial property development. In 2012, it achieved a number of lettings, as well as most notably the sale of its speculative development in Chiswick Green, West London to the M&G Property Portfolio for £47.7m reflecting a yield of 6.3%. In 2012 it entered a joint venture with specialized developer Connislow, to work on the potential to develop student accommodation in university cities.

BAM Construction achieved turnover of £837.9m (2011: £900.9m) and an operating result of £10.0m (2011: £8.2m) a margin of 1.2% (2011: 0.9%). The construction market remains challenging with intense price competition and an elevated risk profile. Nonetheless, BAM Construction succeeded in winning 59 contracts in 2012, A particularly encouraging feature was the range and versatility of new projects won, including a training academy for Manchester City Football Club, an advanced blade casting facility for Rolls Royce and a corporate learning centre for BP, as well as a number of school academies and sports facilities.

The company successfully completed 57 projects in 2012 including our work on the new Laboratory for Molecular Biology in Cambridge for the Medical Research Council, a new corporate headquarters in Manchester for The Co-operative Group which has achieved the highest-ever BREEAM outstanding score, and a new national centre for Network Rail in Milton Keynes.

The order book for all our businesses at the end of 2012 stood at £1,272.5m (2011: £1,367.1m). The largest element is in construction at £753.7m, (2011: £815.2m). The combined position of BAM Construct UK and BAM Nuttall is fourth in the league table of work won during the year from 1 January – 31 December 2012 according to Barbour ABI data published in Building Magazine.

We also paid a dividend of £4.5m to our immediate parent undertaking BAM Group (UK) Ltd during the year (2011: £9.7m).

### A socially responsible business

Ensuring the safety and wellbeing of our employees and everyone who works with us and around our operational sites is a core component of being a socially responsible business. Our focus is on achieving a 'zero harm' environment. It is a proactive approach that considers risks and embedding safe procedures at every stage of the construction cycle from design through procurement and onto site operations. We make it clear to staff that they are empowered to challenge any practice that might jeopardise this. 73% of our projects in 2012 achieved zero harm, i.e. there were no recordable accidents. Training in 2012 focused on high risk areas including the use of mobile elevated work platforms ('MEWPs'), scaffolding, fire risks and also behavioural training. We are interrogating the reasons behind factors such as times of the day and the times of the year when the risk profile for accidents is elevated.

In 2012 senior staff and managers received training to ensure that they were fully aware of the requirements of the anti-bribery and corruption legislation. The company made further progress in 2012 on reducing carbon emissions, reducing the amount of construction waste generated and sent to landfill and more efficient use of energy in its offices and on sites. This improvement in performance resulted in retaining our gold standard on the Business in the Community Corporate Responsibility Index 2012. We are developing our expertise in sustainable design, BREEAM assessment and post occupancy evaluation as added value services.

### The outlook

BAM Construct UK continues to withstand the economic pressures of the recession well. My fellow directors and I

are conscious that the outlook remains difficult for the UK economy for some years to come. We continue to concentrate on achieving cost efficiencies, the right level of staffing, careful selection of supply chain partners and increased due diligence in all aspects of our business. However, we believe we must continue to develop the capacity of our business to be agile and to innovate so that we adapt to customers' changing needs and priorities. In 2012, for example, we made further strides in developing Business Information Modelling ('BIM') particularly focusing on how to use the data captured in the model to help our customers to manage their completed buildings more efficiently.

The loyalty and commitment of our employees is a major contributor to the success of our business. Customer feedback continues to confirm high levels of satisfaction with the professional competence, collaborative skills and friendliness of our people. We have maintained our commitment to communicating well with our people and developing their skills and potential. At the end of 2012, we participated again in the industry-wide employee survey Best Companies. The board is pleased that the result that has placed the company on The Sunday Times list of Top 100 companies to work for 2013. Our ranking is 70 - an improvement of ten places on our performance from when we last participated in 2011.

Economic conditions will remain difficult. The board believes that continued success depends on the trust and quality of our relationships with customers. BAM wants to be distinctive for the way we do business by being trustworthy, reliable and caring as well as creative. That is what keeps clients coming back and, we believe, a key factor in some of the new customer relationships we formed in 2012.

I would like to thank our new clients who have chosen us for the first time in 2012, and also thank our longstanding partners with whom we work with again and again.



**Graham Cash**  
Chief Executive  
8 April 2013

## Sector review – Construction



### **BAM Construction**

BAM Construction successfully completed 57 construction projects in 2012 and won 59. Education remains a key market and the company completed 20 facilities – a mixture of university buildings, colleges, academies, primary and secondary schools. The other principal areas of work were commercial buildings, leisure, health and mixed development.

Among our completed buildings was the headquarters in Manchester for The Co-operative Group which is on track to achieve the highest-ever BREEAM outstanding score in the world. We also completed the national centre for Network Rail in Milton Keynes and the Laboratory for Molecular Biology in Cambridge for the Medical Research Council.

The construction market remains highly competitive with sub-economic tendering by some competitors and instability in the supply chain. The board and the regional directors of the construction business have concentrated on mitigating these risks through careful analysis of prospective projects and being highly selective about tenders. The company seeks to work with clients who want a high-quality, added-value service rather than simply the lowest cost. It is encouraging that BAM Construction won a range of diverse projects in

2012 with some of the leading organisations in Britain, such as a blade casting facility in Rotherham for Rolls Royce, a training academy for Manchester City FC, a new sports centre in Huddersfield, the refurbishment of East Midlands Airport terminal, an office block in Chancery Lane, London for Viridis, and another two projects for Network Rail. In addition, we continued to participate successfully in the Education Funding Agency's National Contractors Framework and were awarded another 11 academies in 2012. In many cases, our ability to challenge the brief productively and offer innovation through Building Information Modelling, our expertise in devising sustainable solutions, and our proposed programme of community engagement, were factors that contributed to our success.

The company was also reselected to participate on all of the regional and national Designed for Life, Building for Wales Frameworks for health facilities and continued to participate on the Scottish Health Framework.

BAM Construction was associated with many awards for the buildings it worked on. For example, BAM built four of the ten museums shortlisted by the Arts Prize Fund for Museum of the Year Award 2012, with the Royal Albert Memorial Museum, which BAM delivered in 2011, emerging as the overall winner.

## Sector review – Design, Services Engineering and Plant

Network Rail National Centre, Milton Keynes



### BAM Design

Our design division had a successful year exceeding its fees target of £5.2m by £2.5m. BAM Design made a major contribution to the company's continued success in winning academy projects under the Education Funding Agency's Framework. It was also involved in delivery of a number of other major projects such as our work on a national centre for Network Rail, our current projects at King's Cross and Aston University Student Accommodation Village.

Our ability to offer the full range of design services, from concept architecture through all design stages, adds value and contributes to our ability to proactively challenge the project brief to find the best value options for successful delivery.

The design team continues to lead our innovative work on developing Building Information Modelling and sustainable design and to spread that expertise throughout the group.

### Services Engineering

The company's Services Engineering division experienced the same competitive market conditions as our construction business. Nonetheless, it contributed to the achievement of a profitable outcome on many projects. Our in-house services engineering capabilities assist our construction teams to evaluate and solve challenges before construction commences.

It also lessens the company's dependency on external M&E subcontractors in an unstable climate.

In 2012, the division continued to expand its activities in the north east of the country and further expansion is planned in 2013 to bring the benefits to more of our construction divisions. For example, Services Engineering worked on our project at Newcastle College to solve the challenge of providing services that could be easily accessed for maintenance and repair without disrupting the workings of the college.

### BAM Plant

The plant division succeeded in a difficult climate in maintaining margins supporting the construction business and that of BAM Nuttall Limited (Royal BAM Group's civil engineering company in the UK). The benefits of an internal plant division are many: efficient sourcing and procurement, attention to quality, maintenance and safe operation of all plant and equipment when it is on site. For example, BAM Plant organised a series of ten helicopter lifts to deliver heavy plant on to the roof of our project to build a retail balcony at Waterloo Station, London which enabled us to cope with constrained access to the site.

BAM Plant supports the group's drive to operate sustainably and responsibly and again contributed to lowering the CO<sub>2</sub> emissions from company cars and grey fleet cars.

## Sector review – Properties



### **BAM Properties**

In 2012, BAM Properties continued to concentrate on achieving lettings and sales of its current office and retail portfolio.

In February 2012, it completed construction of its six storey, speculative development at Chiswick Green London. Shortly after completion, BAM let 82% of the building (66,500 sq ft) to Viasat, a leading satellite communications company, at a rent of £39 per sq ft on a lease for 15 years. In December 2012, BAM Properties sold the development to the M&G Property Portfolio for £47.7m. The prime yield for the secured income at Chiswick Green is 6.3%.

During the year BAM Properties let nearly 9,000 sq ft of its flagship Midlands office accommodation, FORE, Solihull, to ArcelorMittal, a leading steel and mining company.

At the end of the year, BAM Properties announced that it would proceed with its commercial development at 110 Queen St Glasgow in the heart of the city's prime commercial and retail district. The development will provide 143,000 sq ft of Grade A offices and 20,000 sq ft of retail space. The project, which will be built by BAM Construction and use the services of BAM Design and BAM Services Engineering, received a £9.6 million loan commitment from the Scottish Partnership for Regeneration in Urban Centres ('SPRUCE') Fund that was established by the Scottish Government and European Regional Development Fund. Construction commenced in January 2013.

The property market in Britain remains subdued and BAM Properties continues to concentrate on letting its portfolio and creating additional value by, for example, seeking a change of planning consent where this is viable and would add value.

## Sector review – FM

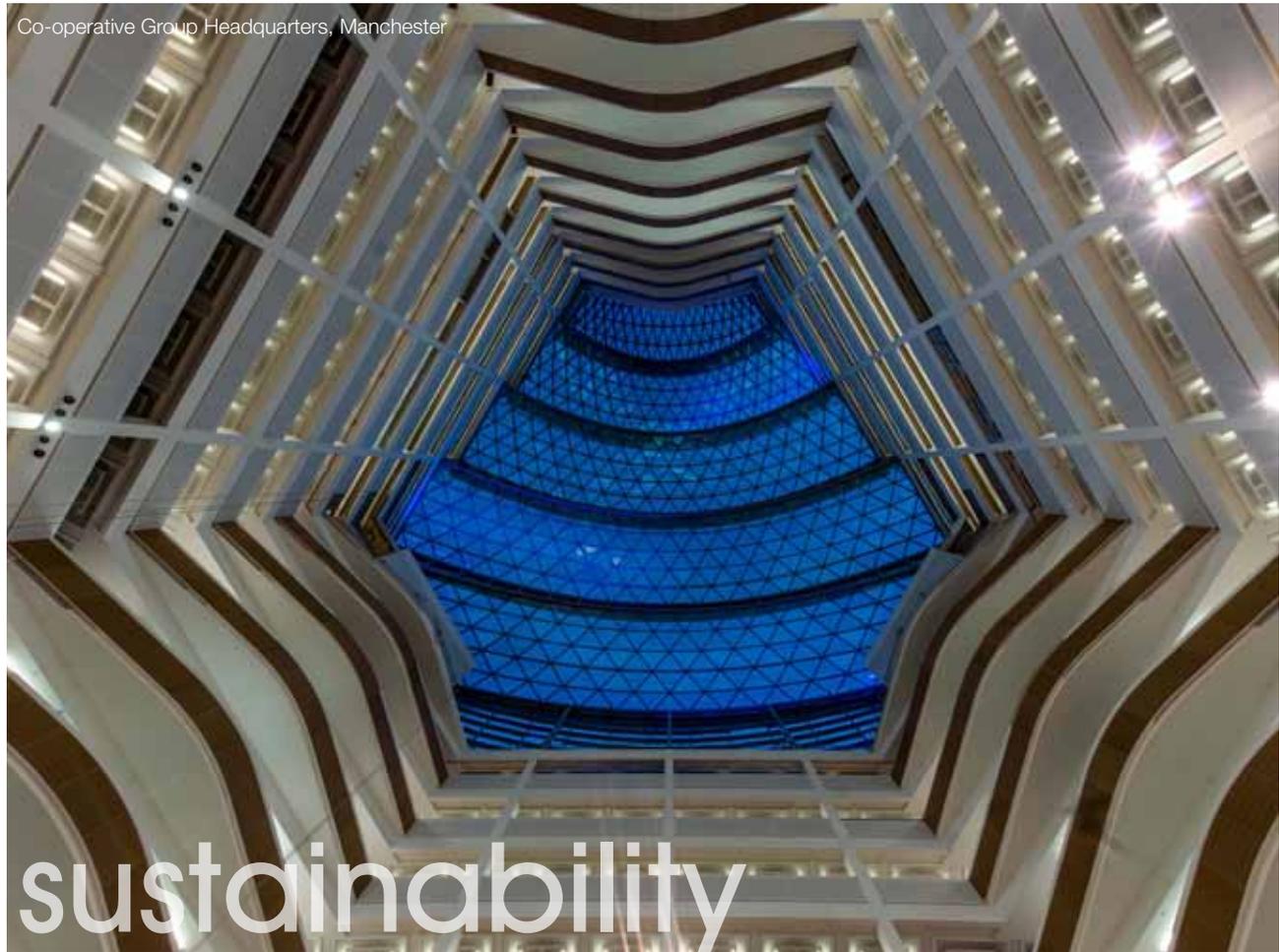


### BAM FM

BAM FM was founded in 1998 and concentrated mainly on providing soft facilities management services at schools and hospitals in support of BAM's portfolio of PPP/PFI projects. In 2011, the company began to expand its business into the private sector and, in 2012, in line with the strategy of Royal BAM Group to expand services across the construction life cycle, the company formulated a strategy for rapid growth. The goal is to reach £100m turnover by the end of 2018. As part of the strategy, it sought a suitable acquisition that would expand its hard FM capabilities and help to broaden its customer base. It commenced discussions with Sutton Group and, in January 2013, successfully completed the transaction to acquire Sutton Group Limited and its subsidiary Sutton Maintenance Limited.

In 2012, BAM FM commenced a project to develop the data captured through Building Information Modelling so that it can populate operations maintenance manuals for owners and occupiers of buildings. This would enable owners and occupiers to plan and procure the maintenance of their buildings more efficiently and cost effectively and would be an attractive benefit that BAM could offer customers.

# Sustainability report



## Doing business responsibly

The group has articulated its vision to be a distinctive construction and property services brand by being customer focused, creative and sustainable. Our values are to be trustworthy, reliable, considerate and creative.

Behaving responsibly to customers, the community and our own colleagues is intrinsic to these values and the achievement of our vision, and so we seek continuously to improve our performance on all aspects of sustainability.

In 2012 we published our fifth sustainability report, noting our progress in 2011, which can be viewed on our website: [www.bam.co.uk](http://www.bam.co.uk). Below we update the 2011 data where possible.

It is not solely a matter of meeting existing targets. We are making strides in data capture and analysis which is enabling us to set new goals and provide better advice and options to our customer. Our goal is to continuously improve our capacity to help them to achieve buildings that will last longer, be more sustainable to operate, and have less impact on the environment when the buildings are de-commissioned at the end of their life.

Our work on developing Building Information Modelling is having a positive impact on all of these issues. BIM has many practical benefits in helping to reduce waste by specifying materials more accurately and by detecting and avoiding clashes. However, we believe its most valuable benefits lie in being able to model the impact of buildings and evaluate the sustainability of issues such as the choice of various materials, positioning of the building, and other factors.

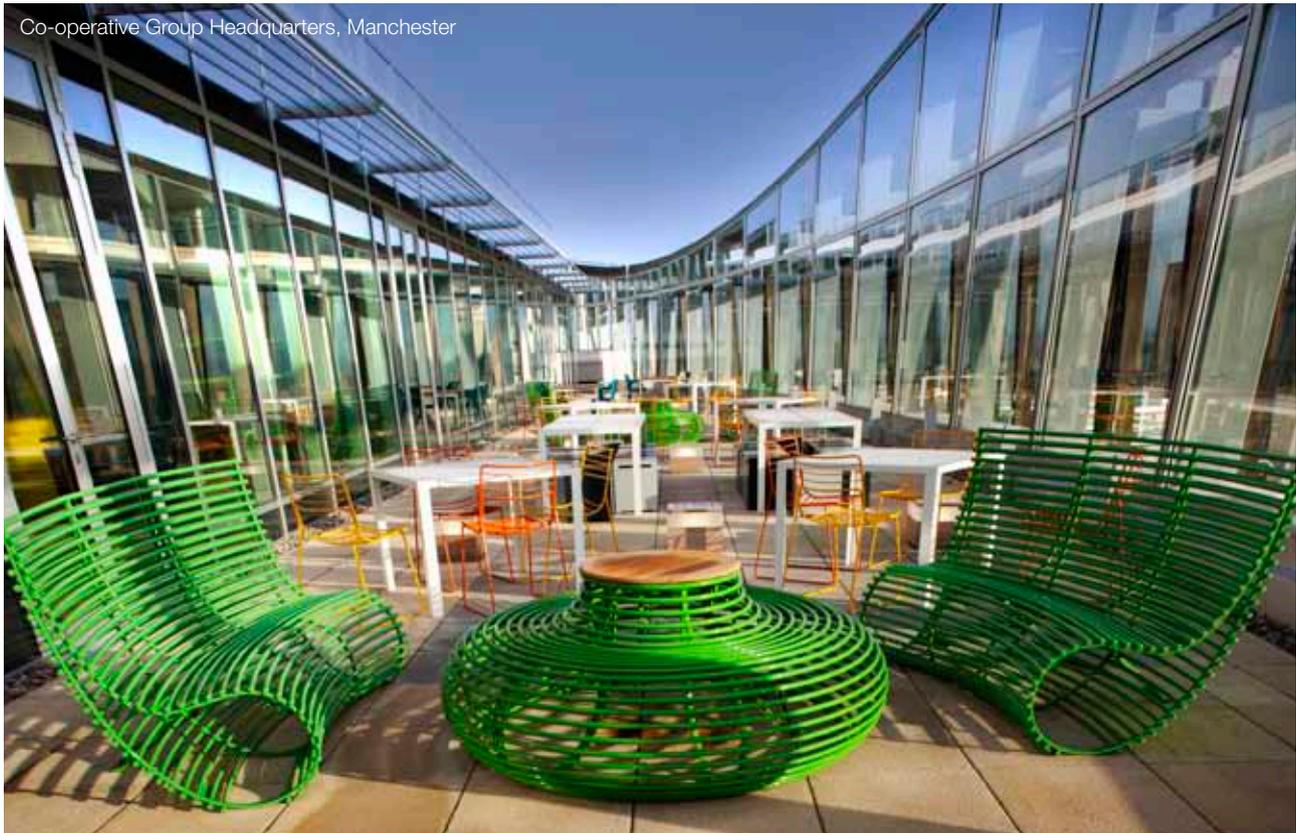
We consider that transparency is an important quality of running a sustainable and ethical business.

## Environmental sustainability

BAM Construct UK's total carbon footprint in 2012 was 15,927 tonnes CO<sub>2</sub>, a reduction of 1,892 tonnes (10.6%) compared to 2011. Our normalised emissions also reduced to 18.34 tonnes of CO<sub>2</sub> per £m turnover, a reduction of 5%.

The largest reduction came from reducing the electricity we consumed by 17%, also resulting in an estimated cost saving of £270,000, demonstrating that the efficiencies we have worked on over the past four years are yielding results.

## Sustainability report



The transport strategy introduced in 2011 is also taking effect with a reduction in our overall business mileage of 1.6million miles and a saving of £260,000. We exceeded the target we had set for improving our fleet efficiency by 12%. The group continues to incentivise green travel options and invested £90,000 in a green car award scheme. 554 employees to date have purchased bicycles through the Cycle to Work Scheme.

The company now measures emissions from waste sent to landfill and calculates that 6,000 tonnes of CO<sub>2</sub> has been saved since 2008 through improved management of waste.

We consider that we are on track to meet our target to reduce emissions by 25% by 2015 compared to our performance in 2008. To date, we have reduced our emissions by 12%, saving 6,488 tonnes of CO<sub>2</sub> which equates to a monetary saving of approximately £3.5million since 2008.

In 2012, the company made further progress on the management of waste. The total amount of waste produced per £million of turnover reduced to 139 m<sup>3</sup> (down from 142 m<sup>3</sup> in 2011) and the proportion of waste diverted from landfill increased to 91% (from 88% in 2011). Our target is to achieve zero non-hazardous waste to landfill by 2015. We are implementing a number of measures to keep improving our performance such as working with clients and designers to

eliminate waste at design stage; reusing excavation waste on site, or using it on other sites, and ensuring mixed waste is sent to specialist materials recovery facilities.

The quantity of mains water used on our sites reduced by 10% in 2012 to 121m<sup>3</sup> per £million turnover.

BAM keeps records of the amount of timber delivered to our sites. 6,000m<sup>3</sup> of timber was delivered in 2012 of which more than 99% was from verified legal and sustainable sources and 88% has a fully documented Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) chain of custody.

In 2012, we started work on developing targets for responsible sourcing of other construction products such as concrete, metals and aggregates and considering the best way of verifying their chain of custody.

In 2011, the group was awarded £110,000 in a competitive funding bid from the Technical Strategy Board to carry out post evaluation studies on two of our completed schools projects: Cressex Community School and St Peter the Apostle School. Work continued on the study in 2012 which will assist the industry to understand better the performance of buildings in occupation compared to the design aspirations.

# Sustainability report

## Social sustainability

Our total community contribution in 2012 was valued at £591,988 which is made up of employee time, monetary and in-kind donations. This comprised of £91,852 cash contributions, £471,280 in staff and managers' time and £28,856 in-kind donations.

Our community investment benefitted 21,507 people. Much of BAM Construct UK's investment in community activity is directed towards providing educational opportunities for young people. During 2012, 5,780 students learned a new skill through working with us.

In 2012, our two year charity partnership with Barnardo's concluded. Over the two year partnership, we raised £ 224,409 for the charity in a combination of employee fundraising and matched donations by the group. This provided Barnardo's with the resources to provide 75 young people with skills and qualifications to improve their lives.

In December 2012, following a ballot of staff, the company entered into a new charity partnership for the next two years with MacMillan Cancer Relief.

In 2012, we continued the shared apprentice programme that BAM developed with Coventry City College and the City Council. At the start of 2012 there were seven apprentices on the scheme, of which five completed their qualification during the year and moved on to employments with local companies. Ten apprentices are currently in training where they are employed by BAM for periods but also undertake placements with other local contractors so that they gain the full range of experience they need to complete their qualifications.

In 2012, BAM provided work placements for 21 students, totaling 366 weeks.

Two of our construction divisions in the west and north east achieved National Skills Academy status.

In November 2012, the Group participated in the UK contractors Group 'Open Doors' weekend. We opened five of our sites for visits by members of the public so that they could see what is involved in construction and become more aware of career options within the industry. Several hundred people visited and we received many compliments.

BAM tries to minimise any negative impact of its construction work and to be a considerate neighbour. This is why we participate in the Considerate Constructors Scheme ('CCS'). Membership of the CCS means that our sites are independently audited twice during the period of their operation. The average score of BAM sites in 2012 was 35.44 out of 40.

This score is more than the industry average of 35.20 and a slight improvement on our 2011 average of 35.36. BAM achieved three gold, seven silver and 13 bronze awards at the Considerate Constructors Scheme awards ceremony in 2012.

## Supporting our employees to be their best

The company received continuous positive feedback from customers about the quality of our people who draw praise for their professional, collaborative and friendly approach. The board believes it is important to nurture this culture.

The board staged roadshows in eight venues around Britain which were well attended and achieved positive feedback from employees. 58% of attendees filled in a feedback form after the presentations and 94.7% of the respondents scored it as good or excellent.

In 2011, we began to exploit the potential of social media as a way of engaging our people and enabling them to collaborate. BAM Construct UK now has Facebook pages for 'BAM People' where employees can advertise and report on events organised by our sports and social clubs around the country. We also have Facebook pages for 28 of our construction projects. BAM has a presence on Twitter and tweets news daily about the group's activities and achievements. We continue to encourage all employees to follow BAM Construct UK on Twitter and Facebook as an accessible way of keeping up with the group's news.

In 2012 we ceased to publish a printed magazine for employees, using online bulletins instead to help colleagues keep up with company news. In December 2012, we implemented an improved homepage on our intranet with a new section that interviews employees in the group about their roles. The new homepage also shows our assistance web where employees can post enquiries in real time and debate them with others. This is contributing to better knowledge sharing across our businesses. The intranet has an improved search engine which is enabling colleagues to access the information on the intranet more easily.

The group has continued to invest in employee development. In 2012, 5,927 days, (2011: 5,868 days) of formal training programmes were delivered. This worked out at approximately 2.9 days per employee. The investment was £1,114,730 (2011: £1,151,687).

The amount of training on health and safety increased by 17% as the group continues to embed a culture of achieving zero harm. Expenditure of health and safety training decreased as we continue to develop the skills and capacity of our own safety and health advisors and managers to deliver a range of British Safety Council accredited courses. 26 managers in our

# Sustainability report

FM business completed the IOSH Managing Safely course in 2012.

Much of the emphasis of the safety training programme is, naturally, based around operational issues on construction sites particularly in relation to high risk activities such as lifting, working at height, asbestos awareness, fire safety and the use of mobile elevated working platforms (MEWPs).

The company continues to develop its e-learning facility to extend and supplement our formal training programmes. All employees undertook an e-learning course in anti-bribery and corruption awareness and environmental induction programmes.

The board seeks to develop talent so that our future business leaders can be drawn mainly from within BAM. Four management development programmes were staged in Roffey Park to develop the potential of employees at various levels. 62 employees participated. One senior manager attended an executive development programme at Henley Business School and two procurement managers attended an international supply chain management course in the Netherlands, ran by Royal BAM Group's Business School.

In 2012, BAM sponsored 55 trainees through day release courses leading to HNCs, foundation degrees or honours degrees and the group continued to support employees to achieve accreditation with relevant professional bodies and courses of further education such as BSc, MSc or MBA qualifications.

The group continues to subsidise thriving sports and social clubs around the country offering a range of cultural, social and sporting activities and is well supported by employees. The group introduced a new scheme entitled 'BAM Benefits' which enables employees to avail themselves of up to 10% discounts on purchases from a range of high street retailers and services, including some of the major supermarket chains. There has been a good take-up of the scheme.

In the autumn of 2012, the company participated in the benchmarking Best Companies awards which involves a confidential survey of 1,400 randomly selected employees about their experience of BAM as an employer. We participated in the survey previously in 2009 and 2011. The board is delighted that the results secured a place on the Sunday Times List of Top 100 Companies to Work For 2013 and our ranking improved to number 70, up ten places from our previous listing of 80 on the 2011 list. BAM was the highest ranked construction and property services company.

## Employees with disabilities

The directors encourage the employment of people with disabilities by providing training and career development opportunities and giving maximum support to staff that need special training and additional career support.

## Thought leadership

The board is keen that the group should make a contribution to the wider development of the construction and property services sector as a whole and to the British economy. Members of staff participate in working parties and committees of various organisations including the UK Contractors Group ('UKCG') within the Confederation of British Industry ('CBI'), where the Chief Executive chairs its IT working party. BAM also chairs the Waste and CO<sub>2</sub> working groups within the UKCG.

The company has played an active role in the UKCG's campaign 'Building Britain's Future' to encourage government and local authorities to invest in construction and infrastructure as one of the most cost effective ways of stimulating economic recovery and generating employment.

BAM Construct UK chairs the Sustainability Working Group of ENCORD (European Network of Construction Companies for Research and Development) on behalf of Royal BAM Group. This group developed the Construction CO<sub>2</sub> Measurement Protocol which was endorsed by the World Resources Institute (WRI) and published on its Green House Gas Protocol website as well as being used by the Global Reporting Initiative (GRI) as the standards of measurement for their Construction and Real Estate Sector Supplement. In 2012, we assisted the ENCORD Group with its work on a waste management guidance document to supplement the Protocol.

The group's environmental team continued to work with the Waste and Resources Action Programme (WRAP) in 2012 and assisted WRAP to develop its latest voluntary agreement on resource efficiency.

The group does not make party political donations of any kind, nor does it engage in party politics. However, it believes that engaging and influencing government policy on relevant topics is part of being a responsible business and it contributed to dialogue with government, opposition MPs and with local bodies through its participation in the UK Contractors Group and the CBI.

## Directors' report

The Directors present their report and group accounts for the year ended 31 December 2012.

This directors' report should be read in conjunction with the Chief Executive's Review, the individual Sector Reviews and the Sustainability Report, each of which is incorporated by reference in (and shall be deemed to form part of) this directors' report to the extent required by applicable law or regulation.

### Principal activities

BAM Construct UK Limited (the group) is the holding company for the construction, design, services engineering, plant hire, property development and facilities management interests in the UK of its ultimate parent undertaking Koninklijke BAM Groep nv (Royal BAM Group).

### Group results

The profit before tax for the year was £13.9m (2011: £11.5m). After taxation, the profit attributable to the shareholder was £9.1m (2011: £7.9m). During the year a dividend of £4.5m was declared and paid (2011: £9.7m). Pension deficit repair contributions of £12.0m were paid during the year (2011: £12.0m).

### Promoting the success of the company and the BAM brand

It is four years since the group adopted the full BAM brand, and the directors consider it important to raise its profile in the UK market as many of our competitors' trade under long established brand names.

In June 2012 in the run up to the Olympic games, the group in collaboration with BAM PPP and BAM Nuttall undertook an advertising campaign on the London Underground to promote the collective capabilities offered by BAM to customers in Britain. In addition they collaborated on an event for 200 clients in September.

As usual the Group participated in a range of client facing conferences, including for example, the annual conference of Directors of University estates and a Scottish government conference on asset management in Scotland.

The company engages in proactive media relations to generate positive publicity and the Chief Executive appeared on ITN and BBC 4 commenting on economic conditions and the outlook for the construction industry.

BAM Construct UK is a member of the UK Contractors Group ('UKCG') and the Confederation of British Industry ('CBI'). The directors and group staff contributed to its activities by participating on a range of committees such as IT in the industry, health and safety and sustainability.

### BAM Nuttall Limited and BAM PPP UK Limited

Communication and interaction continued between BAM Construct UK and BAM Nuttall during the year as the two companies collaborated on sharing knowledge and best practice in areas such as sustainability, marketing and PR, health and safety and IT development.

BAM Construct UK continues to work closely with BAM PPP, the fellow Royal BAM Group's PPP Subsidiary ('BAM PPP') via BAM Construction and BAM FM. The group is currently working in partnership with BAM PPP examining PFI procurement opportunities in both schools and healthcare as these come to the market.

### Subsidiaries

The principal activities of subsidiary undertakings are shown in note 24 to the accounts.

### Qualifying third party indemnity provisions for directors

The group's ultimate parent undertaking, Royal BAM Group, maintains liability and indemnity insurance for its directors and officers and for those of its subsidiaries. This provision has been in place throughout the year and remains in force at the date of approving the directors' report.

## Directors' report

### Directors

The following served as directors of BAM Construct UK Limited during the year ended 31 December 2012:

R Bailey  
J R Burke  
G Cash

### Fixed assets

Movements in tangible fixed assets during the year are shown in note 8 to the accounts.

### Payment Policy

While BAM Construct UK does not follow a specific payment code, it is the group's policy that payments are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2012, the group had an average of 29 days (2011: 33 days) purchases outstanding in trade creditors (including trade creditors due in greater than one year). BAM Construct UK has a proactive policy of supportive management of its supply chain.

### Financial risk management

Financial risk management is an integral part of the group's management processes. Stringent policies designed to identify, manage and limit both existing and possible risks are applied at various management levels.

The group is exposed to potential credit risk on financial instruments such as liquid assets and trade debtors. Credit risk is managed by spreading its investments in liquid assets across financial institutions. In line with normal business practice, the group operates credit management procedures.

BAM Construct UK, along with other Royal BAM Group subsidiaries, has provided guarantees against bank loan facilities for Royal BAM Group. The directors have carefully considered the risks associated with the provision of these guarantees and are of the opinion that the Royal BAM Group will meet its obligations under these loan facilities.

Liquidity and cash flow risks are actively managed through the preparation and monitoring of medium term plans, budgets and quarterly forecasts. The strong cash balances within BAM Construct UK assist in mitigating the potential interest rate and cash flow risks associated with the tightening in the credit markets for funding future property developments. Compliance with loan covenants associated with the non-recourse finance obtained for BAM Properties' developments is monitored regularly. Price risk is considered at a group level as part of the review of management forecasts and at project level as part of

the tender process and is monitored on an ongoing basis. The group has in place established procedures for tendering for new construction projects to identify and assess potential risks, culminating in formal review and director adjudication within the construction operating company and also by the Board of BAM Construct UK.

In the light of the downturn in the UK economy, the group continues to review the spread of work in the construction sector and, in particular, to examine potential risks that may arise from clients' reconsideration of project viability. However, the group considers that the strong component of public work in the future order book and the strength of the work already contractually committed mitigate the overall risk to BAM Construction.

Potential new developments are appraised by BAM Properties using stringent financial assumptions with regard to forecast tenant demand, rental values and expected yields, as well as assessments of construction inflation.

Within BAM FM, price risk is mitigated through the process of benchmarking selected services within each contract. Benchmarking is typically carried out at five-year intervals from the commencement of each facilities management contract and adjusts the selected service price to reflect the current market value. Cash flow risk is managed through the inclusion of invoicing and payment cycle provisions within the facilities management concession contracts.

The directors have assessed and continue to monitor the positioning of each of the businesses.

### Competitive risks

The group is exposed to typical commercial risks experienced by commercial organisations operating within the same competitive markets of construction, design, services engineering, property development and the provision of facilities management services in the UK.

The group seeks to mitigate these risks by focusing on providing high quality services and having a mixed portfolio of projects across geographic and market sectors. The group also operates a highly selective approach to bid selection within BAM Construction, which includes maximising opportunities for framework contracts and negotiated projects. Letting risk is assessed by BAM Properties when considering new developments. BAM FM pays close attention to ensuring the high levels of service required are accurately priced to mitigate competitive risks.

## Directors' report

### Business continuity

There were no events during 2012 that posed a threat to the continuity of the business.

### Legislative risks

The group is required to comply with all applicable legislation and, in particular, covering activities such as the Construction Industry Scheme and relevant building standards for construction and property developments and standards of food hygiene in the provision of facilities management services.

This is achieved through established best practice procedures that are available to all employees on the group's intranet and through specific training courses. BAM Construct UK employs specialist staff with the relevant knowledge and experience in order to proactively manage these potential risks and ensure compliance at the highest level.

No significant uncovered risks were identified up to the date of this report.

### Consideration of going concern

The directors have reviewed the matter of preparing the financial statements under the going concern basis. They have considered:

- the level and quality of existing orders held by BAM Construction;
- the value of orders for the FM business;
- the carrying value of property development stock;
- the liquidity balances within the business;
- the principal risks and uncertainties already outlined in the previous sections to this report; and
- the future forecasts for the various businesses sectors in which the group operates.

After considering the above points, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the obligatory steps to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

Ernst & Young LLP will be re-appointed as the company's auditor in accordance with the elective resolution passed by the company under section 485 of the Companies Act 2006.



**Graham Cash**  
Chief Executive  
BAM Construct UK Ltd  
8 April 2013

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the accounts in accordance with applicable law and regulations.

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

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

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

# Independent auditor's report to the members of BAM Construct UK Limited

We have audited the accounts of BAM Construct UK Limited for the year ended 31 December 2012 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts.

In addition, we read all the financial and non-financial information in the Royal BAM Group Statement, Group Highlights, Chief Executive's Review, Sector Review, Sustainability Report and Directors' Report to identify material inconsistencies with the audited accounts.

## Notes:

1. The maintenance and integrity of the BAM Construct UK Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's 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.

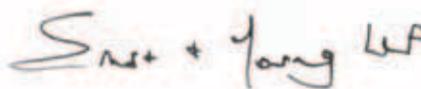
## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

## Matters on which we are required to report by exception

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company accounts 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.



## Amin Mawji (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

8 April 2013

## Group profit and loss account

Amounts in millions of pounds

At 31 December	Notes	2012	2011
Group turnover		917.2	945.9
Cost of sales		(892.9)	(929.9)
<b>Gross profit</b>		<b>24.3</b>	16.0
Operating and other administrative expenses		(13.6)	(8.7)
Other operating income		2.3	2.3
<b>Group operating profit</b>	2	<b>13.0</b>	9.6
Profit on disposal of tangible fixed assets	3	0.5	0.2
<b>Profit on ordinary activities before interest and taxation</b>		<b>13.5</b>	9.8
Interest payable and similar charges	6	(2.4)	(2.8)
Interest receivable and other income	6	2.8	4.5
<b>Profit on ordinary activities before taxation</b>		<b>13.9</b>	11.5
Taxation	7	(4.8)	(3.6)
<b>Profit attributable to shareholder</b>		<b>9.1</b>	7.9

All items in the profit and loss account relate to continuing operations.

## Group statement of total recognised gains and losses

Amounts in millions of pounds

For the year ended 31 December	2012	2011
Profit for the financial year	9.1	7.9
Actuarial loss on HBG UK/GA pension schemes – gross	(10.3)	(25.1)
Actuarial loss on HBG UK/GA pension schemes – current tax credit	2.5	3.6
Actuarial loss on HBG UK/GA pension schemes – deferred tax credit	–	3.0
<b>Total recognised (losses) / gains relating to the financial year</b>	<b>1.3</b>	<b>(10.6)</b>

# Group balance sheet

Amounts in millions of pounds

At 31 December	Notes	2012	2011
<b>Fixed assets</b>			
Tangible fixed assets	8	5.3	5.9
		<b>5.3</b>	5.9
<b>Current assets</b>			
Land and property developments		111.8	143.7
Stocks of raw materials and consumables		0.1	0.2
Debtors: amounts falling due within one year	10	255.0	282.4
Debtors: amounts falling due after more than one year	10	9.8	14.8
Cash at bank and in hand	11	87.1	105.0
		<b>463.8</b>	546.1
Creditors: amounts falling due within one year	12	(316.9)	(346.1)
<b>Net current assets</b>		<b>146.9</b>	200.0
<b>Total assets less current liabilities</b>		<b>152.2</b>	205.9
Creditors: amounts falling due after more than one year			
Non-recourse bank loans	12, 13	(16.0)	(61.4)
Trade creditors	12	(7.1)	(10.1)
		<b>(23.1)</b>	(71.5)
<b>Provisions for liabilities and charges</b>	14	<b>(0.1)</b>	(0.6)
Net assets excluding pension liabilities		<b>129.0</b>	133.8
Pension liabilities	21	(18.2)	(19.8)
<b>Net assets including pension liabilities</b>		<b>110.8</b>	114.0
Financed by:			
<b>Capital and reserves</b>			
Share capital	15	40.0	40.0
Profit and loss account	17	70.8	74.0
Equity shareholder's funds	17	110.8	114.0

# Company balance sheet

Amounts in millions of pounds

At 31 December	Notes	2012	2011
<b>Fixed assets</b>			
Tangible fixed assets	8	3.0	2.8
Investment in subsidiaries	9	86.6	86.2
		<b>89.6</b>	<b>89.0</b>
<b>Current assets</b>			
Debtors: amounts falling due within one year	10	122.6	116.6
Debtors: amounts falling due after more than one year	10	–	–
Cash at bank and in hand	11	7.3	28.8
		<b>129.9</b>	<b>145.4</b>
<b>Creditors: amounts falling due within one year</b>	12	<b>(90.4)</b>	<b>(100.0)</b>
<b>Net current assets</b>		<b>39.5</b>	<b>45.4</b>
<b>Total assets less current liabilities</b>		<b>129.1</b>	<b>134.4</b>
<b>Provisions for liabilities and charges</b>	14	<b>(0.1)</b>	<b>(0.6)</b>
<b>Net assets excluding pension liabilities</b>		<b>129.0</b>	<b>133.8</b>
Pension liabilities	21	<b>(18.2)</b>	<b>(19.8)</b>
<b>Net assets including pension liabilities</b>		<b>110.8</b>	<b>114.0</b>
<b>Financed by:</b>			
<b>Capital and reserves</b>			
Share capital	15	40.0	40.0
Revaluation reserve	17	66.8	66.4
Profit and loss account	17	4.0	7.6
<b>Equity shareholder's funds</b>	17	<b>110.8</b>	<b>114.0</b>

The accounts were approved by the Board of Directors on 8 April 2013 and were signed on its behalf by:

**Graham Cash**  
Chief Executive

# Notes to the accounts

Amounts in millions of pounds

## 1. Accounting policies

### Basis of preparation

The accounts are prepared under the historical cost convention modified to include the revaluation of investments in subsidiary undertakings (subsidiaries and associates). The accounts are prepared in accordance with applicable UK accounting standards and comply with the Companies Act 2006.

As the company is a wholly owned subsidiary of Royal BAM Group n.v., a company incorporated in The Netherlands which publishes consolidated accounts, the company has taken advantage of the exemption provided under FRS 1 (Revised) not to include a cash flow statement.

### Consideration of going concern

The directors have reviewed the matter of preparing the financial statements under the going concern basis. They have considered:

- the level and quality of existing orders held by BAM Construction;
- the value of orders for the FM business;
- the carrying value of property development stock;
- the liquidity balances within the business;
- the principal risks and uncertainties outlined in the Directors' report; and
- the future forecasts for the various businesses sectors in which the group operates.

After considering the above points, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

### Basis of consolidation

The group accounts consolidate the accounts of BAM Construct UK Limited and all its subsidiaries drawn up to 31 December. No profit and loss account is presented for BAM Construct UK Limited as permitted by section 408 of the Companies Act 2006. The company's profit for the year is disclosed in note 17.

Entities, other than subsidiaries or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group accounts, associates are accounted for using the equity method.

Entities are accounted for in the group as follows: subsidiaries are fully consolidated from the date that control is obtained by the group. They are deconsolidated from the date that control is transferred. Associates are equity accounted for from the date that the group obtains significant influence until that significant influence is transferred.

### Investment in subsidiaries and associates

In the parent company accounts, interests in subsidiaries and associates are included in the parent company balance sheet at the group's share of net assets of these undertakings. The surplus or deficit on the annual revaluation is transferred to the revaluation reserve, unless a deficit below original cost, or its reversal, on an individual investment is expected to be permanent, in which case it is recognised in the company's profit and loss account for the year.

# Notes to the accounts

Amounts in millions of pounds

## 1. Accounting policies (continued)

### Tangible fixed assets

All tangible fixed assets, are initially recorded at cost. 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:

Freehold property	over 50 years
Short leasehold property	over the period until the next break clause
Plant, machinery and vehicles	over 1 to 10 years
Fixtures and office equipment	over 3 to 10 years

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

### Long term contracts

Contract work in progress is valued at total cost incurred plus attributable profits less foreseeable losses and applicable payments on account. The resultant balance is included under debtors as 'amounts recoverable on contracts', under creditors as 'payments on account', or under creditors as 'accruals for foreseeable losses'. Total cost includes direct cost and allocated production overhead. Profit on long term contracts is taken as the work is carried out once the final outcome of the project can be assessed with reasonable certainty. Provision is made for losses on contracts in the year in which they are foreseen.

### Land and property developments

Land and property developments are recorded at the lower of cost and net realisable value. The group capitalises interest on finance raised to facilitate the development of specific projects once development commences and until practical completion, based on the total actual finance cost incurred on the borrowings during the period. When properties are acquired for future redevelopment, interest on borrowings is expensed to the profit and loss account. When redevelopment commences interest on borrowing is capitalised as per above.

### Stocks

Stocks are valued at the lower of cost and net realisable value.

### Carrying amount of debt and allocation of loan issue costs

Debt instruments, such as bank loans, are stated at their net proceeds (i.e. after deduction of loan issue costs) on issue. Issue costs are amortised to the profit and loss account over the life of the instrument and are either included in interest payable or, where applicable, are capitalised into the cost of property development in accordance with the land and property developments accounting policy set out above.

### Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- (i) provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets (including investments in subsidiaries, joint ventures and associates), and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- (ii) deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

# Notes to the accounts

Amounts in millions of pounds

## 1. Accounting policies (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

### Turnover and profit recognition

The origin and destination of the group's turnover is wholly within the United Kingdom.

Turnover and profit are recognised as follows:

#### a) Construction contracts

Turnover, which is stated net of VAT, represents the value of work done in the year including estimates of amounts not invoiced and adjustments relating to prior years which have been agreed during the year.

Profit on construction contracts is recognised by reference to the stage of completion once the final outcome can be assessed with reasonable certainty. Full provision is made for all known or expected losses on individual contracts once such losses are foreseen.

#### b) Development of commercial properties

Sales of property developments are recognised in respect of contracts exchanged during the year, provided that no material conditions remain outstanding at the balance sheet date, and all conditions are fully satisfied by the date on which the accounts are signed. Rental income from incidental operations in connection with development properties is credited to other operating income on an accruals basis. In accordance with UITF 28 'Operating lease incentives', the cost of lease incentives is allocated on a straight line basis over the lease term or a shorter period ending on the date from which it is expected the prevailing market rental will be payable.

Full provision is made for all known or expected losses on completing a development once such losses are foreseen. The profit on disposal of property developments is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus additions in the period and any residual commitments.

#### c) Facilities management

Turnover, which is stated net of VAT, represents the value of work done in the year including estimates of amounts not invoiced for the provision of facilities management services.

Profit on long term facilities management contracts is recognised by reference to the stage of completion once the final outcome can be assessed with reasonable certainty. Full provision is made for all known or expected losses on individual contracts once such losses are foreseen.

### Finance income

Finance income consists of interest receivable on deposits and inter-company balances and is recognised as interest accrues.

### Provisions for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Where the effect of the time value of money is material, the amount of a provision is discounted so as to represent the present value of the expenditure required to settle the obligation.

# Notes to the accounts

Amounts in millions of pounds

## 1. Accounting policies (continued)

### Pensions

The group operates two defined benefit pension schemes, both of which require contributions to be made to separately administered funds and both of which are now closed to new members. With effect from 31 October 2010 future accrual ceased for existing members, where the link to final salary remains only for calculating benefits.

Regular valuations are prepared by independent, professionally qualified actuaries. The regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

A credit (representing the expected return on the assets of the Plan during the year, based on the market value of the assets of the Plan at the start of the financial year), and a charge (representing the expected increase in the liabilities of the Plan during the year, which arises from the liabilities of the Plan being one year closer to payment), are included as a net amount either within interest payable and similar charges or interest receivable and similar income.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the current bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur.

The group also participates in eight defined benefit schemes under 'TUPE' arrangements. These schemes are multi-employer schemes, where the group has 'Admitted Body' status as a participating employer. As such the group is unable to identify its share of the assets and liabilities in these schemes on a reasonable and consistent basis. The group has therefore accounted for these schemes as defined contribution schemes in accordance with treatment permitted by FRS 17 'Retirement Benefits'.

From 23 August 2004 the group opened a defined contribution scheme for new members of staff. Contributions to this scheme are charged to the profit and loss account when payable.

The group has applied the Amendment to FRS 17 'Retirement Benefits' in these accounts. The group has applied UITF48 'Accounting implications of the replacement of the retail prices index with the consumer prices index for the retirement benefits' in these accounts.

Details of the pension schemes are disclosed in note 21.

### Leases

Payments under operating leases are charged wholly to the profit and loss account on a straight-line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the period ending on a date from which it is expected that the prevailing market rental will be payable.

Revenue arising from the leasing of assets under operating leases is recognised in the profit and loss account on a straight-line basis over the lease term.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

# Notes to the accounts

Amounts in millions of pounds

## 2. Operating profit

	2012	2011
This is stated after charging / (crediting):		
Depreciation of owned assets	2.6	3.5
Operating lease rentals – land and buildings	2.6	2.7
– plant and vehicles	0.7	1.0
Auditor's remuneration – audit	0.4	0.4
Incidental rental income from development properties	(0.8)	(1.0)
	<b>2012</b>	<b>2011</b>
	<b>£000s</b>	<b>£000s</b>
Fees payable to the company's auditor for the audit of the company's accounts	73.5	73.5
Fees payable to the company's auditor for other reasons:		
The audit of the company's subsidiaries pursuant to legislation	240.5	242.5
Other services pursuant to legislation	84.0	84.0
<b>Total</b>	<b>398.0</b>	<b>400.0</b>

Fees payable to Ernst & Young LLP for non-audit services to the company itself are not disclosed in the individual accounts of BAM Construct UK Limited because the company's consolidated accounts are required to disclose such fees on a consolidated basis.

## 3. Profit on disposal of fixed assets

	2012	2011
Proceeds from sale of tangible fixed assets	1.1	0.3
Less: net book value	(0.6)	(0.1)
Profit on disposal of tangible fixed assets	0.5	0.2

## 4. Directors' emoluments

	2012	2011
	£000s	£000s
Aggregate emoluments of the 3 directors (2011: 3 directors) excluding pension contributions	831	794
Group contributions to defined contribution schemes	32	61
	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>
Members of defined benefit schemes	2	2
	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>
Members of defined contribution schemes	3	3

## Notes to the accounts

Amounts in millions of pounds

### 4. Directors' emoluments (continued)

	2012	2011
	£000s	£000s
The amounts in respect of the highest paid director were as follows:		
Emoluments	339	332
	<b>339</b>	<b>332</b>
Accumulated total accrued pension per annum	107	105

### 5. Staff costs

	2012	2011
(a) The aggregate payroll costs, including directors' emoluments, were as follows:		
Wages and salaries	91.5	97.1
Social security costs	9.6	10.3
Other pension costs	8.7	9.0
	<b>109.8</b>	<b>116.4</b>

Included in other pension costs are £nil (2011: £nil) in respect of the defined benefit schemes and £8.7m (2011: £9.0m) in respect of the defined contribution schemes.

	2012	2011
	No.	No.
(b) The average number of persons employed by the group during the year including directors, was as follows:		
Staff	1,442	1,567
Operatives	911	936
	<b>2,353</b>	<b>2,503</b>

### 6. Net interest

	2012	2011
<b>Interest payable and similar charges:</b>		
Bank interest	(2.3)	(2.8)
Amortisation of loan issue costs	(0.2)	(0.3)
	<b>(2.5)</b>	<b>(3.1)</b>
Interest capitalised	0.1	0.2
Capitalisation of loan issue costs amortised	–	0.1
Interest payable	<b>(2.4)</b>	<b>(2.8)</b>

## Notes to the accounts

Amounts in millions of pounds

### 6. Net interest (continued)

	2012	2011
<b>Interest receivable and other income:</b>		
Bank interest	1.2	1.9
Interest from ultimate parent company	1.2	1.3
Net return on financing of pension deficit	0.4	1.3
Interest receivable	2.8	4.5
<b>Net interest</b>	<b>0.4</b>	<b>1.7</b>

The cumulative amount of interest capitalised in land and property developments at the balance sheet date is £4.5m (2011: £5.8m).

### 7. Taxation

	2012	2011
(a) Tax on profit on ordinary activities		
UK corporation tax	2.5	3.5
Adjustment in respect of earlier years	1.6	0.2
Total current tax charge	4.1	3.7
Origination and reversal of timing differences	1.0	(0.4)
Adjustment in respect of prior years	(1.1)	(0.2)
Effect of decreased tax rate on opening liability	0.8	0.5
Total deferred tax charge / (credit)	0.7	(0.1)
<b>Total tax charge for the year</b>	<b>4.8</b>	<b>3.6</b>

#### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2011: higher) than the average rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below:

	2012	2011
Profit on ordinary activities before tax	13.9	11.5
Profit on ordinary activities multiplied by the rate of corporation tax in UK of 24.5% (2011: 26.5%)	3.4	3.0
Disallowed expenses	0.1	0.1
Decelerated capital allowances	0.1	0.3
Adjustments in respect of earlier years	1.6	0.2
Pension cost relief in excess of pension cost charge	(0.7)	–
Other timing differences	(0.4)	0.1
	4.1	3.7

## Notes to the accounts

Amounts in millions of pounds

### 7. Taxation (continued)

#### (c) Factors that may affect future tax charges

Deferred tax assets in respect of pension timing differences have been recognised in the accounts on the grounds that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted, on the basis of all available evidence.

Finance Act 2012 was enacted on 17 July 2012 and introduced a reduction in the headline rate of corporation tax to 24% from 1 April 2012 and to 23% from 1 April 2013. A further reduction in the headline rate to 21% by 1 April 2014 and 20% by 1 April 2015 has been announced by the Government. The rate of 23% has been substantively enacted by the balance sheet date and therefore deferred tax is recognised at 23%.

The effect of the reduction in the tax rate to 20% on the company's deferred tax asset would be to reduce the deferred tax asset by £1.0m. The rate changes will also impact the amount of future tax payments to be made by the company.

#### (d) Deferred tax

##### Group

The deferred tax included in the balance sheet is as follows:

	2012	2011
Included in debtors: amounts falling due within one year (Note 10)	2.2	1.8
Included in defined benefit pension liability (Note 21)	5.5	6.6
	<b>7.7</b>	<b>8.4</b>
Other short term timing differences	1.3	0.8
Decelerated capital allowances	0.9	1.0
Pension costs	5.5	6.6
<b>Deferred tax asset</b>	<b>7.7</b>	<b>8.4</b>
At 1 January including deferred tax on defined benefit pension liability	8.4	5.3
Deferred tax (charge) / credit in profit and loss account	(0.7)	0.1
Amount credited to statement of total recognised gains and losses	-	3.0
<b>At 31 December including deferred tax on defined benefit pension liability</b>	<b>7.7</b>	<b>8.4</b>

##### Company

The deferred tax included in the balance sheet is as follows:

	2012	2011
Included in debtors: amounts falling due within one year (Note 10)	1.6	1.0
Included in defined benefit pension liability (Note 21)	5.5	6.6
<b>Deferred tax asset</b>	<b>7.1</b>	<b>7.6</b>

## Notes to the accounts

Amounts in millions of pounds

### 7. Taxation (continued)

	2012	2011
At 1 January including deferred tax on defined benefit pension liability	7.6	5.0
Deferred tax charge in profit and loss account	(0.5)	(0.4)
Amount credited to statement of total recognised gains and losses	–	3.0
<b>At 31 December including deferred tax on defined benefit pension liability</b>	<b>7.1</b>	<b>7.6</b>

### 8. Tangible fixed assets

Group	Short leasehold property	Plant, machinery & vehicles	Fixtures & office equipment	Total
<b>Cost:</b>				
At 1 January 2012	1.1	13.6	9.5	24.2
Reversal of impairment	–	0.1	–	0.1
Additions	–	0.8	1.7	2.5
Disposals	–	(3.3)	–	(3.3)
<b>At 31 December 2012</b>	<b>1.1</b>	<b>11.2</b>	<b>11.2</b>	<b>23.5</b>
<b>Depreciation:</b>				
At 1 January 2012	0.7	10.5	7.1	18.3
Charge for the year	0.1	1.1	1.4	2.6
Disposals	–	(2.7)	–	(2.7)
<b>At 31 December 2012</b>	<b>0.8</b>	<b>8.9</b>	<b>8.5</b>	<b>18.2</b>
<b>Net book value:</b>				
<b>At 31 December 2012</b>	<b>0.3</b>	<b>2.3</b>	<b>2.7</b>	<b>5.3</b>
At 31 December 2011	0.4	3.1	2.4	5.9

Plant, machinery and vehicles includes plant and machinery with a net book value of £2.1m (2011: £2.8m) which are held with the group acting as lessor. These assets are depreciated evenly over their expected useful lives at rates of 8.33% to 60.00%. These assets have accumulated depreciation of £7.1m (2011: £8.8m).

## Notes to the accounts

Amounts in millions of pounds

### 8. Tangible fixed assets (continued)

Company	Short leasehold property	Fixtures & office equipment	Total
<b>Cost:</b>			
At 1 January 2012	1.1	9.5	<b>10.6</b>
Additions	–	1.7	<b>1.7</b>
<b>At 31 December 2012</b>	<b>1.1</b>	<b>11.2</b>	<b>12.3</b>
<b>Depreciation:</b>			
At 1 January 2012	0.7	7.1	<b>7.8</b>
Charge in the year	0.1	1.4	<b>1.5</b>
<b>At 31 December 2012</b>	<b>0.8</b>	<b>8.5</b>	<b>9.3</b>
<b>Net book value:</b>			
<b>At 31 December 2012</b>	<b>0.3</b>	<b>2.7</b>	<b>3.0</b>
At 31 December 2011	0.4	2.4	<b>2.8</b>

# Notes to the accounts

Amounts in millions of pounds

## 9. Investments

### Investments in subsidiary undertakings

Company	2012	2011
At 1 January	86.2	67.6
Additions	–	15.0
Recapitalisations	–	13.6
Impairments	–	(14.8)
Revaluation surplus	0.4	4.8
<b>At 31 December</b>	<b>86.6</b>	<b>86.2</b>

The group's principal subsidiaries and associated undertaking at 31 December 2012 are listed in note 24.

The company has been unable to fully substantiate the historical cost value of all the subsidiary investments.

Where a subsidiary has net liabilities, BAM Construct UK Limited has agreed to provide financial support to enable the subsidiary to meet third party liabilities as they fall due for a period until at least one year from the date of approval of the subsidiary's accounts.

## Notes to the accounts

Amounts in millions of pounds

### 10. Debtors

	Group 2012	Company 2012	Group 2011	Company 2011
<b>Amounts falling due within one year</b>				
Amounts recoverable on contracts	8.5	–	14.8	–
Trade debtors	77.5	–	112.6	–
Amounts due from parent and fellow subsidiary undertakings	117.1	108.4	113.8	107.0
Amounts due from subsidiary undertakings	–	0.9	–	1.5
Other debtors	0.1	0.1	1.6	0.3
Prepayments and accrued income	43.6	2.3	34.4	1.1
Deferred tax asset	2.2	1.6	1.8	1.0
Corporation tax	–	3.3	0.2	2.5
VAT	6.0	6.0	3.2	3.2
	<b>255.0</b>	<b>122.6</b>	<b>282.4</b>	<b>116.6</b>
<b>Amounts falling due after more than one year</b>				
Trade debtors	9.8	–	14.8	–
	<b>9.8</b>	<b>–</b>	<b>14.8</b>	<b>–</b>

Amounts due from parent and fellow subsidiary undertakings includes £103.6m on deposit with Royal BAM Group (2011: £102.8m) which is repayable on demand.

### 11. Cash at bank and in hand

The total group cash at bank and in hand includes £2.6m (2011: £2.5m) which is not available for utilisation without prior agreement of third parties. In addition, £4.5m (2011: £4.5m) of a subsidiary company's cash balance is held as security for the Solihull property development loan.

### 12. Creditors

	Group 2012	Company 2012	Group 2011	Company 2011
<b>Amounts falling due within one year</b>				
Non-recourse bank loans (note 13)	32.9	–	1.3	–
Payments on account	28.9	–	31.4	–
Accrual for foreseeable losses	20.4	–	41.0	–
Trade creditors	55.7	–	63.2	–
Amounts due to parent and fellow subsidiary undertakings	0.1	–	0.2	–
Amounts due to subsidiary undertakings	–	80.3	–	87.8
Other taxation and social security	4.0	3.8	4.1	3.9
Other creditors	2.5	0.2	2.9	0.1
Accruals and deferred income	172.4	6.1	202.0	8.2
	<b>316.9</b>	<b>90.4</b>	<b>346.1</b>	<b>100.0</b>

# Notes to the accounts

Amounts in millions of pounds

## 12. Creditors (continued)

	Group 2012	Company 2012	Group 2011	Company 2011
<b>Amounts falling due after more than one year</b>				
Non-recourse bank loans (note 13)	16.0	–	61.4	–
Trade creditors	7.1	–	10.1	–
	<b>23.1</b>	<b>–</b>	<b>71.5</b>	<b>–</b>

## 13. Non-recourse bank loans

The group has non-recourse loans which are secured on property developments and are reported within creditors. In respect of non-recourse loans, group undertakings are not obliged, nor do they intend, to support any losses. The terms of the finance agreements provide that the lenders will seek repayment of the finance only to the extent that sufficient funds are generated by the specific property assets financed and they will not seek recourse to group undertakings in any other form.

### Group

	2012	2011
Amounts falling due within 1 year		
Bank loan	33.0	1.3
Less: unamortised issue costs	(0.1)	–
	<b>32.9</b>	<b>1.3</b>

As at 31 December 2012, the loans repayable in 2013, which were advanced by the Bank of Scotland and the Clydesdale Bank were raised for and secured against property developments in Edinburgh, Manchester and Solihull. In addition £4.5m of a subsidiary company's cash balance is held as security for the Solihull property development loan.

As at 31 December 2011, the loan repayable in 2012, which was advanced by Clydesdale Bank was raised for and secured against a development in Edinburgh.

### Amounts falling due after more than one year

Bank loan	16.2	61.8
Less: unamortised issue costs	(0.2)	(0.4)
	<b>16.0</b>	<b>61.4</b>
Bank loans repayable between 1 & 2 years	12.9	32.8
Bank loans repayable between 2 & 5 years	3.1	28.6
	<b>16.0</b>	<b>61.4</b>

As at 31 December 2012, the loan which is repayable between 1 and 2 years, was advanced by the Bank of Scotland, and was raised for and secured against a property development in High Wycombe.

As at 31 December 2012, the loan which is repayable between 2 and 5 years, was advanced by Amber SPRUCE LLP, and was raised for and secured against a property development in Glasgow.

As at 31 December 2011, the loans which were repayable between 1 and 2 years, were advanced by the Bank of Scotland and the Clydesdale Bank and were raised for and secured against property developments in Edinburgh, Manchester and Solihull. In addition £4.5m of a subsidiary company's cash balance is held as security for the Solihull property development loan.

As at 31 December 2011, the loans which were repayable between 2 and 5 years, were advanced by the Bank of Scotland and were raised for and secured against property developments in Chiswick and High Wycombe.

### Company

As at 31 December 2012, no loans were advanced in respect of assets held by the company (2011: nil).

## Notes to the accounts

Amounts in millions of pounds

### 14. Provisions for liabilities and charges

	Deferred taxation	Other liabilities	2012 Total	2011 Total
<b>Group</b>				
At 1 January	–	0.6	<b>0.6</b>	1.1
Utilised during the year	–	(0.2)	<b>(0.2)</b>	(0.2)
Released during the year	–	(0.3)	<b>(0.3)</b>	(0.3)
<b>At 31 December</b>	–	0.1	<b>0.1</b>	0.6

Other liabilities comprise obligations in respect of the insolvency of one of the group's insurers and claims for lease dilapidations. There are no unprovided deferred taxation liabilities.

The timings of the transfer of benefits for the obligations arising from the insurance insolvency are uncertain.

	2012 Other liabilities	2011 Other liabilities
<b>Company</b>		
At 1 January	<b>0.6</b>	0.9
Utilised during the year	<b>(0.2)</b>	(0.2)
Released during the year	<b>(0.3)</b>	(0.1)
<b>At 31 December</b>	<b>0.1</b>	0.6

This liability comprises obligations in respect of the insolvency of one of the company's insurers and claims for lease dilapidations.

The timings of the transfer of benefits for the obligations arising from the insurance insolvency are uncertain.

No provision for deferred tax has been made in respect of the revaluation of the company's investment in subsidiary undertakings as there is no binding agreement to dispose of these assets.

# Notes to the accounts

Amounts in millions of pounds

## 15. Called up share capital

	2012	2011
Authorised, allotted, called up and fully paid: 40,000,000 ordinary shares of £1 each	40.0	40.0

## 16. Dividends

	2012	2010
Dividends on ordinary shares		
Final declared and paid of £0.11 per share (2011: £0.24 per share)	4.5	9.7

## 17. Reconciliation of shareholder's funds and movements on reserves

Group	Share capital	Profit & loss account	Total
Shareholder's funds at 1 January 2011	40.0	94.3	134.3
Profit attributable to shareholder	–	7.9	7.9
FRS 17 Actuarial loss net of related current and deferred tax	–	(18.5)	(18.5)
Dividend declared and paid	–	(9.7)	(9.7)
Shareholder's funds at 31 December 2011	40.0	74.0	114.0
Profit attributable to shareholder	–	9.1	9.1
FRS 17 Actuarial loss net of related current and deferred tax	–	(7.8)	(7.8)
Dividend declared and paid	–	(4.5)	(4.5)
Shareholder's funds at 31 December 2012	40.0	70.8	110.8

Company	Share capital	Revaluation of shares in subsidiary undertakings	Profit & loss account	Total
Shareholder's funds at 1 January 2011	40.0	61.6	32.7	134.3
Profit attributable to shareholder	–	–	3.1	3.1
Profit on revaluation of subsidiary undertakings	–	4.8	–	4.8
FRS 17 Actuarial loss net of related current and deferred tax	–	–	(18.5)	(18.5)
Dividend declared and paid	–	–	(9.7)	(9.7)
Shareholder's funds at 31 December 2011	40.0	66.4	7.6	114.0
Profit attributable to shareholder	–	–	8.7	8.7
Profit on revaluation of subsidiary undertakings	–	0.4	–	0.4
FRS 17 Actuarial loss net of related current and deferred tax	–	–	(7.8)	(7.8)
Dividend declared and paid	–	–	(4.5)	(4.5)
Shareholder's funds at 31 December 2012	40.0	66.8	4.0	110.8

The profit attributable to the shareholder of the parent company is £8.7m (2011: profit of £3.1m).

## Notes to the accounts

Amounts in millions of pounds

### 18. Obligations under non-cancellable operating leases

At 31 December 2012, the group had annual commitments under non-cancellable operating leases comprising:

	2012	2011
<b>Land and buildings</b>		
Leases terminating:		
Within one year	0.1	0.2
In two to five years	0.7	0.6
In over five years	1.7	1.7
	<b>2.5</b>	<b>2.5</b>

	2012	2011
<b>Other</b>		
Leases terminating:		
Within one year	–	0.2
In two to five years	0.5	0.4
	<b>0.5</b>	<b>0.6</b>

At 31 December 2012, the company had annual commitments under non-cancellable operating leases comprising:

	2012	2011
<b>Land and buildings</b>		
Leases terminating:		
Within one year	–	–
In two to five years	0.4	0.2
In over five years	1.6	1.7
	<b>2.0</b>	<b>1.9</b>

# Notes to the accounts

Amounts in millions of pounds

## 19. Contingent liabilities

- (a) There are contingent liabilities in respect of performance bonds and supplier guarantees given in the normal course of business. The directors do not consider that these will have any significant impact on the results of the business.
- (b) The group is party to various litigation arising in the ordinary course of business. Provision has been made within the accounts where necessary. The directors are of the view that other claims will have no significant impact on the results of the group.
- (c) From 1st January 2012 until 31st January 2012, the company along with other group companies provided a guarantee against a €200 million subordinated term loan and a guarantee against a €475 million committed credit facility and a €360 million term loan facility advanced to its ultimate parent undertaking, Royal BAM Group n.v.

On 1st February 2012, Royal BAM Group n.v. renewed the subordinated term loan (€125 million) and obtained a new committed credit facility (€500 million). These new loan facilities replaced those originally in place as described above. The company, along with other group companies, has provided guarantees against this loan and committed credit facility advanced to Royal BAM Group n.v.

The amount of the subordinated term loan outstanding at the year end was €125 million (2011: €200 million), and the amount drawn under the committed credit facility at the year end was €nil (2011: €nil). The previous term loan facility of €360 million was repaid during the year. The directors are satisfied that Royal BAM Group n.v. is currently able to fulfil all its obligations under these agreements without recourse to any of the Guarantors.

- (d) The company has agreed to provide financial support to ensure the continuing operation of certain subsidiaries, which is not expected to give rise to any material loss that has not already been provided for in the accounts.
- (e) The company, along with other group companies, is party to a guarantee in respect of any individual company overdraft balance within the cash pooling facility with NatWest Bank PLC. At 31 December 2012 there was an overdraft balance in BAM Group (UK) Limited, the company's immediate parent undertaking, which is one of the companies in the cash pooling facility, of £68.9 million (2011: £69.5 million). The net overdraft position in the cash pooling facility as at 31 December 2012 was £nil (2011: £nil). This guarantee is not expected to give rise to any loss.
- (f) The company, along with other group companies, is party to a guarantee in respect of any individual company overdraft balance within the cash pooling facility with the Bank of Scotland. At 31 December 2012 there were overdraft balances in a number of group companies in the cash pooling facility amounting to £47.2 million (2011: £66.6 million). The net overdraft position in the cash pooling facility as at 31 December 2012 was £nil (2011: £nil). This guarantee is not expected to give rise to any loss.

# Notes to the accounts

Amounts in millions of pounds

## 20. Post balance sheet events

On 14 January 2013, a subsidiary undertaking, BAM FM Limited, acquired facilities management services provider Sutton Group Limited and its subsidiary undertaking Sutton Maintenance Limited for cash consideration of £4.1m. The acquisition is expected to contribute £13m to turnover in 2013 from its facilities management activities and will increase staff numbers by more than 100. The Sutton Group provides hard maintenance, specialising in building services, out of four regional offices in London, Luton, Manchester and Glasgow. BAM FM and the Sutton Group have worked together previously as the subsidiary undertaking Sutton Maintenance Limited has provided mechanical and electrical support at some of the sites that the company manages.

## 21. Pension commitments

The two main pension schemes operated by the group ('HBG UK scheme' and 'HBG GA scheme'), both of which are closed to new members, are funded final salary schemes providing defined benefits. The assets of the schemes are held separately in trustee administered funds. The contributions are determined by qualified actuaries on the basis of triennial valuations.

The date for the most recent actuarial valuation for both schemes is at 1 January 2012, and the formal actuarial reports were submitted to the Pension Regulator in March 2013. Both the HBG UK scheme and the HBG GA scheme were valued using the projected unit method.

From 23 August 2004, the HBG UK and GA schemes were closed to new members. From that date the company opened a Legal & General defined contribution pension scheme for new members of staff. Both schemes closed to future accrual for existing members on 31 October 2010 where only a link to final salary remains. Members were invited to participate in the Legal & General defined contribution pension scheme from that date.

The group also participates in eight defined benefit schemes under 'TUPE' arrangements all being either within the Local Government Pension Scheme ('LGPS') or the Federated Pension Plan Scheme ('FPP') collectively referred to as 'TUPE schemes':

- Lothian Scheme (LGPS)
- Cheshire Scheme (LGPS)
- Bath & North East Somerset Council (Bristol Schools) Scheme (LGPS)
- West Sussex County Council (Crawley Schools) Scheme (LGPS)
- The Strathclyde Pension Fund Scheme (LGPS)
- Federated Pension Plan (FPP) for East Ayrshire Community Hospital
- Worcestershire County Council Pension Fund (Bromsgrove Schools) Scheme (LGPS)
- Solihull Schools Scheme (LGPS)

These schemes are multi-employer schemes, where the group has 'Admitted Body' status as a participating employer, with minority participation. For most of the schemes, the information available from the respective scheme activities relates to the overall scheme valuations rather than for the group's participation as an Admitted Body. As such, with the exception of the Federated Pension Plan and the Lothian Scheme, the group is unable to identify its share of the assets and liabilities in these schemes on a reasonable and consistent basis. The group has therefore accounted for these schemes as defined contribution schemes in accordance with the treatment permitted by FRS 17. The dates of the latest triennial valuations of these schemes completed and available and the total scheme valuations reported at the valuation dates are:

## Notes to the accounts

Amounts in millions of pounds

### 21. Pension commitments (continued)

	Date	Total deficit
• Cheshire Scheme	31 March 2010	£(600)m
• Bath & North East Somerset Council (Bristol Schools) Scheme	31 March 2010	£(552)m
• West Sussex County Council (Crawley Schools) Scheme	31 March 2010	£(288)m
• The Strathclyde Pension Fund (East Renfrewshire Schools) Scheme	31 March 2011	£(320)m
• Worcestershire County Council Pension Fund (Bromsgrove Schools) Scheme	31 March 2010	£(613)m
• Solihull Schools Scheme	31 March 2010	£(2,614)m
• Lothian Scheme	31 March 2011	£(2,000)
• Federated Pension Plan for East Ayrshire Community Hospital	5 April 2010	£(216,000)

With the exception of the Federated Pension Plan and the Lothian Scheme, these valuations are for the total of each scheme. The deficits reported for the Federated Pension Plan and the Lothian Scheme are the group's share relating to its participating employees. The number of participating group employees is small within each scheme and as such the group considers the potential impact on the group of the deficits in the schemes to be minimal.

Up to the point of closure to future accrual the group contributed at various rates of pensionable salaries. These rates were reviewed and were amended with effect from 1 June 2010 following the conclusion of the triennial valuation carried out as at 1 January 2009.

In addition, and following the conclusion of the actuarial calculations, the company made a special contribution of £12,000,000 in 2012. The company has also agreed to make further special contributions of £13,880,000 in each of 2013, 2014 and 2015; and payments of £4,950,000 in each of 2016, 2017, 2018, 2019, 2020 and 2021.

The pension contributions made by the company during the year and the amounts outstanding at 31 December were:

	Contributions in the year		Amounts outstanding	
	2012	2011	2012	2011
HBG UK / HBG GA Schemes – ordinary contribution	0.6	0.6	–	–
– special contribution	12.0	12.0	–	–
– total	12.6	12.6	–	–

During the year, the company made contributions of £8,588,000 (2011: £8,865,000) to the Legal & General defined contribution scheme and contributions of £129,000 (2011: £152,000) to the TUPE schemes. The amounts outstanding at the year end were £724,000 (2011: £695,000).

The company's best estimate of contributions including special contributions expected to be paid to the HBG UK and GA pension schemes in 2013 is £14,450,000.

The valuation used for the following disclosures has been based upon the most recent triennial actuarial valuations and updated to take account of the requirements of FRS17 in order to assess the liabilities of the two schemes at 31 December 2012. The assessment of the liabilities at 31 December 2011 were based upon the latest triennial valuations available at that time which were those carried out at 1 January 2009, updated to take account of the requirements of FRS17.

# Notes to the accounts

Amounts in millions of pounds

## 21. Pension commitments (continued)

### HBG UK / GA schemes

	2012	2011
The principal assumptions used by the actuaries were:		
Discount rate	4.30%	4.70%
Future salary increases	3.40%	4.55%
Future pension increases	2.90%	2.95%
Inflation assumption	3.00%	3.05%
Revaluation in deferment	2.20%	2.25%

	2012 Years	2012 Years	2011 Years	2011 Years
Assumed life expectancies on retirement at age 65 are:				
Retiring today	HBG UK	HBG GA	HBG UK	HBG GA
	Males	23.5	21.7	22.7
	Females	24.1	23.7	25.0
Retiring in 20 years time	Males	25.4	23.7	25.0
	Females	25.8	25.6	27.4

The change in the fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the change in the present value of the benefit obligations, which are derived from cash flow projections over long periods and thus inherently uncertain, are as follows:

### HBG UK / GA schemes

	2012 £m	2011 £m
<b>Change in benefit obligation</b>		
<b>Present value of benefit obligation at beginning of year</b>	<b>320.0</b>	287.3
Current service cost	–	–
Interest cost	14.8	15.3
Plan participants' contributions	–	–
Actuarial loss	10.7	25.2
Benefits paid	(10.5)	(7.8)
<b>Present value of benefit obligation at end of year</b>	<b>335.0</b>	320.0
<b>Change in plan assets</b>		
<b>Fair value of plan assets at beginning of year</b>	<b>293.6</b>	272.2
Expected return on plan assets	15.2	16.5
Actuarial gain on plan assets	2.8	0.1
Employer contributions	12.6	12.6
Plan participants' contributions	–	–
Benefits paid	(10.5)	(7.8)
<b>Fair value of plan assets at end of year</b>	<b>313.7</b>	293.6
<b>Deficit as at 31 December</b>	<b>(21.3)</b>	(26.4)
Underlying surplus in the HBG GA scheme	2.4	–

# Notes to the accounts

Amounts in millions of pounds

## 21. Pension commitments (continued)

As BAM Construct UK is unable to recover a surplus either through reduced contributions in the future or through refunds from the scheme, the HBG GA pension asset is not recognised.

Unrecognised portion of plan assets	2012 £m	2011 £m
Opening balance	-	-
Current year movement	2.4	-
Closing balance	2.4	-

The amounts recognised in the balance sheet are as follows:

### HBG UK / GA schemes

Present value of benefit obligation	(335.0)	(320.0)
Fair value of plan assets	313.7	293.6
Gross deficit	(21.3)	(26.4)
Unrecognised portion of plan assets	(2.4)	-
	(23.7)	(26.4)
Deferred tax asset	5.5	6.6
<b>Net liability in the balance sheet</b>	<b>(18.2)</b>	<b>(19.8)</b>

The amounts recognised in the profit and loss account are as follows:

### HBG UK / GA schemes

	2012 £m	2011 £m
Current service cost	-	-
Expected return on plan assets	(15.2)	(16.5)
Interest on benefit obligations	14.8	15.3
<b>Total cost (credited) / charged to the profit and loss account</b>	<b>(0.4)</b>	<b>(1.2)</b>

The current service cost is included in the profit and loss account within operating and other administrative expenses. The net cost on financing of pension deficit, being the net of the expected return on plan assets and the interest on plan obligations, is included in the profit and loss account within interest payable and similar charges.

<b>Actual return on plan assets</b>	<b>18.0</b>	<b>16.6</b>
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The amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL) are as follows:

### HBG UK / GA schemes

	2012 £m	2011 £m
Actuarial loss - defined benefit obligation	(10.7)	(25.2)
Actuarial gain - plan assets	2.8	0.1
Movement in the unrecognised portion of plan assets	(2.4)	-
Actuarial loss - current tax credit	2.5	3.6
Actuarial loss - deferred tax credit	-	3.0
<b>Total loss recognised</b>	<b>(7.8)</b>	<b>(18.5)</b>

The cumulative amount of actuarial losses recognised in the STRGL are:	(108.9)	(98.6)
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# Notes to the accounts

Amounts in millions of pounds

## 21. Pension commitments (continued)

The major categories of plan assets by value are as follows:

### HBG UK / GA schemes

	2012		2011	
	Value £m	Expected rate of return	Value £m	Expected rate of return
Equities	94.8	7.0%	94.0	7.0%
Properties	17.6	7.0%	17.2	7.0%
Index linked gilts	20.8	3.0%	19.0	3.5%
Corporate bonds	54.9	4.3%	40.6	4.7%
Liability hedge	68.4	3.0%	75.0	3.0%
Dynamic asset allocation	50.5	7.0%	46.2	7.0%
Cash	0.3	0.5%-0.6%	1.6	0.5%-0.6%
Other	6.4	6.0%	-	-
<b>Total fair value of plan assets</b>	<b>313.7</b>		<b>293.6</b>	

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio for each scheme separately.

	2012	2011
Expected overall long-term returns on plan assets		
HBG UK	5.46%	5.35%
HBG GA	4.53%	4.64%

The amounts for the current period and the previous four periods are as follows:

### HBG UK / GA schemes

Amounts in millions of pounds

	2012	2011	2010	2009	2008
Present value of the benefit obligation at end of year	(335.0)	(320.0)	(287.3)	(255.0)	(203.0)
Fair value of the plan assets at end of year	313.7	293.6	272.2	232.3	196.5
<b>Gross deficit</b>	<b>(21.3)</b>	<b>(26.4)</b>	<b>(15.1)</b>	<b>(22.7)</b>	<b>(6.5)</b>
Experience adjustments (loss) / gain on benefit obligation	-	6.1	0.7	(4.9)	(5.4)
Experience adjustments gain / (loss) on plan assets	2.8	0.1	13.1	15.9	(41.2)

# Notes to the accounts

Amounts in millions of pounds

## 22. Related party transactions

The group has taken advantage of the exemptions of FRS 8 not to disclose details of transactions between wholly owned undertakings of Royal BAM Group n.v. which prepares consolidated financial statements.

## 23. Immediate and ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Royal BAM Group n.v., a company incorporated in The Netherlands. The group accounts of the ultimate parent (the largest (and smallest) group of which the company is a member and for which group accounts are prepared) are available from this company's registered office. The immediate parent undertaking is BAM Group (UK) Limited, a company incorporated in England and Wales.

## 24. Principal subsidiary undertakings and associated undertaking

Except where indicated, all companies are wholly owned, are included in the consolidated accounts, have 31 December year ends, are incorporated in Great Britain and registered in England and Wales, and operate within the United Kingdom.

In order to prevent a statement of excessive length, only the principal subsidiary undertakings and associated undertaking have been included.

### Subsidiary undertakings

BAM Construction Limited	Building contracting
BAM Design Limited †	Design services
BAM Properties Limited	Property development
HBG Parklands SPV Limited †	Property development
BAM Swindon Limited †	Property development
BAM Monk Bridge Limited †	Property development
BAM Buchanan Limited *†	Property development
HBG Haymarket 3 Limited *†	Property development
BAM Glory Mill Limited †	Property development
BAM Cadogan Limited *†	Property development
BAM Princes Street Limited *†	Property development
BAM Chiswick Limited †	Property development
BAM Solihull Limited †	Property development
BAM Queen Street Limited *†	Property development
BAM FM Limited *	Services

### Associated undertaking

Discovery Quay Development Limited (33%) *†	Property development
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\* registered in Scotland † owned by subsidiary companies

## Regional offices

### BAM Construct UK Limited

#### (Head office)

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Breakspear Way  
Hemel Hempstead  
Hertfordshire HP2 4FL  
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### BAM Construction Limited

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F 0113 290 8801

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Team Valley Trading Estate  
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Tyne & Wear NE11 OHF  
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F 0191 487 4903

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T 0117 944 8800  
F 0117 944 8855

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T 029 2048 8811  
F 029 2046 1647

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F 01727 818 852

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F 020 7374 3601

### BAM Construction Limited

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T 01933 232 000  
F 01933 232 009

#### North East

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F 01132 527 709

### BAM Properties Limited

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### BAM FM Limited

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**Registered number**

3311781