BAM Construction Limited

2018

Annual Report and Accounts

www.bam.co.uk

BAM in brief

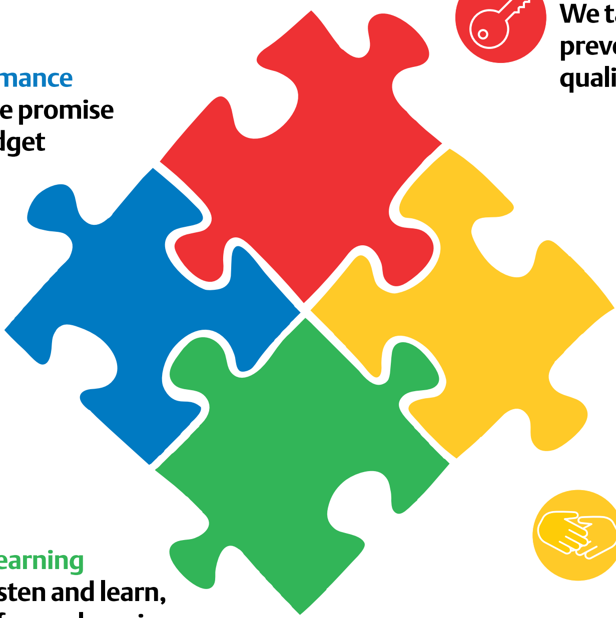
BAM Construction is part of BAM Construct UK which operates throughout England, Scotland and Wales and engages in construction, design, services engineering, facilities management and property development.

We have 15 offices around the country to enable us to offer an integrated service that operates close to local markets and our customers.

BAM strives to be an ethical business and, along with all the operating companies in the Royal BAM Group, to follow four attributes in the way we do business:

Proactive ownership
We take the initiative to prevent problems and deliver quality

Predictable performance
We deliver what we promise on time and on budget



Open collaboration
We share knowledge with our clients and partners so that everyone gains

Scalable learning
We ask, listen and learn, and transfer our learning from project to project and team to team

We contribute to BAM Construct UK's goal of being a high-performing, collaborative design, construction, property and FM services provider, by partnering with our clients and supply chain and forging strong, strategic alliances that create value and win repeat business.

Members of the board and senior management team of BAM Construct UK.

An overview of our 2018 performance, our future direction, and a review of the strategy underpinning our business.

Visit our website at: **www.bam.co.uk**

Registered number
2379469

Cover image:
The Bonus Arena, Hull, built by BAM Construction in the North East, opened to the public in August 2018.

2018 at a glance

Revenue (£m)

£891.6m

2018	891.6
2017 restated	899.0
2016 restated	980.6

Profit before tax (£m)

£19.0m

2018	19.0
2017 restated	16.4
2016 restated (loss)	1.8

Year end work in hand (£m)

£1,043.8m

2018	1,043.8
2017	863.3
2016	920.9

Current undertakings of long term contracts held by the company

Cash position at year-end (£m)

£36.2m

2018	36.2
2017	35.4
2016	34.0

Shareholder's funds at year end (£m)

£75.3m

2018	75.3
2017 restated	60.0
2016 restated	46.5

Working capital at year-end (£m)

£66.6m

2018	66.6
2017 restated	52.4
2016 restated	37.6

Riddor accidents

15

2018	15
2017	11
2016	20

CO_2 emissions (tonnes)

11,487

2018	11,487
2017	14,410
2016	15,023

£411,201

Value of cash and in-kind community support

15

Considerate Constructor Awards

67

Apprentices had work experience on our sites in 2018

145

Directors' safety tours of sites

> We see the value of operating ethically and sustainably and engaging positively with communities.

Douglas Keillor
Executive Director

Strategic report

The directors present their strategic report for the year ended 31 December 2018 which outlines BAM Construction‘s strategy and financial results, the progress of its operations and performance on sustainability.

Organisational overview and external environment

BAM Construction Limited (‘the Company’) is part of BAM Construct UK Limited (‘the Group’) and provides construction, design, services engineering and plant services in the UK. The company works closely with BAM Properties Limited and BAM FM Limited which are also part of BAM Construct UK.

BAM Construction is organised into seven operational divisions in Scotland, North East, North West, Western, Midlands, South East and London, as this enables us to stay close to our customers and to understand local market factors and conditions.

We create value for shareholders and for the wider society by creating facilities that support the delivery of essential services to people’s lives such as places of education, hospitals, cultural and leisure facilities. Our work also enables other businesses to create value when we build for example, transport hubs, manufacturing facilities and offices.

We see the value of operating ethically and sustainably, and through community engagement in creating employment, apprenticeships and training opportunities and by supporting local and national charities. A key feature of our sustainability strategy is to enhance the lives of people in the communities where we work.

Business performance

Profit and revenue

The profit before tax for the year ended 31 December 2018 was £19.0m (2017 restated: £16.4m).

Revenue for the year was £891.6m (2017 restated: £899.0m). Revenue decreased during the year as BAM Construction bid selectively and continued to concentrate its efforts on securing high value added projects.

Cash and equivalents

Managing cashflow effectively is a key objective in our business. The cash and cash equivalents continue to show a healthy position at £36.2m (2017: £35.4m). Maintaining a healthy cash balance within the business is important as it allows future investment. However BAM Construction does not seek to enhance our cash position at the expense of our supply chain and maintains fair payment terms.

Working capital

The position on working capital improved in 2018. The working capital at year end was £66.6m (2017 restated: £52.4m).

Principal risks and uncertainties

BAM Construction Ltd regularly reviews the principal risks and uncertainties within the business, both on a national level and a regional divisional level. When we identify risk, we implement controls and mitigation strategies to reduce their overall potential impact on the business. The current principal risks and uncertainties are identified below along with the controls and mitigation strategies.

1. UK economy - Brexit impacts and uncertainty internationally
2. Variations in market conditions and price competition in our regional markets
3. Loss making projects
4. Insufficient investment in creating future portfolio
5. Health, safety and environmental risks
6. Skills shortage – staff and supply chain

Strategic report (continued)

	Risk - description	Controls / mitigation strategy
1	**UK economy** There continues to be significant economic uncertainty as the negotiations continue on Britain's withdrawal from the European Union and arrangements after Brexit.	• With the impact of Brexit still unclear, BAM Construction continues to operate a flexible model that is able to accommodate change. • We maintain positive close relationships with key subcontractors to ensure BAM remains a main contractor of choice. • We seek a balance of public and private sector work and procurement routes to avoid over dependency on any one source of work or procurement method.
2	**Variations in market conditions and price competition in our regional markets** Operating a regional business creates exposure to regional market variations.	• By operating a regionally-organised delivery model, BAM Construction is able to calibrate for regional differences within our approval processes. • We participate on a number of regional and national frameworks where sensible margins can be agreed and quality is a factor as well as price. • We focus on seeking work with clients whose values align well with BAM's and aim to secure as much work as possible through negotiation or two-stage tendering.
3	**Loss making projects** Operating on relatively slim contract margins, means we cannot afford to take on contracts that will ultimately deliver significant losses. Dealing with the impacts of loss making projects drains significant resources from the business and the risk that senior management focuses on short term crisis management rather than planning for the long term.	• Royal BAM Group's stagegate approval system used on all tenders, ensures that all risk and opportunities are identified within the tender process. • Focusing on two-stage work and negotiated procurement enable the business to identify and price risk on a realistic basis. • Experienced and knowledgeable staff are involved in the pre-construction period to ensure risks are identified and mitigated or closed-out before construction commences.
4	**Insufficient investment in creating future portfolio** As the business moves towards a more digital environment, it is essential to ensure there are sufficient resources for investment in technology and new ways of working.	• A number of forums internationally, nationally and regionally have been established to identify opportunities for innovation and new ways of working. These opportunities are then risk assessed and valued.
5	**Health, safety and environmental risks** The company's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. Failure to meet safety standards or ineffective management of safety requirements could result in the injury or death of employees, members of the public or third parties.	• Implementation of rigorous training programmes, with particular emphasis in 2019 on the frequent causes of lost time accidents. • A visible leadership approach with, for example, senior managers of both the company and our supply chain engaging in Directors' safety tours of sites. • Engaging with staff and supply chain with cultural workshops, safe-to-start meetings, toolbox talks and regular communications through all our channels to ensure a mindset of constant vigilance about safety.
6	**Skills shortage** A lack of professionally qualified and skilled staff both within the company and the supply chain could lead to inefficient working and poor quality, in turn leading to an inability to provide value-adding solutions to our clients.	• BAM Construction aims to recruit people with ability at all levels and from all backgrounds. We aim to maintain a culture of open collaboration, where individuals are encouraged to voice new ideas, that helps to keep staff engaged and supports good levels of staff retention. • We work collaboratively and respectfully with our supply chain, treating subcontractors fairly and as project partners, to nurture long term relationships and ensure that BAM Construction remains a main contractor of choice.

Strategic report (continued)

Future strategy

BAM Construction aligns its strategy with that of BAM Construct UK and our ultimate parent company Royal BAM Group n.v.. BAM Construction's principal priority for 2019 is to continue to improve its profitability by operating more efficiently and managing cash effectively.

Our ultimate parent company, Royal BAM Group, has published a headline strategy covering the period 2017 – 2020 entitled 'Building the present, creating the future'. The key components of the strategy are to maintain focus on executing projects effectively and efficiently. This includes being selective about those projects where BAM can perform at its best and deliver a winning performance and where BAM can either compete effectively on scale or by offering differentiating capabilities. The second facet of the strategy is to develop BAM's complementary and value-added services to projects where these can create synergy and strengthen BAM's attractiveness as a project partner. The final limb of the strategy involves BAM being at the forefront of new digital construction and data management techniques. As part of the strategy BAM Construct UK is supporting and participating in a drive to align core functions across Royal BAM Group to achieve aligned processes and procedures in the fields of IT, human resources and financial accountability and reporting. This will support greater efficiency and enable all ten operating companies in Royal BAM Group to leverage their combined capabilities.

Growth will be achieved by undertaking projects with clients that have complex needs and where BAM Construction can offer its integrated range of services to add value and improve margins.

BAM Construction aims to maintain a balanced portfolio of construction work with commercial, education, and health being primary sectors. BAM Construction will also undertake projects in the leisure, advanced manufacturing, transport and law and order sectors and will aim for a balance of private and public sector work. The aim will be to conduct at least 25% of construction work through frameworks as this form of procurement plays to our strengths.

In March 2019, BAM Construction in London completed a major renovation of the Hayward Gallery, Queen Elizabeth Hall and Purcell Room at the Southbank Centre London.

Our new recruits in 2018 had a two-day induction session on 28 and 29 October.

Ready, Steady, Girls Construct! BAM Construction in Scotland, in collaboration with hub West Scotland, staged a 10-week programme to give 12 young women an insight into the construction industry.

The potential of the private rented sector market will be considered in 2019.

BAM Construction will also seek to extend the scope of its services engineering division, as securing effective M&E services is an expensive and high risk element in most major construction projects. BAM Design and BAM Plant, which are divisions of BAM Construction, also have an important role to play in pioneering the application of emerging technologies to construction and design processes, including the use of 3D printing, robotics and prefabrication.

The construction business will focus on remaining attractive to clients by being customer focussed, recruiting and retaining talented people, delivering quality, innovating in digitisation, designing and building sustainably, and enhancing lives through engagement with the communities where it operates.

Our aim is to maintain a well-balanced portfolio of projects for public and private sector clients spread across our chosen primary markets of commercial, health, education, and secondary markets of leisure, law and order, industrial and transport.

Two-stage tendering and negotiation is our preferred method of procuring work, with a focus on quality, rather than lowest cost. These procurement methods better suit the way BAM works as they are more collaborative by nature, allow us to plan and de-risk projects comprehensively and to offer options for added value. Because we have a full design practice, and a services engineering division, we are able to assist a number of clients to achieve realistic cost plans and manage budget constraints through value engineering and creating better design options.

The team in BAM Construction in the North West working on a new neo natal unit based at Glan Clwyd Hospital handed over phase II of the project six weeks early in June 2018 despite the challenge of working in a live, busy hospital.

Progress to 2020 and beyond

The directors are satisfied that BAM Construction continues to meet its financial and operational targets and work is progressing well on aligning and developing our operations in accordance with Royal BAM Group's strategy for the period to 2020: 'Building the present, creating the future'.

In February 2018, BAM Construction in the North East finished work on Merrion House, Leeds for Town Centre Securities.

In October, BAM in the South East celebrated with the topping-out of the Centenary Building at the University of Southampton.

The UK Hydrographic Office celebrated the opening of its new headquarters in Taunton in March 2019 that was built by BAM Construction in the Western region.

Divisional review

BAM Design

BAM Design offers a full architectural and design service in our business and has team members co-located in six of our seven regional construction divisions. In addition, BAM Design's expertise help us to improve our design management and co-ordination on projects, and to design for safety and sustainability The team also works closely with BAM Properties and BAM FM.

BAM Design leads our work in developing our digital construction capabilities and pioneering innovative methods to improve quality and speed of project delivery.

BAM Construction in the South East handed over Niskham School, Isleworth, in June 2018. The client praised BAM's 'superb collaboration'.

Approximately 20% of BAM Design's work in 2018 was for external clients. BAM Design intends to grow the proportion of external work in 2019 by increasing the amount of work it undertakes for other Operating Companies of Royal BAM Group and its work for external developers and architectural consultancies. The primary focus of BAM Design, however, will remain on adding value within our business.

BAM Services Engineering

2019 will mark the 25th anniversary of the establishment of our services engineering division. In that time it has created value for our business and our clients by providing a high level of expertise on mechanical and electric design and installation.

In 2018 the business developed a plan to integrate our MEPH services into each of our seven regional construction divisions, while a core central team will ensure knowledge share, consistent data collection, standards and services. This is now being implemented.

Maintaining a cadre of experts in services engineering is a competitive advantage as securing the provision of high quality M&E services remains one of the riskiest aspects of construction projects. Under the new arrangements, our services

Strategic report (continued)

engineering specialists will work in a more integrated way alongside our project teams and also quality assure and minimise risk when we procure services from external subcontractors.

BAM Plant

BAM Plant provides site accommodation, communications installation, equipment hire and energy management for our site operations and manages BAM's fleet of vehicles.

In 2018 BAM Plant increased the range of its digital services with the development of a drone survey service, along with access control systems, digital recordable radios and hook cameras. The demand for eco-modular cabin offices increased substantially and in 2019 BAM Plant will increase its stock.

The division continues to organise scaffolding and complex lifts and installations on sites, and offers support and advice to the business on some of the high risk and challenging activities that involve the use of plant and equipment.

BAM Plant has strong relationships with many of the major plant rental companies. This enables our teams to call upon the best rehire options to supplement our own portfolio of assets and services, and in turn reduces the risk of becoming too asset heavy.

The Duchess of Cambridge performed the royal opening of V&A Dundee in January 2019. The unique building with curved concrete walls was completed on time and on budget by BAM Construction in Scotland in June 2018.

BAM Plant launched a digital drone service in June 2018. Two members of the BAM Plant team have been approved by Civil Aviation Authority to fly drones.

BAM Properties development at Capital Square, Edinburgh, progressed throughout 2018. BAM's technical team devised vertical propping to cope with the constraints of the site.

Strategic report (continued)

Corporate responsibility

Ethics and Standards

The board recognises that the ability of BAM Construction to generate value relies on harnessing our intellectual, human, social and relationship capital. We aim to do this by being a responsible employer, conducting our business ethically, operating in an environmentally sustainable way and enhancing the lives of people in the communities where we work. BAM maintains a number of robust internal mechanisms to ensure that we conduct our business to high ethical standards.

Employees can raise any concerns about unethical activities through the Group's whistleblowing mechanism or confidential Employee Assistance Helpline.

The prevalence of fraud within the industry continues to be an area of risk for the company. As a consequence we communicate and work closely with our clients, suppliers and third party to highlight the risk of fraud. Ensuring our staff remain vigilant about the risk of fraud is an important mitigation strategy and we encourage them to raise issues through management channels. We also participate in various forums, and particularly with our bank, on spreading best practice and sharing experiences.

People

The board believes that the quality of people employed by BAM and a positive culture in the company is a competitive advantage. The demand for experienced staff in all construction disciplines is buoyant and there is a great deal of churn in the industry generally. Our objective is to encourage employees to develop their careers within BAM as having a cadre of experienced people is an advantage. With this in mind, the company keeps levels of pay and staff benefits under regular review and offers competitive salaries and an attractive range of additional benefits.

Working for better health and safety

Our continuing goal is to have completely safe operations so that neither employees, nor anyone who works with BAM, suffers injury or ill-health as a result of our activities. As well as extensive training and monitoring of health and safety, we promote well being throughout the company and among our supply chain through activities such as talks about detecting cancers, nurses attending sites to undertake health checks and to offer advice. In 2015 BAM signed the Time to Talk pledge and there is a continuing programme of activities to help employees manage their mental health, to speak openly about mental health issues and to raise awareness of sources of support for mental health issues.

In 2018, the main causes of accidents involving lost time related to manual handling, slips and trips, falling objects and lifting. Our accident rate is low, but pursuing further improvement especially in these areas is proving difficult. In 2018, the safety team developed a 'changing perceptions' workshop to challenge any perception that these kinds of accidents are inevitable.

Every year we give our trainees a challenge to enhance people's lives. The 2017 -2018 group raised a total of £11,000 for charity and engaged with pupils in 35 schools.

2018 RoSPA President's Award

BAM Construction
RoSPa awarded medals to all of our operations divisions in 2018:

- Scotland - Order of Distinction
- North West - Order of Distinction
- Midlands - Order of Distinction
- London - Order of Distinction
- Western - Order of distinction
- North East - President's Award
- South East - Silver Award

BAM Plant - Gold award

BAM promotes four values among employees: predictable performance, proactive ownership, open collaboration and scalable learning and all of these values are applied to our approach to safety. Safety leadership teams have been set up in all business units to share best practice and to learn lessons from accidents.

Senior management in BAM display visible leadership on safety by conducting regular Directors' safety tours on construction sites. Directors undertook 145 tours in 2018.

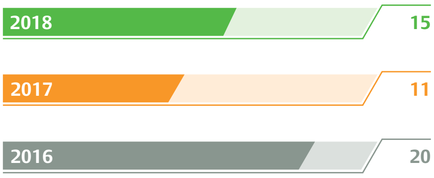
In May we staged our annual health and safety awards that celebrated the achievements of individuals and site teams in eight categories, including lessons learned, innovation, and engagement with the supply chain.

In June 2018 BAM Construct UK launched a new safety campaign in tandem with all other Operating Companies in Royal BAM Group. Your Safety is My Safety emphasises individual and collective responsibility for safety among all employees and particularly the value of proactive ownership in improving safety performance.

Strategic report (continued)

Riddor accidents

15



Our safety performance depends on collaboration and engagement with our supply chain. As usual, our seven construction divisions staged knowledge sharing conferences with their supply chains as well as staging awards recognising good safety performance among our subcontractors.

BAM's safety management system is audited by the British Safety Standards Institute to meet OHSAS 18001.

Board member, Andrea Singh, presented Dermot Parkinson, Project Manager, with the award for Health Initiative of the Year at BAM's National Health and Safety Awards in May 2018.

During 2018 we continued to implement energy efficiency and carbon reduction measures. This included installing LED-only lighting, purchase of 100% renewable energy and deployment of our energy efficient plant and equipment, such as thermally efficient cabins, on new projects. These actions continue to reduce our energy consumption and carbon emissions, resulting in a reduction in our normalised emissions by 11.5% compared to 2017 and by 24% compared to our 2015 baseline.

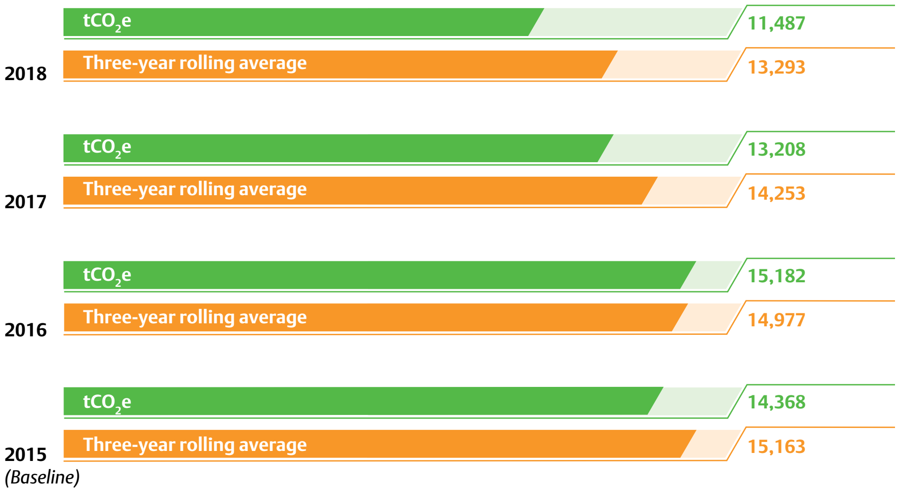
Construction waste production (tonnes / £1m of turnover) has reduced by 5% from 2017 and we diverted 94% of waste away from landfill.
99.5% of the timber used on our construction sites was procured from verified legal sustainable sources and 94% was delivered to site with a full chain of custody.

Enhancing lives

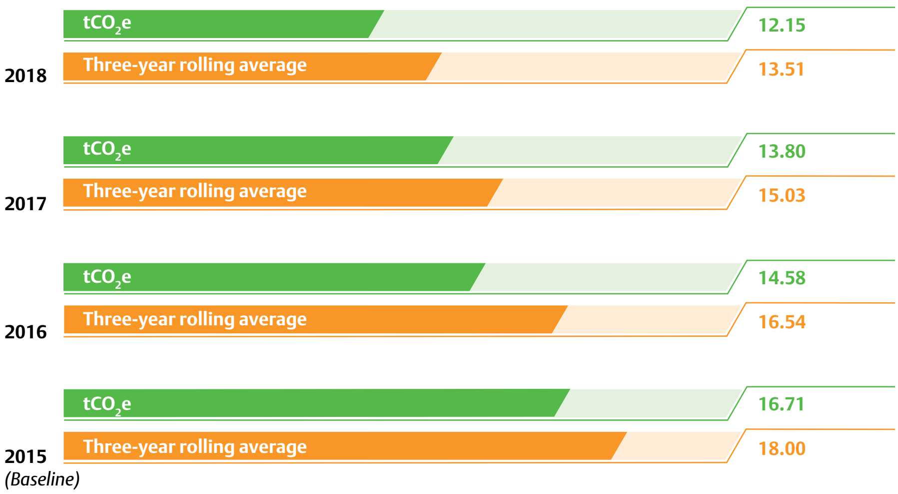
Our enhancing lives programme encompasses a wide range of activities and support, by offering apprenticeships and work experience, supporting our own people to live healthier lives or to improve their education/training, and supporting organisations which have a positive social impact (charities, social enterprises). During 2018 we enhanced the lives of 41,740 people.

As part of our commitment to being a responsible contractor, all BAM Construction sites register with the Considerate Constructors Scheme (CCS). In 2018, our average CCS score was 40, against an industry average of 36. Our sites at the University of Southampton and English Martyrs School both achieved the highest BAM score in 2018 achieving 45/50 in their CCS audits.

Absolute emissions



Normalised emissions



Strategic report (continued)

During 2018, 67 apprentices had experience working on our Construction, FM, office and other business sites, totalling approx. 17,726 days.

BAM Construct UK Ltd is a member of the London Benchmarking Group (LBG), the global standard for measuring, benchmarking, and reporting on corporate community investment. In 2018, we staged 977 activities and events with beneficiary organisations and 31,486 people directly benefitted from our community engagement activity.

In 2018, BAM Construct UK continued our national charity partnership with CLIC Sargent, a charity that supports children with cancer and their families. Throughout the year our staff, with support from our subcontractors, raised £83,000 that will enable CLIC Sargent to provide support to 430 children.

BAM Construct UK is a patron of CRASH the construction industry's charity that supports homeless charities and hospices with building projects. The value of our contribution in 2018 was £25,451 of which £9,302 comprised the value of our professional expertise and donated materials; the balance was from our fundraising.

Doug Keillor
Executive Director
BAM Construction Limited
6 June 2019

2018 UK energy and green house gas emissions

Emissions Source	tCO2e	Quantity	Unit
Electricity	1,741	6,111,681	kWh
Gas	177	962,027	kWh
Gas Oil	2,503	842,714	Ltr
Diesel	879	334,468	Ltr
Company car (business)	395	2,157,667	Miles
Car allowance (business)	2,005	7,724,368	Miles
Electricity (free issue)	884	3,124,202	kWh
Electricity (T&D Losses)	224	9,235,883	kWh
Company car (commuting)	89	486,443	Miles
Car allowance (commuting)	849	3,247,522	Miles
Air miles (domestic)	321	estimate	p/km
Waste to landfill	1,420	27,049	tonnes
Total	**11,487**		

BAM colleagues based in the Western region cycled 2,428km during September as part of a fundraising challenge in aid of CLiC Sargent during Child Cancer Awareness Month in 2018.

Community investment 2018:

£411,201
Total value of contributions (including management costs)

977
Total number of direct beneficiaries

8,163
Total number of volunteering hours by BAM employees

‘I’d love to work again with BAM’

Kengo Kuma

V&A Dundee was designed by renowned award-winning Japanese architects Kengo Kuma & Associates, following an international competition, and is Kuma’s first building in the UK. BAM completed construction in the spring of 2018 and the museum of design opened to international acclaim the following September.

The vision

'The location for this project was very unique, between water and land. We tried to show the uniqueness of this location by designing a sea cliff, between the water and the land, which is the result of a conversation between nature and artefact. Creating a man-made form that could echo the wind-swept process of erosion from crashing waves required a new level of technology and engineering. We tried to achieve that natural, organic quality by designing this unique facade and the unique shape. New technologies made the organic form possible.'

Focus to perform

'It was a very technically challenging project as the form of the building was so original and had never existed in the past. BAM bravely undertook the task of constructing it and I enjoyed working with BAM enormously.

'BAM was an ideal collaborator and a partner in realising this complicated architecture. They shared my vision not only for V&A building but also for KKAA's philosophy of design. I thought our challenge was worthwhile and the result was far better than expected. It was our first time to apply concrete for the 3D building. It was a fresh and eye-opening experience to see that straight lines of pre-cast concrete could be installed in the complicatedly dimensioned structure.

We've learned a lot about the technique from BAM's work and that of its supply chain, and we now think it can be further developed in our future works.

'When I visited the site in spring 2016, about a year into its construction, I felt very happy with its progress. I could feel the scale of the spaces and the scale was as I expected. I also felt certain that BAM had all the skill and technical ability to deliver the complexity of the form.

'When I returned again after the exterior had been completed, I felt delighted and satisfied with the way the strong façade had been realised and the dynamic scale of the interior, too – just as we had planned.

The future

'I really hope the building will attract many people from the UK, and around the world, to Dundee and to the museum.

'I hope as well that people from Dundee will use it as an everyday part of their City; that they will go there to enjoy the building with its surrounding public space and find a harmonious relationship between the museum, the riverside, the City and themselves.

'Everyone who worked on the design and construction should be incredibly proud of what they've achieved. I give my thanks to BAM for their hard work in creating this complex structure.

'I'd love to work again with BAM sometime in the future.'

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2018.

The profit for the Company for the year ended 31 December 2018 is set out in the Statement of Comprehensive Income on page 22.

During the year the directors declared and settled a dividend of £nil (2017: £nil).

Principal activities

The principal activity of the Company is construction and the provision of related services in the United Kingdom.

Future developments

Revenue was stable in the company in 2018 and the directors continue to monitor opportunities for pursuing profitable construction development contracts. This includes working with other Group companies to leverage construction opportunities that may exist with their customers.

The company continues to promote its reputation for delivering successful projects for leading British organisations and promoting its capacity in refurbishment and retrofitting, and digital construction, design and services engineering.

Directors

The following served as directors during the year ended 31 December 2018 and subsequent to that date:

- T Chell
- B Dickson
- M Donegan - resigned 29 June 2018
- D Ellis – appointed 1 July 2018
- I Fleming
- A Harding
- D Keillor
- J Phillips
- R Stiles
- J W R Wimpenny

Secretary

- F Wardhaugh

Qualifying third party indemnity provision for directors

The company's ultimate parent undertaking, Royal BAM Group n.v., maintains liability and indemnity insurance for its directors and officers against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. This provision has been in place throughout the year, and remains in place as at the date of approving this Directors' report.

The company is part of Royal BAM Group n.v.

Subsequent events

There have been no material issues that affect the contents of this report since the Statement of financial position date.

The directors note that the United Kingdom has given notice under Article 50 of the Treaty on European Union of its intention to withdraw from the European Union and that discussions on the terms of a withdrawl agreemment (if any) have not yet concluded. The directors are currently unable to estimate what the impacts are, if any, on the company's prospects for its business generally. These uncertainties are not reflected in the Statement of financial position as at 31 December 2018.

Research and development

Most of BAM's research and development activity is undertaken at individual business unit level as the need arises to develop new options and solutions for particular projects and activities. For example, BAM Plant continuously surveys existing and emerging products to research the best options for plant and materials for our projects. The technical services department also engages in research to solve bespoke problems and advise on the best options and technical solutions for projects undertaking complex tasks.

Directors' report (continued)

The principal focus of research and development at the corporate level is on developing digital design, construction and facilities management. BAM currently has an Enterprise Business Agreement with Autodesk to assist us to develop software and systems that enable us to continue to innovate.

Financial Instruments

Refer Note 13 of the financial statements on Director's view on financial instruments and associated risks.

Disabled employees

BAM is an equal opportunities employer and while applicants are asked to describe their gender, ethnicity and if they consider they have a disability; this information is not shared with colleagues who recruit and assess applicants' aptitudes and suitability for a given role.

Currently less than 1% of BAM employees describe themselves as having a disability.

BAM has income continuity policies for people who develop long-term illness and programmes for rehabilitation and assisting people to resume work. This includes making appropriate adjustments to equipment, working hours and tasks, to enable people who develop a disability to continue with their careers. There are no specific programmes for training, career development and promotion opportunities for employees with disabilities. All employees have access to support and training to develop their careers and suitability for promotion. Our personal development review process facilitates conversations about career development between employees and their line manager.

In 2015 the company developed a vision that by 2020 BAM would be a consciously unbiased employer and set up a working party that met regularly throughout 2018 to develop a strategy on strengthening diversity and inclusion in BAM.

Employee involvement

As reported in detail in the Strategic report, BAM engages with employees through a number of channels and activities to ensure that they are aware and consulted about developments in the company including its financial performance, via a staff intranet, discussion forums, surveys and face to face communication by the Board through an annual series of roadshows around the country.

Consideration of going concern

The directors of BAM Construction Limited have considered the preparation of these financial statements under the 'going concern' basis. They have considered:

- The quality, remaining duration and volume of construction contracts held;
- The liquidity levels maintained by the business;
- The principal risks and uncertainties outlined in the Strategic Report and previous sections of this report; and
- The future forecasts for the company.

After considering the above points and making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they deem it appropriate to continue to prepare these financial statements on the going concern basis.

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 company's auditor, each director has taken all steps that he is obliged to take as a director in order 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 for the forthcoming year in accordance with section 485 of the Companies Act 2006 and the elective resolution passed by the company.

Signed on behalf of the board, on 6 June 2019.

Doug Keillor
Executive Director
BAM Construction Limited
6 June 2019

St Peter the Apostle School, West Dunbartonshire

‘BAM often goes above and beyond what they have to do contractually.’

Stephen Ross is Public Private Partnership (PPP) Monitoring Officer - Asset Management for West Dunbartonshire Council, in Scotland, where BAM has delivered four schools under a PPP and is responsible for the maintenance of them as part of a thirty year concession. BAM Construction built the schools and BAM FM provide facilities management.

What stood out about BAM?

‘West Dunbartonshire has some of the highest levels of social deprivation in Scotland and in 2007 the Council decided to create four new schools that would also reach out into the communities by providing much-needed, improved access to community sports and leisure activities.

‘What stood out about BAM from the start was that they really listened and understood what we wanted. Other bidders tried to shoehorn us into off-the-shelf or one-size-fits-all solutions.’

Focus to perform

‘We are one third of the way through the 30 year concession and what pleases me - ten years on - is that there’s been no drop in standards, no drop in commitment. I think BAM’s ability to listen and their responsiveness is still a feature of the relationship. I don’t really see it as client v provider dynamic, where we are always on different sides of the table, but more as a partnership.’

‘Of course the Financial Close agreement is a hard-nosed contractual document. Sometimes it limits what I can ask for, and it limits what BAM can deliver. But BAM often goes over and above what they have to do contractually. The teachers in the schools, for example, feel they can go direct to BAM and that they get a high level of service. I think we get a first class level of responsiveness from BAM. They are quick to react and willing to go above and beyond the strict terms of the contract in order to deliver a quality service.’

Adding value and evolving together

‘BAM have gone out of their way to help us reduce our carbon footprint. The WDC Schools were among the first to use geo-thermal renewable energy. And, even though the Council is responsible for utilities usage, BAM constantly prompts us with options for better energy performance, such as switching to LED lighting and educating us in best practice on monitoring energy usage. They’ve guided us on lifecycle maintenance, so that we do not necessarily do like-for-like replacement but make the most of technological advances. Even on a practical level, they are great in the schools in educating the children about energy efficiency.’

‘Ten years on, we are at the stage where the buildings are getting older, so maintaining the schools to the highest standard is taking more effort. But I feel very confident in the level of service delivery and our ability to achieve that working together. I think it helps that BAM can deliver every element of a PPP arrangement under one roof, from the financial funding, through to the design, construction, and then the day to day facilities management. Most other contractors have to outsource some of these elements.’

Benefits and outcomes

‘I think the Council is achieving its vision. From the start, the new schools became focal points in the communities. The demand for community usage of the sports facilities has exceeded our expectations. We aimed for 2,350 hours’ usage out of school time but last year had to increase the provision by 1,400 hours.’

‘I am proud that the way we are running the concession together is highly regarded by our stakeholders such as the Scottish Futures Trust and the Scottish Government. The partnership with BAM stands out as a template of how to do it. Much of that is down to BAM’s collaborative approach.’

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable UK 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 Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements 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 financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of BAM Construction Limited

Opinion

We have audited the financial statements of BAM Construction Ltd for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report to the members of BAM Construction Limited (continued)

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
6 June 2019

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Notes:
1. The maintenance and integrity of the BAM Construction Ltd 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 financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of comprehensive income

For the year ended 31 December	Notes	2018 £m	Restated 2017 £m
Continuing operations			
Revenue	3	**891.6**	899.0
Cost of sales		**(837.4)**	(850.9)
Gross profit		**54.2**	48.1
Administration and other expenses		**(35.4)**	(31.6)
Other operating income / (expense)		**0.2**	(0.1)
Operating profit	4	**19.0**	16.4
Profit on ordinary activities before taxation		**19.0**	16.4
Income tax expense	7	**(3.7)**	(3.0)
Profit on ordinary activities after taxation		**15.3**	13.4
Total comprehensive income for the year		**15.3**	13.4

Registered number
2379469

Statement of financial position

At 31 December	Notes	2018 £m	Restated 2017 £m
Assets			
Non-current assets			
Plant and equipment	9	**3.5**	2.6
Investments in subsidiary	10	**0.4**	0.4
Retentions		**12.6**	14.1
Deferred tax assets	7	**0.1**	1.4
Total non-current assets		**16.6**	18.5
Current assets			
Inventory and work-in-progress		**0.2**	0.2
Trade and other receivables	11	**77.1**	67.8
Amounts due from group undertakings	11	**210.9**	191.8
Amounts due from customers for contract work (contract asset)		**35.7**	27.8
Prepayments	11	**0.7**	0.5
Cash and cash equivalents		**36.2**	35.4
Total current assets		**360.8**	323.5
Total assets		**377.4**	342.0

Statement of financial position (continued)

At 31 December	Notes	2018 £m	Restated 2017 £m
Current liabilities			
Trade and other payables	12	**252.6**	224.4
Amount due to ultimate parent		**1.5**	-
Amounts due to customers under construction contracts (contract liability)		**37.4**	41.8
Amounts due to subsidiary undertaking		**0.5**	0.7
Income tax payable		**1.5**	3.3
Other liabilities		**0.7**	0.9
Total current liabilities		**294.2**	271.1
Non-current liabilities			
Provision	15	**1.0**	2.2
Trade and other payables	12	**6.9**	8.7
Total non-current liabilities		**7.9**	10.9
Total liabilities		**302.1**	282.0
Equity			
Share capital	16	**24.0**	24.0
Retained earnings	17	**51.3**	36.0
Total equity		**75.3**	60.0
Total equity and liabilities		**377.4**	342.0

The financial statements were approved by the Board of Directors on 6 June 2019 and signed on its behalf by:

Doug Keillor
Executive Director
BAM Construction Limited

Registered number
2379469

Statement of changes in equity

For the year ended 31 December 2018	Share capital (Note 16) £m	Retained earnings (Note 17) £m	Total £m
Balance at 1 January 2017 (restated)	24.0	28.4	**52.4**
Effect of adoption of new acccounting standards	-	(5.8)	**(5.8)**
Balance at 1 January 2017 (restated)	24.0	22.6	**46.6**
Restated profit for the year	-	13.4	**13.4**
Balance at 31 December 2017 restated	24.0	36.0	**60.0**
Profit for the year	-	15.3	**15.3**
Balance at 31 December 2018	24.0	51.3	**75.3**

Notes to the financial statements

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of BAM Construction Limited (the 'Company') for the year ended 31 December 2018 were authorised for issue by the board of directors on 6 June 2019 and the Statement of financial position was signed on the board's behalf by Doug Keillor. BAM Construction Limited, a private company limited by shares, is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable UK accounting standards and legislation.

The company's financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£0.1m) except when otherwise indicated. The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of BAM Construct UK Limited.

The results of BAM Construction Limited are included in the consolidated financial statements of BAM Construct UK Limited, which are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

The principal accounting policies adopted by the company are set out in Note 2.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements are prepared under the historical cost convention.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the years ended 31 December 2017 and 2018.

The company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of paragraphs 45 (b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
b) The requirements of paragraphs 62, B64 (d), B64 (e), B64 (g), B64 (h), B64 (j) to B64 (m), B64 (n)(ii), B64 (o)(ii), B64 (p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations;
c) The requirements of paragraph 33 (c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
d) The requirements of IFRS 7 Financial Instruments: Disclosures;
e) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
f) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    i) paragraph 79 (a)(iv) of IAS 1;
    ii) paragraph 73 (e) of IAS 16 Property, Plant and Equipment; and
    iii) paragraph 118 (e) of IAS 38 Intangible Assets.
g) The requirements of paragraphs 10 (d), 10 (f), 16, 38(a) to 38(d), 40(a) to 40(d), III and 134-136 of IAS 1 Presentation of Financial Statements;
h) The requirements of IAS 7 Statement of Cash Flows;
i) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
j) The requirements of paragraphs 17 and 18(a) of IAS 24 Related Party Disclosures and the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
k) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134 (d) to 134 (f) and 135 (c) to 135 (e) of IAS 36 Impairment of Assets; and
l) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.2 Changes in accounting policy and disclosures

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The impact of IFRS 9 can be summarised as follows:

- all financial instruments are held to collect and the Group has not applied for the fair value option. As a result of this, for all financial instruments that meet the Solely Payments of Principal and Interest (SPPI) criterion, the accounting remains at amortised cost;
- from the assessment performed, all financial instruments recognised at amortised costs under IAS 39 have met the SPPI criterion
- Based on the assessment made, the difference between the fair value and amortised cost of the non-current receivables involved is not material.
- the application of the expected credit loss (ECL) approach on assessment of impairment of debt instruments (including contract assets and contract receivables) did not result in a material impact, where under IAS 39 Financial Instruments an incurred loss model was applied; since the overall impact of IFRS 9 is not material, the comparative figures have not been restated for IFRS 9 and no additional disclosures have been included.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The company has adopted this standard at the date of initial application. See note 2.4 Revenue recognition for the relevant accounting policies.

The company used the retrospective method for implementation, which means that the financial statements of 2018 contain comparative figures over 2017 based on IFRS 15. For comparison reasons also the impact on the opening balance 2017 has been established.

At the date of publication of the financial statements 2017, certain areas of attention were still outstanding. These specific areas of attention and discussions at IFRIC contained the following topics:

- Variable considerations will only be recognised to the extent that it is highly probable that no significant reversal of revenue will occur. The valuation threshold therefore increased from 'more likely than not' to 'highly probable'. This means that certain valuations of claims, variation orders, bonuses and penalties, which were previously correctly valued under the probable criterium under IAS 11, do not qualify in full for recognition under IFRS 15. This has a negative effect on equity upon transition and a negative impact on the comparative revenue and result figures of 2017, as shown in the overall impact below. The overall contract profitability is not affected,as BAM expects corresponding revenues, and therefore results, will be recognised in future periods. The IFRS 15 impact is in particular a matter of timing.
- IFRIC has released an exposure draft in December 2018, with proposed amendments to IAS 37 regarding the measurement of provisions for onerous contracts, as the specific guidance under IAS 11 no longer applies. Previously two options are allowed: using incremental cost or indirect cost. In the exposure draft only the direct contract cost method has been proposed, being 'the costs that relate directly to the contract'. The Group can therefore continue to follow the current method of of using direct contract cost regarding the measurement of provisions for onerous contracts, which means that the revenue and contract cost as estimated in applying IFRS15 are also used as a basis for determining whether a contract is onerous. This assessment is made for the contract as awhole, whereby the interaction between loss making performance obligations and profitable performance obligations within one contract has led to a limited impact.
- In general the activities of the company qualify for recognition of revenue over time in line with current accounting.
- During 2018 the discussion whether land and buildings need to be classified as separate performance obligations has been concluded by IFRIC, which states multiple performance obligations apply. Although such separation may affect the accounting for individual transactions, it does currently not have a material effect on the Group. Therefore no adjustments have been made.

Significant inefficiencies

The company does not recognise revenue for costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the contract since these costs do not contribute to any benefits for the customer. This includes costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the performance obligation.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.2 Changes in accounting policy and disclosures

Identification of inefficiencies leads to an adjustment in revenue and, in case of loss making projects, a reclassification between project result and provisions for onerous contracts. No result impact has been identified during the company's conversion to IFRS 15.

Reclassification of onerous contracts

Under the previous standard, the company reported the net contract position for each contract as either an asset or a liability. A contract represented an asset where cost incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the progress billings exceed cost incurred plus recognised profits (less recognised losses). Provisions for onerous contracts were included within the net contract position. Under IFRS 15 the provisions for onerous contracts are reclassified from the net contract position to a separate provision for onerous contracts. These provisions show the amount of the onerous contract result which relates to future obligations to be fulfilled under the contract. This amount is determined based on the progress of the performance obligation identified in the contract.

Input measures for revenue recognition

Based on IFRS 15, only one measurement method for recognising revenue over time may be used for similar contracts with similar circumstances throughout the Group: either input based or output based and applied consistently. Under the previous standard both methods were applied.

Practical expedients

For consistency reasons, a few practical expedients have been applied during the conversion of the company to IFRS 15. This may have resulted in a slightly higher transition impact than if practical expedients would have been applied, for example because the company has not used hindsight for the valuation of variable considerations. The company has assessed the valuation with the knowledge available at the reporting date with the application of the highly probable threshold, meaning the variable considerations have been valued at a later moment in time when the highly probable threshold has been reached. The following table summarises the impact of adopting IFRS 15 on the company statement of financial position as at 1 January 2017 for each of the line items affected. Line items that were not affected by the changes have not been separately shown. The tables show adjustments of revenue from variable considerations and a reclassification for onerous contracts to provisions. The amounts are shown in £ millions.

Impact on the statement of financial position:

Balance sheet (extract)	1 January 2017	Variable considerations	Provisions	Restated 1 January 2017
Deferred tax assets	0.3	1.2	-	1.5
Amounts due from customers for contract work (contract asset)	15.2	(7.0)	0.3	8.5
Other assets	379.3	-	-	379.3
Total assets	394.8	(5.8)	0.3	389.3
Equity	28.4	(5.8)	-	22.6
Amounts due to customers under construction contracts (contract liability)	81.9	-	(2.4)	79.5
Provisions	-	-	2.7	2.7
Other liabilities	284.5	-	-	284.5
Total equity and liabilities	394.8	(5.8)	0.3	389.3

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.2 Changes in accounting policy and disclosures

The following tables summarise the impact of adopting IFRS 15 on the company statement of financial position as at 31 December 2017 and its consolidated income statement for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been separately shown. The tables show adjustments of revenue from variable considerations and a reclassification for onerous contracts to provisions. The amounts are shown in £ millions.

Balance sheet (extract)	31 December 2017	Variable considerations	Provisions	Restated 31 December 2017
Deferred tax assets	0.2	1.2	-	1.4
Amounts due from customers for contract work (contract asset)	13.3	(11.4)	0.6	2.5
Other assets	338.1	-	-	338.1
Total assets	351.6	(10.2)	0.6	342.0
Equity	45.4	(9.4)		36.0
Amounts due to customers under construction contracts (contract liability)	43.4	-	(1.6)	41.8
Provisions	-	-	2.2	2.2
Income tax payable	4.1	(0.8)	-	3.3
Other liabilities	258.7	-	-	258.7
Total equity and liabilities	351.6	(10.2)	0.6	342.0

Impact on the consolidated income statement 2017:

	Full year 2017	Variable considerations	Provisions	Restated Full year 2017
Revenue	903.5	(4.5)	-	899.0
Operating expenses	(882.6)	-	-	(882.6)
Operating result	20.9	(4.5)	-	16.4
Result before tax	20.9	(4.5)	-	16.4
Income tax	(3.9)	0.9	-	(3.0)
Profit for the year	17.0	(3.6)	-	13.4
Total comprehensive income	17.0	(3.6)	-	13.4

The changes to the accounting polocies following IFRS 15 have been adjusted in the respective notes.

2.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.3 Judgements and key sources of estimation uncertainty

a) Operating lease commitments

The company has entered into commercial leases as lessee, obtaining the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

b) Revenue recognition

Contract revenue and costs

When the outcome of a construction contract can be estimated reliably, the contract revenue is highly probable and the contract will be profitable, contract revenue and costs are recognised over the period of the contract, usually by reference to the stage of completion using the 'percentage-of- completion method', to determine the appropriate amount to recognise in a given period. When it is probable that total contract costs will exceed total contract revenue, the realised loss based on the 'percentage-of-completion method' is recognised as an expense immediately, while the future expected loss is included in a provision for onerous contracts. When the outcome of a construction contract cannot be estimated reliably, for instance in the early stages of a contract, but it is expected that the cost incurred in satisfying the performance obligation under the contract will be recovered, then revenue will be recognised to the extent of the cost incurred, until the outcome of a contract can be reliably measured.

In determining the stage of completion the company has efficient, coordinated systems for cost estimating, forecasting and revenue and costs reporting. The system also requires a consistent judgment (forecast) of the final outcome of the project, including variance analyses of divergences compared with earlier assessment dates. Estimates are an inherent part of this assessment and actual future outcome may deviate from the estimated outcome, specifically for major and complex construction contracts. However, historical experience has also shown that estimates are, on the whole, sufficiently reliable. See paragraph 2.4 for further explanation regarding the recognition of revenue for construction contracts.

Claims receivable

In the normal course of business the company recognises contract assets in connection with claims for (partly) satisfied performance obligations due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Claims for satisfied performance obligations are part of the variable considerations under IFRS 15. Project related claims on principals are recognised when it is highly probable that no significant reversal in the cumulative revenue recognised regarding to the claim, will occur. The Group considers both the likelihood and the magnitude of a possible revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include the judgement or actions of third parties like the court or an arbitration committee or weather conditions;
- the uncertainty about the amount of consideration is not expected to be resolved for a long period of time;
- the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value;
- the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances;
- the contract has a large number and broad range of possible consideration amounts.

Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed. See paragraph 2.4 for further explanation regarding the recognition of variable considerations.

d) Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in Note 7.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

a) Foreign currency translation

The company's financial statements are presented in sterling, which is also the company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

b) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment. On an annual basis, the company assesses if there are any indicators of impairment by comparing the net asset values of each subsidiary to their carrying amount. If the net asset value is lower than the carrying amount, the company assesses if the investment is impaired. If the recoverable amount of the investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. An impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

c) Tangible fixed assets

All plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all plant and equipment, on a straight-line basis over its expected useful life as follows:
Plant, machinery and vehicles – 8.33% to 50% per annum.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period of de-recognition.

d) Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost in the income statement.

e) Accounting policy for leases

Company as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Company as a lessee

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

f) Financial Instruments

Classification

Management determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired or issued. In principle, the financial assets are held in a business model whose objective is to collect contractual cash flows over the lifetime of the instrument. The company's financial assets comprise 'other financial assets', ' (trade) receivables – net', 'contract assets', 'contract receivables' and 'cash and cash equivalents' in the balance sheet.

The company classifies its financial assets in the classes 'debt instruments at amortized costs', 'financial assets at fair value through profit and loss'. Debt instruments at amortized costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period which are classified as non-current assets. Debt instruments that do not meet Solely Payments of Principal and Interest (SPPI) criterion (for which the test is performed at instrument level) are classified at other financial assets at fair value through profit or loss.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement, which also applicable for net changes in fair value after initial recognition. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are initially measured at the transaction price determined under IFRS 15. (See note 2.4 for revenue recognition).

Debt instruments, other than those initially measured in accordance with IFRS 15, are subsequently carried at amortised cost using the effective interest method and are subject to impairment. The company measures debt instruments at amortised cost if both of the following conditions are met:

- the debt instruments is held with the objective to hold financial assets in order toto collect contractual cash flows;
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and
- Interest on the principal amount outstanding.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Impairment of financial assets

If the credit risk on a financial asset, not held at fair value through profit or loss, has not increased significantly since initial recognition, the loss allowance for that financial instrument is the 12-month expected credit losses (ECL). If the credit risk on a financial asset has significantly changed since initial recognition the loss allowance equals the lifetime expected credit losses. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Indications of increase in credit risk for financial assets are if a debtor or a group of debtors:

- experience significant financial difficulty;
- are in default or delinquency in interest or principal payments;
- have increased probability of default;
- other observable data resulting in increased credit risk.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

For all financial assets, not held at fair value through profit or loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of collateral, if any. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, contract assets and contract receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

2) Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings and payables, net of plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities is as follows:

De-recognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

g) Stocks and work-in-progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials and consumables - purchase cost on a first-in, first-out basis.
- Work in progress and finished goods - cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs except for capitalisation of qualifying interest incurred on construction projects where applicable.

Net realisable value is based on estimated selling price in the ordinary course of business, less any further costs expected to be incurred to completion and disposal.

h) Trade and other receivables

Trade receivables and other debtors, which generally have 30-60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Trade and other receivables, other than those measured in accordance to IFRS 15, are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method, less any expected credit loss.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

i) Trade and other payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

j) Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

k) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

l) Revenue recognition

Construction contracts

As per 1 January 2018, the company has implemented IFRS 15 regarding revenue recognition. IFRS 15 follows a 5-step approach to recognise for revenue, which is set out below. Certain specific topics have been included or referred to the applicable note. The standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and related interpretations. The core principle of IFRS 15 is a 5-step model to distinguish each distinct performance obligation within a contract that the Group has with its customer and to recognise revenue on the level of the performance obligations, reflecting the consideration that the Group expects to be entitled for, in exchange for those goods or services.

The following 5 steps are identified within IFRS 15:

- Step 1 'Identify the contract with the customer': Agreement between two or more parties that creates enforceable rights & obligations (not necessarily written).
- Step 2 'Identify the performance obligations': A promise in a contract with a customer to transfer a good or service to the customer.
- Step 3 'Determine the transaction price': The transaction price is the amount of consideration to which an entity expects to be entitled for in exchange for transferring promised goods or services to a customer.
- Step 4 'Allocate the transaction price': The objective of allocating the transaction price is for the Group to allocate the transaction price to each performance obligation.
- Step 5 'Recognise revenue': the Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Step 1 'Identify the contract with the customer'

IFRS 15.9 requires that five criteria must be met before an entity accounts for a contract with a customer. Once an arrangement has met the criteria, the Group does not assess the criteria again unless there are indicators of significant changes in the facts or circumstances.

The achievement of the preferred bid status is not considered as a contract. As from the achievement of the preferred bid status, costs will be capitalised as an asset if enforceability of right to payment exists. This mainly concerns costs to fulfil the contract. See note 13 for further details.

2.4 Significant accounting policies

Multiple contracts are combined and accounted for as a single contract when the economics of the individual contracts cannot be understood without reference to the arrangement as a whole. Indicators that such a combination is required are:

(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or the performance of the other contract;
(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

A change to an existing contract for a project of the company is a modification. A contract modification could change the scope of the contract, the price of the contract, or both. A contract modification exists when the Group and the customer approve the modification either in writing, orally, or implied by customary business practices, making the modification enforceable. In accordance with IFRS 15 the Group uses three methods to account for a contract modification:

(a) as a separate contract when the modification promises distinct goods (according to IFRS 15.27) or services and the price reflects the stand alone selling price;
(b) as a cumulative catch-up adjustment when the modification does not add distinct goods or services and is part of the same performance obligation. For the company, as common within the construction sector, modifications mainly relate to variation orders which do not result in additional distinct goods and services and have to be accounted for as cumulative catch-up adjustment. This is the most common method within the company given the nature of the modifications;
(c) or as a prospective adjustment when the considerations from the distinct goods or services do not reflect their standalone selling prices.

Step 2 'Identify the performance obligations'

The purpose of this step is to identify all promised goods or services that are included in the contract. Examples of performance obligations are the construction of a building, the delivery of an apartment, the maintenance of a road and so on.

At contract inception, the Group assesses the goods or services promised to a customer, and identifies each promise as either:

(a) a good or service (or a bundle of goods or services) that is distinct; or
(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Promises in a contract can be explicit, or implicit if they create a valid expectation that the company will provide a good or service based on the Group's customary business practices, published policies or specific statements.

Building and maintenance contracts are usually considered as separate performance obligations because these promises are separately identifiable and the customer can benefit from these promises on their own. Design and build contracts in the context of the Group are usually accounted for as one performance obligation because of not meeting criterion IFRS 15.27 (b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. These promises usually represent a combined output for the customer (the construction) for which the design is the input. However if the purpose of the contract is to deliver a separate design after which the client is also able to contract another construction company, the design is considered to be separately identifiable.

When assets are built at clearly different (unconnected) locations these are generally considered to qualify as separate performance obligations.

Performance obligations with the same characteristics can be bundled into portfolios if the entity reasonably expects that the effects on the financial statements of applying IFRS 15 to the portfolio would not differ materially from applying the standard to all performance obligations individually (for example: apartments).

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

Onerous contracts

IFRS 15 does not include specific guidance about the accounting for project losses. For the accounting of provisions for onerous contracts, IFRS 15 refers to the guidance relating to provisions in IAS 37. Based on IAS 37, a provision for an onerous contract has to be accounted for on the level of the contract as a whole. This is not necessarily the same as if evaluated on project level, because a contract may include more performance obligations.

The provision for onerous construction contracts only relates to the future loss on the performance to be delivered under the contract. In determining a provision for an onerous contract, the inclusion of variable considerations in the expected economic benefits is based on the same principles as included in step 3 hereafter, including the application of the highly probable constraint for the expected revenue. The provision for onerous contracts is presented separately in the balance sheet.

Step 3 'Determine the transaction price'

The purpose of this step is to determine the transaction price of the performance obligations promised in the contract. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount, a variable consideration or a combination of both.

If the consideration promised includes a variable amount such as an unpriced variation order, a claim, an incentive or a penalty, the company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. IFRS 15 provides two methods for estimating variable considerations: the sum of probability-weighted amounts in a range of possible consideration amounts or the most likely amount a range of possible consideration amounts. On the level of each performance obligation has to be decided which approach best predicts the amount of the consideration to which the company will be entitled.

The company includes a variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (called the 'constraint').

The company is often exposed to uncertainties related to variable considerations such as variation orders and contract claims to customers. The measurement of variation orders and claims requires knowledge and judgement by the company. Based on IFRS 15, the company interprets variation orders and contract claims as contract modifications for which the consideration is variable.

For the accounting of unpriced variation orders and claims the following elements are assessed:

(a) determine whether the rights and obligations of the parties to the contract that are created or changed by the variation order or contract claim are enforceable;
(b) estimate the change to the transaction price for the variation order or contract claim;
(c) apply the guidance relating the constraint of the estimate of variable considerations (meaning that it is highly probable that no significant reversal of revenue will occur);
(d) determine whether the variation order or contract claim should be accounted for on a prospective basis or a cumulative catch-up basis.

For considering the effects of constraining estimates of variable considerations, the company makes a distinction between claims and variation orders. Variation orders are changes that are clearly instructed by the client creating enforceable rights to payment but for which the price change is not yet determined. Claims however relate to events for which the company considers to have enforceable rights to a compensation from the client but these are not yet approved by the client. The uncertainty relating to claims is usually higher, because of the absence of an instruction of the client for a change. As a result the risk of a significant reversal of revenue relating to claims is considered to be higher and it might be more difficult to prove that a claim amount meets the IFRS 15 'highly probable' criterion. Please refer to note 2.3) for the related criteria.

Other variable considerations might include bonuses and penalties, for which penalties are considered to be negative variable considerations. The same method as described above needs to be applied, including assessing the constraint.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

When determining the transaction price, the company adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract. As a practical expedient the Group does not account for a financing component if the entity expects at contract inception that the period between the delivery of goods or services and the payment is one year or less.

Step 4 'Allocate the transaction price'

The objective when allocating the transaction price is to allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

To meet the allocation objective, the company allocates the total transaction price agreed in the contract (or combination of contracts) as determined in step 3 to the performance obligations identified in step 2. This allocation is based on the relative stand-alone selling price (SSP) of the individual performance obligations.

To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the company determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.
The estimation method of IFRS 15 that best reflects the stand-alone selling price for design-, construction- and maintenance projects is the expected cost plus margin approach. This approach requires to forecast its expected costs of satisfying the performance obligation and then add an appropriate margin for that type of project or service. Costs included in the estimation should be consistent with those costs the Group would usually consider in setting standalone selling prices. Both direct and indirect costs are considered. The company substantiates for example the average margin on bids for similar projects/services on a stand-alone basis (not in combination with other performance obligations).

Step 5 'Recognise revenue'

The purpose of this step is to determine the amount of revenue to be recognised in a certain period.

The company recognises revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For each performance obligation identified in the contract, the company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The Group needs to determine, at contract inception, whether control of a good or service transfers to a customer over time or at a point in time. Revenue is recognised over time if any of the following three criteria are met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
(b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

In general, the company is building on the land of the customer or improving an asset of the customer, which results in creating an asset that the customer controls as the asset is created. This leads to recognising revenue over time. The Group uses the 'percentage-ofcompletion method' to determine the appropriate amount to recognise in a given period for a performance obligation. The stage of completion is measured by reference to the contract costs of fulfilling the performance obligation incurred up to the end of the reporting period as a percentage of total expected fulfillment costs under the contract, which is an input measure according to IFRS 15.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

Costs incurred in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. Payment terms might differ from client to client and country to country, however the Group's standard payment term states 60 days. A contract liability is recognised until the points are redeemed or expired.

When applying a method for measuring progress, the Group excludes the measure of progress of any goods or services for which the entity has not transferred control to a customer. Examples of costs which have to be excluded from the progress measurement, include uninstalled materials, capitalised cost and costs of inefficiencies.

Uninstalled materials

If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate the Groups' fulfilment of the contract, the Group assesses whether it obtains control of those contributed goods or services. If so, the Group accounts for the contributed goods or services as non-cash consideration received from the customer. This is however rare, since control usually is not transferred to the Group and stays with the customer.

Capitalised cost

The capitalised contract cost include cost to obtain the contract, cost to fulfil the contract and set-up cost. The Group recognises capitalised contract cost from the costs incurred to fulfil a contract (for example set-up or mobilisation costs) only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating
- to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific
- contract that has not yet been approved);
- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance
- obligations in the future; and;
- the costs are expected to be recovered (project result should be sufficient to cover the capitalised contract costs).

Capitalised contract costs shall be amortized over the lifetime of the contract.

Costs of inefficiencies

The company does not recognise revenue for costs incurred that are attributable to significant inefficiencies in the Group's performance that were not reflected in the price of the contract since these costs do not contribute to any benefits for the customer. This includes costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the performance obligation.

Not all cost overruns compared to the project budget relate to inefficiencies. Cost overruns that for example relate to price increases, design changes (regardless whether compensated by the client), inaccuracies in the project budget are not inefficiencies. These expenses still contribute to value to the customer and making progress in the delivery of the project. Inefficiency costs relate to wasted items or work performed, which do not reflect any progress in the satisfaction of the performance obligation nor value to the customer. The costs incurred related to significant inefficiencies are directly charged to the income statement. Consequently, significant inefficiency costs are excluded from the measurement of the stage of completion.

Construction contracts (contract assets and contract liabilities)

The Company defines a construction contract as a contract specifically negotiated for the construction of an asset. On the balance sheet, the Company reports the net contract position for each (construction) contract as either an contract asset or a contract liability. A contract asset is recognized when the Company has a right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. A contract receivable is an amount to be billed for which payment is only a matter of passage of time. A contract liability is recognized when the Company has an obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

For further guidelines regarding construction contracts see paragraph 2.4 revenue recognition.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

Other revenue includes, among other items, rental income under an operating lease and (sub)lease of property, plant and/or equipment. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

3. Revenue

Revenue recognised in the statement of comprehensive income is analysed as follows:

	2018 **£m**	Restated 2017 £m
Construction contracts revenue	**891.2**	898.4
Rental income	**0.4**	0.6
Revenue from continuing operations	**891.6**	899.0

The following information relates to all construction contracts in progress at the statement of financial position date.

	2018 **£m**	2017 £m
Aggregate amount of costs incurred and recognised profits (less losses) to date	**1,878.5**	2,036.5
Retention asset	**40.2**	45.2
Advances received	**4.9**	4.7

Retention assets are included in trade receivables. Advances are presented as part of Amounts due to customers for contract work.

Other revenue disclosures

The revenue recognised that was included in the project contract liability balance at the beginning of the period, has been fully recognised in the current year. Within the construction business, regular installments will take place but within the Group never leading to significant pre-financing longer than a year.

The revenue recognised from performance obligations satisfied in previous periods amounts to £nil million. Performance obligations could be satisfied once the technical completion is final and control has been fully transferred to the client. It is common however to finalise the last pricing discussions regarding variable considerations, of which claims, after the control has been transferred. Due to the higher threshold to value variable considerations, claims that are settled for a higher amount than valued, might lead to revenue from previously satisfied performance obligations.

Projects within the construction business might run for a period longer than one year, or might transfer from one calendar year to the other. The revenue expected related to unsatisfied performance obligations (running or won projects) are as follows:

	2018 **£m**	2017 £m
Up to 1 year	**799.9**	707.4
2 to 5 years	**458.2**	471.4
	1,258.1	1,178.8
Over 5 years	**499.2**	449.7
Total	**1,757.3**	1,628.5

The company has not used the practical expedient to exclude performance obligations with an original expected duration of one year. These are included in the above mentioned time buckets.

Notes to the financial statements (continued)

4. Operating profit

Certain of the company's administrative costs, including audit fees and staff costs, were borne by the immediate parent undertaking, BAM Construct UK Limited.

The operating profit is stated after charging depreciation of £0.9m (2017: £1.0m) and operating lease rentals for plant and machinery of £0.4m (2017: £0.6m).

5. Auditor's remuneration

The audit fees were borne by the immediate parent undertaking, BAM Construct UK Limted.

6. Staff costs and directors' remuneration

All staff costs and directors' remuneration costs were met by the immediate parent, BAM Construct UK Limited.

During the year 2018 James Wimpenny and Doug Keillor directors of the company, were also directors of the immediate parent, BAM Construct UK Limited. The directors received total remuneration for the year of £968,000 (2017: £1,294,000) , all of which was paid by the immediate parent. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies.

The directors of the company received remuneration from BAM Construct UK Limited as employees of that company. Directors' emoluments are subsumed within management charges of £23.2m levied by BAM Construct UK Limited on the company (see Note 4), but the amount is not separately identified within this recharge.

7. Income tax

a) Tax charged in the income statement

	2018 **£m**	Restated 2017 £m
Current income tax		
Current income tax charge	**1.5**	3.1
Prior year adjustment	**0.1**	(0.1)
Current tax charge	**1.6**	3.0
Deferred tax		
Prior year adjustment	**2.1**	-
Total deferred tax	**2.1**	-
Income tax reported in the profit or loss	**3.7**	3.0

Notes to the financial statements (continued)

b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2018 is higher than (2017: lower) the statutory corporation tax rate enacted in the UK. The statutory corporation tax rate was 19.0% (2017: 19.25%). The differences are reconciled below:

	2018 **£m**	Restated 2017 £m
Profit on ordinary activities before tax	**19.0**	16.5
Profit on ordinary activities multiplied by UK Corporation tax rate of 19.0% (2017: 19.25%)	**3.6**	3.1
Expenses not deductible for corporation tax purposes	**-**	-
Prior year adjustment	**0.1**	(0.1)
Total current tax charge	**3.7**	3.0

c) Factors that may affect future tax charges

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. Any deferred tax expected to reverse in these years have been re-measured using these rates as appropriate.

d) Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2018 **£m**	Restated 2017 £m
Deferred tax asset		
Balance at 1 January	**1.4**	0.3
Tax expense recognised in the profit and loss	**(0.1)**	(0.1)
Prior year adjustment	**(1.2)**	1.2
Balance at 31 December	**0.1**	1.4

There are no unprovided deferred tax liabilities.

Deferred tax provided in the financial statements is as follows:

	2018 **£m**	Restated 2017 £m
Deferred tax asset		
Accelerated capital allowances	**0.1**	0.2
Prior year adjustment	**-**	1.2
Other timing differences	**-**	-
Deferred tax asset	**0.1**	1.4

A deferred tax asset has been recognised in the accounts on the grounds that there will be suitable taxable profits within the tax group of which the Company is a member.

8. Dividends paid and proposed

Dividends declared and paid during the year amounted to £nil (2017: £nil).

Notes to the financial statements (continued)

9. Plant and equipment

	Plant and Equipment £m
Cost	
Balance at 1 January 2018	10.4
Additions	1.9
Disposals	(0.5)
Balance at 31 December 2018	11.8
Depreciation	
Balance at 1 January 2018	7.8
Charge for the year	0.9
Eliminated on disposals	(0.4)
Balance at 31 December 2018	8.3
Net book value	
At 31 December 2017	2.6
At 31 December 2018	3.5

Plant and equipment include assets with a net book value of £0.2m (2017: £0.2m) which are hired out to other group undertakings and to third parties under operating lease arrangements. These assets are depreciated over the expected useful lives at rates between 8.33% and 50% per annum. These assets have accumulated depreciation of £0.5m (2017: £0.6m).

10. Investments – non-current

	Investment in subsidiary £m
Cost	
Balance at 1 January 2018	0.4
Additions	-
Impairments	-
Balance at 31 December 2018	0.4
Carrying value	
At 31 December 2017	0.4
At 31 December 2018	0.4

Notes to the financial statements (continued)

11. Trade and other receivables, prepayments and accrued income

	2018 £m	Restated 2017 £m
Current		
Trade and other receivables	**77.1**	67.8
Amounts due from parent undertaking	**209.8**	191.1
Amounts due from fellow subsidiary undertaking	**1.1**	0.7
Prepayments	**0.7**	0.5
	288.7	260.1
Non-current		
Retentions	**12.6**	14.1
	12.6	14.1

Accrued income reflects uninvoiced amounts related to the value of work done on customer contracts that can be measured reliably and where management judge the amount is recoverable with reasonable certainty.

Trade and other receivables (current assets) includes retentions of £27.9m (2017: £30.9m).

Trade receivables are stated after provisions for impairment of £nil (2017: £nil). The significant change in contract assets is due to normal activity in the construction business. Other changes as mentioned in IFRS 15 (paragraph 118) are not relevant.

12. Trade and other payables

	2018 £m	Restated 2017 £m
Current		
Trade payables	**69.0**	68.9
Accruals	**1.5**	0.9
Accrued costs completed projects	**54.4**	26.6
Accrued costs work in progress	**127.7**	128.0
	252.6	224.4
Non-current		
Loss provision	**1.0**	2.2
Retentions	**6.9**	8.7
	7.9	10.9

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

Notes to the financial statements (continued)

13. Financial risk management

Managing financial risk is an integral part of BAM Construction's conduct of business. Stringent policies designed to identify, manage, and mitigate both existing and new risks apply at various levels of management throughout the business units.

a) Credit risk

The company is exposed to potential credit risk on financial instruments such as liquid assets and trade receivables. BAM Construction manages credit risk by placing its investments in liquid assets with high quality financial institutions. In line with normal business practice, the company operates credit management procedures and regularly reviews credit rating information regarding organisations to which the company considers extending credit arrangements.

b) Liquidity risk

Liquidity risk and cashflow are actively managed through regular preparation and monitoring of plans, budgets and quarterly forecasts. Cash flow risk is mitigated through the operation of appropriate invoicing and payment cycle terms contained within each contract.

c) Price and value risk

Price and value risk is monitored constantly as part of the review of management forecasts and at contract and project level as part of the appraisal process. Price risk is further mitigated by benchmarking selected activity within each contract. Benchmarking is principally undertaken at the start of every significant contract, with adjustments made to selected activity pricing to reflect current market value.

The company finances projects through a combination of bank funds and operating leases, cash and short-term deposits. New projects are evaluated with regard to these financing arrangements. Live projects are monitored continuously with regular forecasting, to identify any deviation early and ensure managers take corrective action, thus minimising financial risk. This ensures that any observable evidence of impairment for loss-making contracts can be identified as early as possible. No significant uncovered risks were identified for the period presented in this report, or at the time this report was approved by directors.

Construction projects are financed through a combination of bank funds and operating leases, cash and short-term deposits. New projects are evaluated with regard to these financing arrangements. Live projects are monitored continuously with regular forecasting, to identify any deviation early and ensure managers take corrective action, thus minimising financial risk. This ensures that any observable evidence of impairment for loss-making contracts can be identified as early as possible. No significant uncovered risks were identified for the period presented in this report, or at the time this report was approved by directors.

14. Obligations under leases

Operating lease agreements where the company is lessee

The company has entered into non-cancellable commercial leases on certain items of equipment and vehicles.

	2018 £m	2017 £m
Future minimum rentals payable		
Within one year	**1.3**	1.2
After one year but not more than five years	**1.7**	2.0
After five years	**-**	-
	3.0	3.2

The company has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average duration of between 3 and 4 years. The lease agreements contain an option for renewal, with such options being exercisable 6 months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

Notes to the financial statements (continued)

15. Provisions and contingent liabilities

	Onerous contract
Balance at 1 January	2.2
Unused amounts reversed	(1.2)
Balance at 31 December	1.0
Non-current	1.0

The company, along with other group entities, is party to a guarantee in respect of any individual company's overdraft balance within the cash pooling facility with NatWest Bank Plc. At 31 December 2018 there were nil (2017: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2018 was £nil (2017 - £nil). This guarantee is not expected to give rise to any loss.

The company, along with other group entities, is party to a guarantee in respect of any individual company's overdraft balance within the cash pooling facility with the Bank of Scotland Plc. At 31 December 2018 there were nil (2017: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2018 was £nil (2017 - £nil). This guarantee is not expected to give rise to any loss.

The company is party to various litigation actions arising in the ordinary course of business. Provision has been made where there is a probable cost involved in settling the action. The directors are of the view that other claims will have no significant impact on the results of the Company.

The company, along with other group entities, provided a guarantee against a subordinated term loan and a committed revolving credit facility to its ultimate parent undertaking, Royal BAM Group n.v. :

1) The principal sum of the subordinated term loan amounts to €125m (2017: €125m).
2) During the year the Royal BAM Group n.v. renegotiated a revolving credit facility, to which BAM Construct UK Ltd and other Group entities, is a guarantee. The revolving credit facility, was reduced to €400m (2017: €400m), with a maturity date of March 2023. 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.

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.

The company has agreed to provide financial support to ensure the continued 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.

Notes to the financial statements (continued)

16. Authorised and issued share capital

		2018		2017
	Number	**£m**	Number	£m
Share capital				
Authorised: ordinary shares of £1 each	**24,000,100**	**24.0**	24,000,100	24.0
Issued: ordinary shares of £1 each	**24,000,002**	**24.0**	24,000,002	24.0

17. Retained earnings

	Retained earnings £m	**Total Equity £m**
At 1 January 2017	28.4	**28.4**
Profit for the year	17.0	**17.0**
IFRS adjustment	(9.4)	**(9.4)**
At 1 January 2018 restated	36.0	**36.0**
Profit for the year	15.3	**15.3**
At 31 December 2018	51.3	**51.3**

18. Other related party transactions

The company has taken advantage of the exemption available under FRS 101 not to disclose details of transactions between wholly owned group undertakings.

19. Group structure

Entity name	Interest in voting equity (%)	Relationship	Nature of business
BAM Design Limited	99.99%	Immediate	Construction design services
HBG UK Pension Trustee Limited	50%	Immediate	Dormant
Kyle Stewart Executive Pension Trustee Limited	50%	Immediate	Dormant

The registered offices for all of the above is Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

20. Ultimate group undertaking

The company's immediate parent undertaking is BAM Construct UK Limited, a company incorporated in England.

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 undertaking (the largest group of which the company is a member and for which group accounts are prepared) and of BAM Construct UK Limited (the smallest group) are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

Notes to the financial statements (continued)

21. Subsequent events to the statement of financial position

There have been no material issues that affect the contents of this report since the statement of financial position date.

The directors note that the United Kingdom has given notice under Article 50 of the Treaty on European Union of its intention to withdraw from the European Union and that discussions on the terms of exit are ongoing. The directors are currently unable to estimate what the impacts are, if any, on the company's prospects for its business generally. These uncertainties are not reflected in the statement of financial position as at 31 December 2018.

Beaumont Primary Academy, Huddersfield, was delivered four weeks early in August 2018 by BAM Construction in the North East.

Coal Drops Yard, King's Cross

'By working and learning together we can solve challenges.'

David Partridge - Argent LLP

The added value of collaboration

'If all parties take time to understand each others' risks there is a better chance of finding equitable solutions in the best interests of all stakeholders. Honest, open collaboration is a two-way process. So I would say to contractors: do not be afraid to challenge us. It's important to take time to understand our drivers as early as possible and be courageous and imaginative in offering solutions.'

'We involved BAM and its key subcontractors early on, some 12 months before the start of our project to create an innovative retail quarter at Coal Drops Yard, King's Cross, in London. It was important that BAM understood the risks associated with a listed building and also the particular geometry and interface of a new roof that would overarch and link the structure of the former yard buildings. Early involvement enabled BAM to de-risk the construction and to meet key dates.'

Learning from each other

'The way we deliver projects and the way the construction industry works has to change. We need to be innovative and push the boundaries of traditional contracting. By working and learning together we can innovate imaginatively.'

Benefits of digitisation

'Looking to the future, the linkage between design and offsite manufacture is key but, without digitisation, design would be the weak link. Although BIM has become embedded in what we do, there is still some work to do to get everyone on the same page.'

'Digitisation enables us to innovate. It leads to greater efficiency in design because of the opportunities to challenge and co-ordinate the design.

'We are interested in the contribution digitisation can make to asset management by extending the digital building model to include a fully digitised building management system to enable efficient facilities management. We need to consider more fully the potential of digitisation in sequencing and managing residential projects prior to executing them.'

Future relationship

'Argent and BAM have had a collaborative relationship stretching back more than 21 years. BAM needs to continue to challenge traditional ways of doing things and be willing to push boundaries in order to improve design, delivery and the occupier experience.'

Epworth House - City Road, London

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Here you will find downloadable PDFs of:

- BAM Construct UK Limited Report and Accounts
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- BAM FM Limited Report and Accounts

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