



# Annual Report and Accounts 2020



**BAM Construct UK Ltd**

[www.bam.co.uk](http://www.bam.co.uk)



In signing the World Green Building Council Net Zero Carbon Buildings Commitment, BAM Construct will ensure all its direct operations and all buildings it develops or directly controls, will achieve

**net zero carbon in operation by 2030**



Riddor accidents

**13**  
(2019: 24)



We continue to pay our suppliers invoices faster, in an average

**36 days**

compared to 39 days in 2019



Our forward order book stands at a solid

**£1.5 billion**



**58%**

of new work won in 2020 was public sector related and 42% private sector



We have reduced construction waste by 24% since 2015, and in 2020 we diverted

**92%**

of our waste away from landfill



Our Facilities Management team has been

**awarded the gold**

for the fourth year running at the Sustainable Facilities Management Index (SFMI) awards. The Index is the only sustainability benchmark for the UK FM sector



BAM is placed on CDP's prestigious

**'A List'**

for acting on climate change by driving CO<sub>2</sub> reductions, mitigating climate risks and develop a low-carbon economy



Having raised more than

**£280k**

for our charity partner CLIC Sargent over three years, BAM employees have chosen a new charity partner – British Heart Foundation



We measured the social value of 8 out of our many projects – they alone created

**£150m**

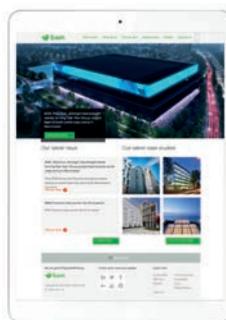
worth of social value

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Registered number  
3311781



Visit our website at:  
[www.bam.co.uk](http://www.bam.co.uk)

**BAM Construct UK is a leading property development, design, construction and facilities management company, creating sustainable environments that enhance people's lives.**

We are committed to Net Zero carbon operations by 2030. From offices around the country, our teams collaborate with public and private sector clients to create and maintain sustainable buildings at the same time as delivering long-lasting social value for the communities we live and work in.

To help us to deliver projects and services in a lean, green and more efficient way we use the latest digital technologies and modern construction methods, and are supported by expert partners and a highly-valued supply chain of specialist sub-contractors.

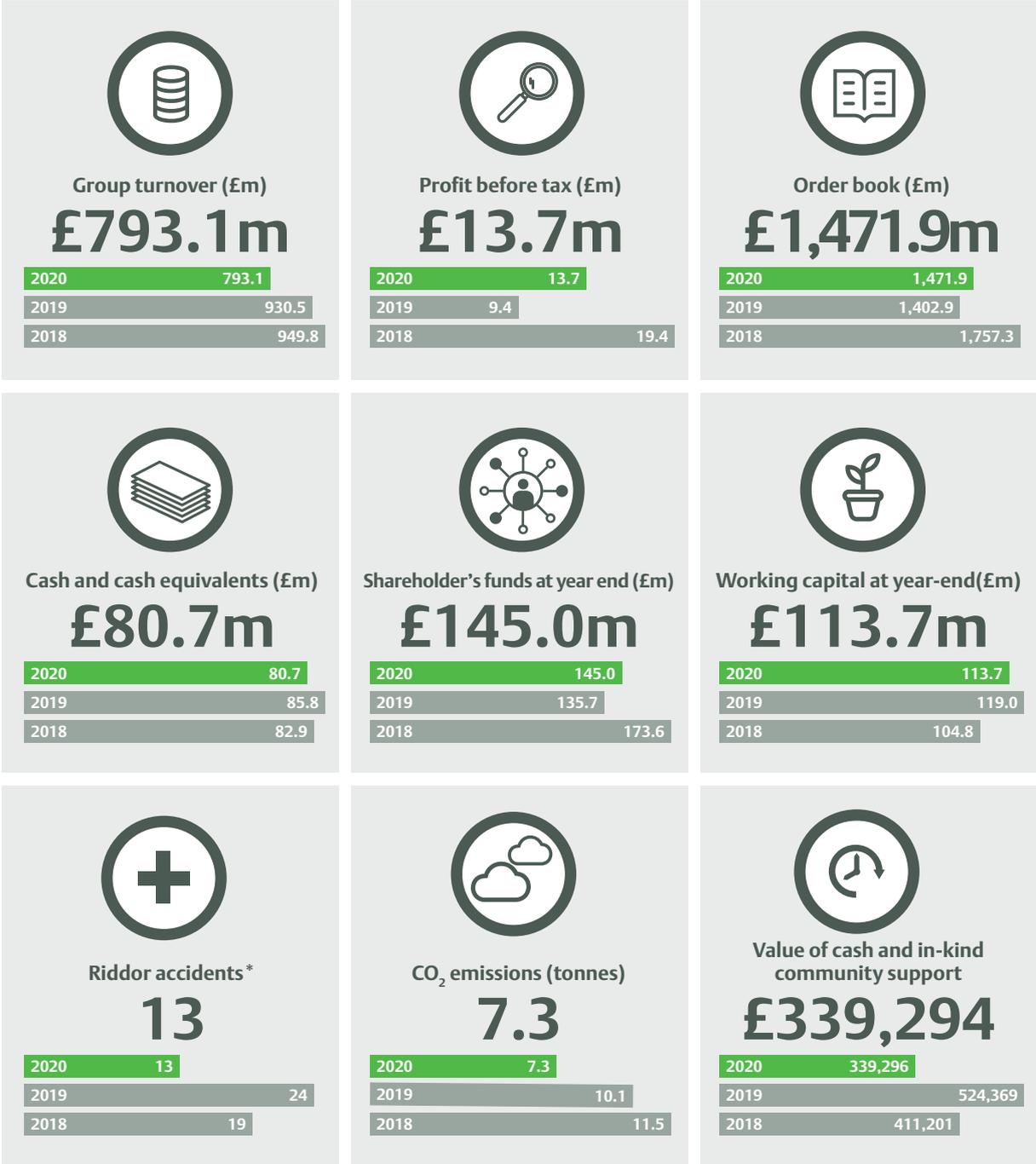
We are constantly striving to improve the built environment by attracting and developing a more diverse workforce, and reducing the carbon emissions associated with how buildings are designed, built, and managed over their lifetimes.

Our goal is to be a high-performing, collaborative design, construction, property and FM services provider, to partner with our clients and supply chain and to forge strong, strategic alliances that create value and win repeat business.

The board of BAM Construct UK. From left to right: Doug Keillor, Executive Director; Andrea Singh, HR Director; Neil McGruer, Finance Director, and, seated, James Wimpenny, CEO



# 2020 at a glance



\* 2018 excluded FM business values

# Chief Executive's foreword



**Looking ahead, I believe we enter 2021 as a strong business.**

**We continue to be supported by a healthy order book and balance sheet, and enabled by the ongoing commitment of our employees and all those we work alongside.**



**James Wimpenny**  
Chief Executive



The Covid-19 pandemic has had a profound impact on lives and livelihoods and we have yet to understand the full implications for how we all live and work.

The main impact on construction operations and demand was significant in the first half of 2020, with the second half returning to more normal levels of productivity.

Revenues reduced by 15% to £793.1m (2019: £930.5m) and profit before tax increasing to £13.7m (2019: £9.4m), following a significant project loss provision in 2019. Our continuing focus on cash ensured that the pandemic has not diminished our financial resilience. At the year-end we reported a cash balance of £80.7m (2019: £85.8m) and a strong balance sheet, with net assets of £145.0m (2019: £135.7m). Our order book has remained healthy at £1,471.9m (2019: £1,402.9m).

### **Focus on strong client relationships**

I believe that we remained profitable and continued operating and winning high quality new business because of the resilience and loyalty of our people, focus on strong client relationships, commitment to selective tendering, and our resolve to deliver safely, efficiently and sustainably.

The over-riding factor in 2020 has been the tremendous resilience and adaptability demonstrated by our people, systems and supply chain partners. BAM has only been able to navigate its way thanks to the willing commitment and positive support of others. On behalf of the Board, I am sincerely grateful to our employees, suppliers, sub-contractors, partners and clients for their support and responsiveness. That support is our platform for better performance in the future.

Following the first lockdown, government permitted construction and FM companies to return to work thanks to the sector's rapid response to reducing contagion risks. Teams closed sites temporarily, and by collaborating with clients and suppliers they quickly re-designed working methods to enable work to restart safely.

In the facilities management sector, some private sector buildings closed and therefore required minimal FM support. Many of our public sector clients required increased support as cleaning and building management regimes required

enhancing, particularly for our health, emergency services, education and local authority clients.

In line with government advice, anyone who could work home did so. This significantly reduced the numbers of people in offices, on site or at a service location and consequently increased safety for those who still had to be on location. These new working arrangements have created new well-being concerns for colleagues removed from social contact or working in busy home environments, and this has been a significant area of attention across the business.

The pandemic has created an opportunity to transform the way we work. The movement of colleagues from working in offices to working from home demonstrated our ability to work in more flexible ways. This change enhanced our pioneering research programme with Timewise on flexible working for the construction industry, particularly on sites, and accelerated our new Flexible Working Policy.

Our new Flexible Working policy, which goes well beyond home working, is creating flexibility across all roles and will help improve overall wellbeing and mental health; tackle the long-hours culture; attract a diverse talent pool including more women, and retain more men, particularly in later life.

The reduction in productivity and revenue resulted in immediate action to reduce discretionary spending and several hundred construction and FM employees were furloughed. As productivity remained constrained and market activity declined, our construction, property development and central function employees agreed to a temporary pay reduction. Finally, we restructured these teams resulting in 150 redundancies. I have been humbled by the resilience of colleagues across the business and everyone's willingness to protect the business we all care for.

### **Supporting the NHS at the country's time of need**

Our employees responded with great resilience for the sake of their business and have also worked tirelessly to support the NHS in its efforts to save lives during the pandemic. Our construction and FM teams, together with their sub-contractor support base, responded rapidly to design and build two NHS Nightingale Hospitals. Delivering these projects under such heavy pressure saw everyone involved – designers, clients, consultants and suppliers and sub-

# Chief Executive's foreword (continued)

contractors - come together to create essential facilities from scratch in just weeks.

Our FM teams, particularly those supporting health and education, have increased their activities on-site, making rooms and buildings safe for others and even working where Covid patients are being treated. These colleagues are amongst the unseen and unsung heroes of the battle against coronavirus.

## Working safely and sustainably

Our focus on continuously improving safety performance remains a top priority alongside our efforts to continually improve our sustainability performance.

In 2020, the number of reportable accidents (RIDDORS) reduced from 24 in 2019 to 13. Significant near misses and all lost time accidents are analysed by senior management.

## Towards Net Zero

BAM is a company with validated science-based targets to reduce carbon, having committed to reduce the CO<sub>2</sub> intensity of operations by 50% in 2030, compared to 2015.

In 2020 we have gone further by becoming one of the few contractors signed up to the World Green Building Council Net Zero Carbon Buildings Commitment. This commits us to ensure all buildings within our direct control reach net zero carbon in operation by 2030 and to influence stakeholders and clients to also achieve net zero.

Our capabilities in building and energy management, design and construction put us in a strong position to build on our carbon reduction to date, for ourselves and our clients. In 2020 we succeeded in increasing the proportion of renewable energy procured for use on our construction sites, towards our target of procuring only 100% renewable energy.

## Social value at our heart

Our projects and services can create positive economic and social impact with lasting benefits. Our social value ambition is to enhance the lives of people, through providing opportunities for education and employment and through engaging with community groups and charities.

Our partnership with CLIC Sargent succeeded in raising £281,254 and support 1,660 beneficiaries and we have now chosen the British Heart Foundation as our new national charity for the next two years.

## Supply chain partners increasing resilience

Our resilience has also ensured our supply chain partners have continued to be paid. During the year we have seen further improvement in payment performance with BAM Construct UK now taking on average 36 days to pay an invoice. (6 months to December 2019: 39 days). During the year we refreshed our approach to developing our supply chain, resulting in innovative single-source supply

agreements for some materials, with efficiency benefits and product innovation to support our teams. This revised approach to procurement enabled us to provide leadership to the construction and infrastructure industry as the Brexit transition period concluded. Working with Build UK and our sister company BAM Nuttall, we provided standardised ways to identify risks so they could be mitigated.

## Supporting government drive for leaner and greener buildings

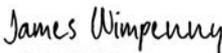
I am equally pleased that we have actively supported the UK Government create its new Construction Playbook, which will see clients commission better buildings and foster a more profitable sector. I welcome the Government's recognition that it must use longer term and fairer contracting arrangements, so companies in the sector can make a proper return. The Playbook encourages the adoption of modern methods of construction such as modular buildings, offsite construction, and lower carbon materials. These are all areas in which BAM has significant experience. We continue to develop and apply technological innovations such as BIM, robotics, 3D printing, virtual and augmented reality and modular/offsite construction so we can further improve sustainability, manage risks and ensure that the program and cost requirements can be met.

## 2020 - a year of resilience and valuable experience

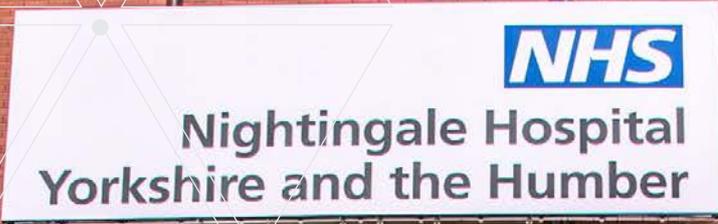
2020 was a challenging year full of valuable learning and experience driven by Covid-19 and society's accelerating shift towards a lower carbon economy. These challenges have helped our strategic planning by helping us reflect on what are we good at, who we work well with, what more can we do and what can we do better. Dozens of clients have generously given their time to share their views on our performance and help shape our next medium-term strategy.

That strategy will see us further expand our existing modular construction and digital construction expertise, and our net-zero propositions in building design, construction and facilities management - the whole lifecycle of buildings. And we are looking to bring these capabilities to bear on the housing and residential market, where there is a significant need for more supply.

Looking ahead, I believe we enter 2021 as a strong business. We continue to be supported by our strong order book and balance sheet, and enabled by the ongoing commitment of our employees and all those we work alongside.

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35E40479A25B488...

**James Wimpenny**  
Chief Executive, BAM Construct UK  
30 April 2021



## NHS Nightingale Hospital Yorkshire and the Humber

Teams from across BAM joined forces to help design, build and manage the NHS Nightingale Hospital Yorkshire and the Humber in just three weeks.

Creating the 500-bed facility, part of the Government's response to the pandemic, involved converting the Harrogate Convention Centre.

Colleagues from the Design, Services Engineering, Construction and Facilities Management teams worked in shifts around the clock to complete the project on behalf of the Leeds Teaching Hospitals NHS Trust and commissioned through the ProCure 22 framework.

BAM's facilities management business installed the medical gas infrastructure, air conditioning, refrigeration, water,

electrics, backup generators, drainage and were then appointed to maintain the facility.

In an online ceremony, Captain Tom Moore opened the new hospital alongside Chief Executive of the NHS, Simon Stevens and Secretary of State for Health and Social Care, Matt Hancock MP who said:

*"I have been incredibly impressed by the sheer dedication, professionalism and altruism of everyone involved in setting up NHS Nightingale Yorkshire and The Humber – from the NHS clinical staff and engineers to the construction workers and military planners."*



**The directors present their strategic report for the year ended 31 December 2020 which outlines BAM Construct UK's strategy and financial results, the progress of its operating companies and performance on sustainability. The strategic report should be read in conjunction with the Chief Executive's foreword.**

## Organisational overview

BAM Construct UK Limited ('the Group' or 'BAM Construct UK') provides construction, design, services engineering, plant services, facilities management, and property development in the UK through its principal subsidiary operating companies BAM Construction Limited, BAM Facilities Management Limited and BAM Properties Limited. It is the holding company for these activities in the UK of its ultimate parent undertaking Koninklijke BAM Groep n.v. (Royal BAM Group).

BAM Construction Ltd is organised into seven operating divisions; Scotland, North East, North West, Western, Midlands, South East and London. We believe this enables us to connect to our customers, understand local markets and work closely with the supply chain.

## Value creation

We create value for shareholders and for wider society by designing, building and managing facilities that support the delivery of essential services for people's lives, such as schools, university buildings, hospitals, cultural and leisure facilities. Our work also enables other businesses to create value, with the building of transport and manufacturing facilities as well as offices.

We also create value by operating ethically and sustainably, and by creating employment, apprenticeship and training opportunities and by supporting local and national charities. The key features of our sustainability strategy are to work towards being carbon positive and resource positive and to enhance people's lives by creating positive impacts in the communities where we work.

## Business performance

### Profit and revenue

The profit before tax for the year ended 31 December 2020 for the Group was £13.7m (2019: £9.4m). After taxation the profit attributable to the shareholder was £8.7m (2019: £6.7m). During the year no dividend was declared or paid (2019: £8.0m) and pension deficit repair contributions of £3.0m were made (2019: £3.0m).

During the year, BAM Construct UK delivered revenue of £793.1m (2019: £930.5m) and an operating profit of £12.2m (2019: £6.5m).

Revenue decreased during the year due to the significant impact on operations and productivity of the Covid-19 pandemic. The business continued to concentrate on

construction projects and FM services that continued to deliver strong margins and recognised the added value that BAM Construct UK brings to the client. Work in hand has increased in the year as BAM Construct UK continues to be selective in the projects it undertakes. The value of our forward order book stands at £1,471.9m (2019: £1,402.9m). The Board consider this to be a solid basis for growth and improvement in profitability in 2021.

### Cash and equivalents

Managing cashflow effectively is a key objective. Cash and short-term deposits continue to show a healthy position at £80.7m (2019: £85.8m). Further funds of £182.2m are placed on deposit with BAM Group nv and are identified in note 16. As a consequence of continuing good cash management, the business continues to generate strong cashflows. During the year we have seen further improvement in payment performance with BAM Construct UK now taking on average 36 days to pay an invoice. (6 months to December 2019: 39 days). In line with Government requirements, further information can be found regarding our payment term performance on the website [www.check-payment-practices.service.gov.uk](http://www.check-payment-practices.service.gov.uk).

### Working capital

Working capital performance continues to be strong, as the Company works to ensure payments are received on time and overdue debtors and retentions are kept at a minimum. Working capital at year-end was £113.7m (2019: £119.0m).

### Principal risks and uncertainties

BAM Construct UK Ltd regularly reviews the risks and uncertainties within the business, however the principal risks and uncertainties have not materially changed from previous years. Via robust procedures the Company, is able to identify, manage and mitigate risks, as well as assessing trends. The current principal risks and uncertainties are identified as follows:

1. Economic and political factors
2. Loss making projects
3. Funding
4. Health, safety and environmental risks
5. Skills shortage, including both staff and the wider supply chain

# Strategic report

	Risk-description	Controls / Mitigation strategy
<p><b>1</b> Economic and political factors</p>	<p>The Covid-19 pandemic has presented and continues to present BAM Construct UK with a number of challenges. These may have a significant impact on our designated markets and clients, as well operational risks where we deliver our projects in a safe manner keeping staff and supply chains safe as well ensuring that productivity is not materially compromised.</p>	<ul style="list-style-type: none"> <li>• BAM Construct UK has implemented robust measures to ensure that all staff, whether they are working on projects or in offices are safe</li> <li>• BAM Construct UK will continue to monitor the impact of Covid-19 very closely, to ensure that our staff and supply chain work in a safe environment. We will consider utilising any future government support and manage the cost base in an efficient manner</li> </ul>
<p><b>2</b> Loss making projects</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>• Royal BAM Group's Stagegate approval system is used on all tenders to ensure that all risk and opportunities are identified within the tender process</li> <li>• Focusing on two-stage work and negotiated procurement enable the business to identify and price risk on a realistic basis</li> <li>• Experienced and knowledgeable staff are involved in the pre-construction period to ensure risks are identified and mitigated or closed-out before construction commences</li> <li>• By creating a learning culture and a willingness to share issues and experiences, BAM Construct UK can both avoid problematic projects as well as mitigate any losses that may be incurred</li> </ul>
<p><b>3</b> Funding</p>	<p>Ensuring that BAM Construct UK has sufficient capital to pay suppliers and invest in opportunities is key to the Company's strategy. If BAM Construct UK doesn't manage its cashflow successfully then this could be compromised.</p>	<ul style="list-style-type: none"> <li>• Ensuring that proactive cash management is at the forefront of project teams at all stages of the project, ensures that cash is maximised, in an ethical manner</li> <li>• The Directors of BAM Construct UK ensure that any cash placed on deposit with the Group, is available for immediate use by BAM Construct UK along with the financial support of Royal BAM Group</li> </ul>
<p><b>4</b> Health, safety and environmental risks</p>	<p>The Group'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.</p>	<ul style="list-style-type: none"> <li>• Implementation of rigorous training programmes, with particular emphasis in 2020 on the most frequent causes of lost time accidents</li> <li>• A visible leadership approach with, for example, senior managers of both the Company and our supply chain engaging in Directors' safety tours of sites</li> <li>• Engaging with staff and supply chain with cultural workshops, safe-to-start meetings, toolbox talks and regular communications through all of our channels to ensure a mindset of constant vigilance about safety</li> </ul>
<p><b>5</b> Skills shortage</p>	<p>The Company's employees and those of our supply chain are critical to our performance. A lack of suitably qualified and skilled staff could lead to inefficient working and poor quality, in turn leading to an inability to provide value-adding solutions to our clients.</p>	<ul style="list-style-type: none"> <li>• BAM Construct UK aims to recruit people with ability at all levels and from all backgrounds. The Company has a proactive strategy to make it an attractive place for people to work.</li> <li>• 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.</li> <li>• 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 Construct UK remains a main contractor of choice.</li> </ul>

## Strategic report (continued)

Increasing profitability and continued de-risking by focussing on markets and projects where BAM has proven competitive strengths, and creating a platform for future growth.

### Future strategy

BAM Construct UK's principal priority for 2021 is to improve its profitability and grow the business following a challenging year as a result of the Covid-19 pandemic.

In early 2016, BAM launched the strategy 'Building the present, creating the future'. This strategy was based on three pillars (focus the project portfolio, shape the business portfolio and create the future portfolio) supported by a foundation of differentiating capabilities and BAM's unique culture.

As the Royal BAM Group heads into 2021 a new three year strategy has been developed: "Building a sustainable tomorrow". This will deliver increased profitability and continued de-risking by focusing on markets and projects where BAM has proven competitive strengths, and creating a platform for future growth.

BAM Construct UK, as a cornerstone of the Royal BAM Group, will play a significant part in this strategy we contribute in the following areas:

**Improved Project Execution** - improving our predictability of project result, ensuring our order book fills to plan and that we continue to deliver our projects safely, on time and to the required quality.

**Prime Market Focus** - markets such as commercial, education and health have historically been strong for BAM Construct UK and are expected to remain over the coming three years.

**New markets** - BAM Construct UK will explore new markets where we believe we can bring specific expertise from across the Group.

**Cost base focus** - to ensure BAM Construct UK can deliver value for money to our clients, we will continue review the company's cost base and look for efficiencies wherever possible.

Internally we will continue the roll out of our BMS project. This is a Business Management System that supports our staff in the management of projects in real time with appropriate guidance at every stage in a work flow.



We will also continue to focus on extending the reach of the FM business into public and private sector markets, and larger services.

BAM Properties is currently involved in two major commercial property developments and is also exploring opportunities in the student accommodation and private rented sector segments.

BAM Construct UK will focus on remaining attractive to clients by being customer focused, recruiting and retaining talented people, delivering quality, innovating in digitisation, designing and building sustainably, and enhancing lives through engagement with the communities where we operate.

### COVID 19 Pandemic

The COVID-19 pandemic has fundamentally impacted the UK economy and our industry. From March 2020, the Directors increased operational reporting, to ensure high visibility of the potential impact on productivity and delivery to our stakeholders that may result from COVID-19.

In addition, the Directors have ensured that the Group and Company complies with all Government guidelines in order to operate in a safe manner on all sites. The directors have also focused on cash management and collaboration with suppliers, customers and all our stakeholders to achieve as much efficiency as possible.

### Divisional review

#### BAM Construction

BAM Construction delivered a profit before taxation of £8.4m (2019: loss £2.4m) on a revenue of £722.4m in 2020 (2019: £867.8m). The value of forward orders at year-end was £747.4m (2019: £681.6m).

Projects completed by BAM Construction during the year include: Cala Donaldson's College (Edinburgh), Grosvenor House (Sheffield), School of Science & Technology (Maidstone), Buckingham Green (London) and Southbank Centre (London).

BAM Construction secured a number of exciting projects during the year, including: Sky Studios (Elstree), Central House (London), Benton Park School (Leeds), Chiltern Life

# Strategic report (continued)

Centre (Amersham), Derby Cathedral Free School, Stone Lodge School (Dartford), 25 Cannon St. (London) and Clydebank Health Centre.

We maintain our strategy of forming long-term strategic alliances with clients who share our values of collaboration and interest in leveraging the benefits of digital construction, new methods such as off-site fabrication and sustainability. BAM Construction aims to maintain a broadly balanced portfolio of work. Of new work won in 2020 58% was for public sector clients and 42% was for private sector clients.

## BAM FM

In 2020 BAM FM's turnover was £65.2m (2019: £58.9m). Profit before taxation was £2.9m (2019: £2.9m). Despite a very challenging year as a result of Covid, the division has been able to grow revenue by 10.7%.

The FM business directly employs over 900 staff across the UK, delivering sustainable support services to our customers in the education, healthcare and commercial sectors.

Understanding how a building is managed and operated in practice informs our understanding of design, construction, sustainability and clients' requirements. Our energy services capability is central to our sustainability proposition. BAM Energy promotes energy efficiency and energy generation from renewable sources. This includes designing, installing, operating and financing of demand reduction and renewable energy systems for new and existing buildings. BAM FM therefore extends BAM Construct UK's capabilities across the lifecycle of a building.

Many of our FM services directly support health, education, emergency services and local government organisations. 2020 has shown how essential our services are to ensure vital public services keep running at a time of crisis. Colleagues across BAM FM and Construction colleagues rapidly designed and built two NHS Nightingale Hospitals. With the necessary FM support packages, ranging from sophisticated heating, cooling and medical gas systems to vital hygiene, catering and portering,

## BAM Properties

BAM Properties delivered a loss before taxation of £2.9m (2019: loss £1.1m) on a revenue of £12.1m in 2020 (2019: £1.5m). The loss for 2020 was driven by the impairment of an investment in Leeds, which was subsequently sold in the year.

Through 2020, BAM Properties has continued to work on two major commercial developments in Scotland. Capital Square, a landmark office development in the heart of Edinburgh City Centre offering 122,500 square feet of Grade A accommodation. The project is forecast to complete in Q2

2021 and will expand Edinburgh's high quality commercial office space offering.

The second development in the centre of Glasgow's most dynamic business district, is Atlantic Square. Building One has been pre-let to HMRC. The second offers 96,650 square feet of Grade A accommodation and is scheduled for completion in 2021.

## 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 helps 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 Plant

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

As part of the Company's strategy to embrace new technologies and develop sustainable working solutions, further investment has been made in eco modular cabin offices, as well as developing an electric car policy.

## Corporate responsibility

### Ethics and standards

The board recognises that the ability of BAM Construct UK 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. The Group maintains a number of robust internal mechanisms to ensure that we conduct our business to high ethical standards.

During the year BAM Construct UK rolled out code of conduct compliance elearning to all employees as a mandatory elearning course.

Fraud within the industry continues to be an area of risk for the Group. As a consequence we communicate and work closely with our clients and suppliers to highlight the risk of third party fraud. Ensuring our staff remain vigilant about the risk of fraud is an important mitigation strategy and we encourage them to raise any issues of concern through management channels. We also participate in various



The built environment is embracing new ways of designing and constructing a quality building more quickly, efficiently and sustainably. Design for Manufacture and Assembly (DfMA) is one such technique which means that elements of a building are created in manufacturing environment rather than on site, and to more standard designs and specifications. As a result, DfMA uses less energy and carbon and creates less waste. It is also safer.

Many of BAM's projects include elements of DfMA and we have successfully adopted it in numerous sectors including education, commercial, industrial, leisure and health. This picture shows the plant room at the new Sir William Henry

Bragg Building for the University of Leeds being lifted on to the roof. The plant room was built off-site in a factory environment, saving time and cost on the project.

In 2020, BAM was appointed as an integrator and lead designer on the Construction Innovation Hubs platform programme. The two-year initiative brings industry together with academia to design and create a "kit of parts" which can be made by approved manufacturers and then used on public sector projects. Supported by the UK government the kit will meet their requirements in terms of safety, quality, whole life value, carbon and energy use.

# Strategic report (continued)

Our continuing goal is to have completely safe operations so that BAM employees, and everyone who works with BAM suffer no injury or ill health as a result of our activities



forums and particularly with our bank, to share experiences and spread best practice.

### 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 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.

BAM Construct UK directly employed 2,252 people at 31 December 2020.

### Working better for health and safety

Our continuing goal is to have completely safe operations so that BAM employees, and everyone who works with BAM suffer no injury or ill health as a result of our activities.

As well as extensive training and monitoring of health and safety, we continue to promote wellbeing across the company and our supply chain through activities such as talks about detecting cancers, nurses attending sites to undertake health checks and offer advice.

In 2020, the main causes of accidents involving lost time related to manual handling, slips and trips, falling objects and lifting. Our accident rate is low and has improved during the year, with the number of RIDDOR's reported in the year of 13 (2019: 24), however we continue to seek improvement in all aspects of our health and safety management.

During 2020 the Covid 19 pandemic presented a number of unique challenges. Through collaboration with clients and our supply chain, BAM Construct UK was able to maintain a safe and secure environment for all. As part of these safe working practices, BAM Construct UK followed the Build UK Standard Operating Procedures, which enabled sites to operational wherever safe and practical.

Recognising and rewarding good safety practices has been something that BAM Construct UK has been doing for a

number of years. Usually this would take place at an event where teams and individuals could be celebrated. Obviously due to social distancing and reduced travel, the event had to be done virtually, with nine teams and individuals from across the business being recognised. The 'Best Campaign on Safety' was won by the South East region, for their work at Jesus College Oxford on ensuring safe traffic management at this congested city centre site location.

During the year, visible leadership on safety by conducting regular Directors' safety tours has been ever more important. During the year, despite the Covid 19 pandemic, 100 Director's safety tours, were conducted (2019: 112).

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

### Sustainability

We pursue a sustainability strategy in tandem with all of the Operating Companies in Royal BAM Group. The strategy has three long term aspirations: to become climate positive and resource positive, and to enhance the lives of one million people through activities that go above and beyond our day-to-day operations.

### 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).

As part of our commitment to being a responsible contractor, all BAM Construction sites register with the Considerate Constructors Scheme (CCS). During 2020 we were pleased to have received 1 gold award (Gower South), 5 silver awards and 6 bronze awards .

# Strategic report (continued)

## Climate positive

We measure our carbon emissions according to the Green House Gas Protocol - Corporate Standard and ISO 14064-1:2018 as part of our CEMARS certification for the management and reduction of greenhouse gas emissions.

BAM Construct UK's emissions intensity for the year was 9.2 tCO<sub>2</sub>e/£m revenue (2019: 10.9). We set a target to reduce our emissions by 25% by the end of 2020 based on a 2015 baseline and by a minimum of 50% by 2030 (approved by the Science Based Targets Initiative).

During 2020, the pandemic has had a positive impact on carbon reductions, with emissions reduced by 45% compared with 2015. We understand this is a unique situation and some reductions are a direct result of the pandemic, most significantly from business travel and transport (where business mileage and commuting reduced by 40% and 69% respectively).

Electricity fuel remained similar to 2019 but we increased our share of renewable energy procured for use on our construction sites, towards our target of procuring only 100% renewable energy. We continue to implement energy efficiency measures on our construction sites as a priority.

In the table below we set out the details of BAM Construct UK's emissions for the year. Unfortunately, we have not been able to identify the full extent of our wider Scope 3 emissions, which include the emissions derived from our supply chain and the end-users of our buildings. Therefore, to date, we have been unable to implement any meaningful reduction plans. To address this, we are:

- proactively working with our supply chain to encourage and assist them in measuring, reporting and reducing their emissions.
- encouraging our clients to include environmentally-friendly materials with a longer life expectancy in their projects;
- deliver low-carbon buildings.

## Corporate Governance Statement

### The BAM Group

BAM Construct UK Limited ("BAM Construct UK") is a member of the BAM group of companies which is headed by Royal BAM Group N.V. ("Royal BAM"), a Dutch listed company that is subject to the Dutch Corporate Governance Code (the "Dutch Code");

A copy of the Dutch Code which has been translated into English can be found here: <https://www.bam.com/en/about-bam/corporate-governance>

Notable features of the Dutch Code are its focus on long term value creation; provisions on enhanced risk management; rules for effective management and supervision; the introduction of culture and conduct as part of corporate governance; simple rules for remuneration; and rules regarding the relationship with shareholders. The Dutch Code is a well-established and robust code which is applied by all listed companies in the Netherlands.

The purpose of the Dutch Code is to facilitate – with or in relation to other laws and regulations – a sound and transparent system of checks and balances.

Emissions Source	Unit	2020		2019	
		tCO <sub>2</sub> e	Quantity	tCO <sub>2</sub> e	Quantity
Company car (business)	Miles	152	807,531	274	1,434,862
Car allowance (business)	Miles	1,267	4,724,159	2,061	7,735,070
Gas	kWh	108	588,767	190	1,031,652
Gas Oil	Ltr	1,668	604,950	2,072	751,131
Diesel	Ltr	671	263,633	1,062	409,226
Petrol	Ltr	7	3,142	-	-
<b>Total Scope 1</b>		<b>3,873</b>	<b>6,992,182</b>	<b>5,659</b>	<b>11,361,941</b>
Company car (commuting)	Miles	13	71,164	48	252,704
Car allowance (commuting)	Miles	270	10,073,019	853	3,202,331
Air miles (domestic)	p/km	58	143,172	195	763,585
Electricity	kWh	1,773	7,003,497	2,219	7,999,957
<b>Total Scope 2</b>		<b>1,773</b>	<b>7,003,497</b>	<b>2,219</b>	<b>7,999,957</b>
Waste to landfill	tonnes	1,303	-	1,176	7,374
100% renewable energy	kWh	(1,185)	4,680,586	(937)	2,027,941
<b>Total Scope 3</b>		<b>118</b>	<b>4,680,586</b>	<b>239</b>	<b>2,035,315</b>
<b>Total</b>		<b>7,291</b>		<b>10,149</b>	

## Strategic report (continued)

Royal BAM applies the Dutch Code throughout the Royal BAM group, through a detailed set of standards, policies and procedures that comply with, and seek to apply, the relevant provisions of the Dutch Code.

These group standards, policies and procedures apply to BAM Construct UK.

Pursuant to the Dutch Code, Royal BAM has issued an extensive, detailed corporate governance statement which describes the governance of the group, including its subsidiaries (such as BAM Construct UK). A copy of the statement is available on the company's website.

The group corporate governance statement comprises a line-by-line overview indicating and describing the extent to which the group complies with the Dutch Code and the circumstances where the group departs from compliance, in the latter case together with an explanation for such departure. This includes BAM Construct UK.

### Corporate Governance within BAM Construct UK

BAM Construct UK has therefore, for the purpose of Companies (Miscellaneous Reporting) Regulations 2018, formally adopted the Dutch Code.

In the opinion of the directors of BAM Construct UK, given that BAM Construct UK is a member of the Royal BAM Group and is subject to, and complies with, the standards, policies and procedures of the Royal BAM group, the adoption of the Dutch Code is in the best interests of BAM Construct UK, its shareholders and wider stakeholders. The directors believe that they have complied with the Dutch Corporate Governance code to the extent that they consider it relevant to the operating subsidiary of a listed Dutch group, noting departures from the Code below.

### Application of the Dutch Code by BAM Construct UK

By virtue of the fact that Royal BAM applies the Dutch Code throughout the group, its corporate governance statement also describes, generally, the corporate governance processes and procedures at BAM Construct UK, taking into account its position as a subsidiary of the group.

Certain parts of the Dutch Code apply to the group as a whole, including BAM Construct UK. These principles and provisions state that certain structures, policies and procedures must be in place to meet the Dutch Code's requirements provisions, for instance relating to the Dutch Code's concept of long-term value creation and culture, and to more operational matters such as risk management, compliance and whistle-blower procedures. Royal BAM has issued standards, policies and procedures including a code of conduct and statement of business principles (copies of which are available on the Royal BAM website) to ensure that all group companies throughout the group adhere to these elements of the Dutch Code. The board

of BAM Construct UK operates within these group-wide standards, policies and procedures and is responsible for their application within BAM Construct UK.

In addition to following the group standards, policies and procedures of Royal BAM Group as described above, BAM Construct UK specifically applies the following elements of the Dutch Code as set out below:

#### 1.1.1 Long term value creation strategy

We have a business strategy prepared based on past performance and future market expectation which is monitored annually through an operating plan which itself is monitored quarterly by measuring financial, health, safety and Environmental Social Governance KPI's.

#### 1.2 Risk management

Objectives are set as part of the business plan. The risks and opportunities associated with those objectives are monitored via a risk review process which includes monitoring of the Operating Plan monthly and quarterly and the use of a risk register.

1.2.1 The risk appetite that underpins the strategy and activities of the company includes Stage Gate processes and lessons learnt.

1.2.2 Internal management and control systems are a function of the business process model referred to in a management manual.

1.2.3 There are various departments with oversight that monitor the operation of internal risk management covering all aspects of the business and report back on strengths and weaknesses in systems and, where necessary, improvements are implemented.

#### Risk management accountability

1.4 There are internal reviews, feedback and improvements on risk management supported by external bodies such as quality assurance and financial insurance.

1.4.2 & 1.4.3 All the above (in 1.4) are reported monthly and quarterly relative to the operating plan.

#### Effective management and supervision:

##### Composition and size

2.1 The size, composition and available capabilities of the board are evaluated annually in order to assure they are able to carry out their duties properly. This has oversight of Group.

2.1.4 Board members have specific professional and educational qualifications and maintain their knowledge on an ongoing basis.

# Strategic report (continued)

## Decision making and functioning

2.4 The requirements of the Code are met by compliance with s172 of the Companies Act 2006.

2.4.1 Openness and accountability are stimulated across the company through various meetings at which Board members are present.

2.4.6 The size, composition and available capabilities of the board are evaluated annually in order to assure they are able to carry out their duties properly. This has oversight of Group.

2.4.7 We have monthly and quarterly reporting from operational divisions and support departments including quarterly team meetings.

## Culture

2.5 S172 obligations are specifically evidenced through the five year business plan and the annual operating plan.

2.5.1 The adoption of values and incorporation and maintenance of those values is aligned with the Group strategy.

2.5.2 Local policy and procedure are introduced to support the Group Code of Conduct to be found here via gap analysis.

## Misconduct and irregularities

2.6 & 2.6.1 We operate the procedure established by Group which is published on the Group's company homepage and on BAM Construct UK's intranet.

## Preventing conflicts of interest

2.7.1 Conflicts are managed through the Articles of Association and Code of Conduct as applicable.

2.7.6 By compliance with the Code of Conduct Board members are able to demonstrate that they can act fairly as between employees of the Company.

## One tier governance structure

5.1 The company acts with a one tier governance structure without the use of non-executive directors.

5.1.1 In the absence of non-executive directors, a BAM Group director, who is governed by the Dutch Code, chairs monthly and quarterly meetings.

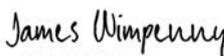
## Departures from the Governance Code

The Dutch Code contains principles and provisions that are concerned with a listed parent company only: they relate for instance to matters relating to the parent company's external auditor and investor relations.

BAM Construct UK is a wholly owned subsidiary of Royal BAM Group with no external shareholders and as such there are elements of the Dutch Code that are not applicable, specifically the departures are for the following reasons:

- The principles and provisions may not be applicable to the UK
- Section 2.5.3 is not applicable in the UK (requirement for a Works Council)
- The Company is not overseen by an audit committee or a supervisory board
- The Company doesn't have an executive committee
- The Company's directors don't have a maximum period of appointment
- The Company doesn't have an appointment committee
- The Company's Board members have other board positions
- The Company does have an external auditor but not an audit committee
- Royal BAM Group are the sole shareholder.
- Code of Conduct matters are addressed with the Royal BAM Group GRC Director
- The Company does not have any shares available to be bought and sold on the open market
- Royal BAM Group decide the remuneration policy
- The Company does not have an AGM
- The Company's chief executive chairs monthly meetings
- The Company does not have committees as referred to in best practice 2.3.2
- The Company does not have non-executive directors

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**James Wimpenny**  
Director and Chief Executive  
BAM Construct UK Limited  
30 April 2021

## The Directors present their report and group accounts for the year ended 31 December 2020.

This Directors' report should be read in conjunction with the Chief Executive's foreword and the Strategic report, each of which is incorporated by reference in (and shall be deemed to form part of) this Directors' report to the extent required by applicable law or regulation.

### 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.

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 19 of the financial statements on Director's view on financial instruments and associated risks.

### S172 Statement

This Director's Report and the Strategic Report confirm compliance with the obligations set out in section 172(1) of the Companies Act 2006.

### Disabled employees

BAM is an equal opportunities employer and while applicants are asked to describe their gender, ethnicity and whether 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 Construct UK 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.

### Employee involvement

As reported in the Strategic Report (see page 13) 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. This is achieved via a staff intranet, discussion forums, surveys and face-to-face communication by the Board through an annual series of roadshows around the country.

### Dividends

A nil dividend was declared during the year (2019: £8m).

### Subsidiaries

The principal activities of subsidiary undertakings are shown in Note 27 to the accounts.

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

### Directors

The following served as directors of BAM Construct UK Limited during the year ended 31 December 2020 and up to the date of the report:

- D W Keillor
- J W R Wimpenny

### Consideration of going concern

The financial statements of BAM Construct UK Limited (the Company) and of its subsidiaries (together the Group) have been prepared on a going concern basis as the Directors have concluded that the Company and Group will continue in operational existence and meet its liabilities as they fall due for at least the period of their assessment which is to 30 June 2022.

The Company has net current assets of £112.8m and net assets of £145.0m. The Company meets its day to day working capital requirements through the cash retained in the Group (at year end £80.7m) and through access to its other cash pooling balances held with the Royal BAM Group (at year end £182.2m). The Company and Group do not have any bank debt or other external borrowings or facilities. The

## Director's report (continued)

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Company is a guarantor to borrowing facilities that are held by the Company's ultimate parent entity, Royal BAM Group n.v.. Please refer to note 22 for further details.

The Directors have considered the impact of the COVID-19 crisis on the Group's business operations and future prospects. The Group's operations have remained open under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for their people in order to maintain safe operational activity. Since the pandemic was declared by the World Health Organization on 11 March 2020, the productivity of the Group has been in excess of the initial expectations of the Directors. Construction activity was initially paused across all sites within the Group from 26 to 30 March 2020 to enable detailed reviews of the working practices necessary to reduce the risks of COVID-19. However all sites reopened, and the majority of sites have remained open since. The Group also announced cost saving measures and took advantage of the UK Government Job Retention Scheme. The Directors continue to consider the impact of COVID 19 and the impact on future operating performance of the Group and the uncertainties that this situation creates.

The Directors have prepared base case and severe but plausible downside financial forecasts for the review period until 30 June 2022. Taking into consideration the current environment, the forecasts show that the Group is expected to maintain positive cash flows in the base case and in the downside scenario, which models reduced productivity and increased costs across the Group. The Group has been able to utilise certain government stimulus initiatives.

However, given the Group is reliant upon cash reserves held by the Royal BAM Group and is a guarantor of borrowings of its ultimate parent company, the Company and Group are reliant upon ongoing support of its ultimate parent. The Directors have received confirmation from the Company's ultimate parent entity that the Company and Group will be provided financial support for the period until 30 June 2022. The Directors have assessed the ability of its ultimate parent company to provide this support, based on financial information for the Royal BAM Group that has been shared to certain members of the Board. The Directors also attend monthly and quarterly management meetings and weekly liquidity reports are provided by Royal BAM Group's treasury function.

In view of the assessment performed, the Directors are satisfied that sufficient financial resources will be generated by the Company or received from its ultimate parent entity, Royal BAM Group n.v., to enable the Company and the Group to continue in operation and meet its liabilities as they fall due for at least the period to 30 June 2022.

Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

### Disclosure of information to the auditor

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

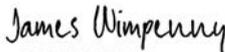
### Auditors

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

### Future developments

The directors aim to maintain the management policies which have resulted in the Group's success to date.

The directors continue to monitor the changing UK political landscape resulting from uncertainty of the UK's exit from the EU at the end of 2020 and the on-going impact of the COVID-19 crisis. The directors have put various measures in place to deal with scenarios that may arise.

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**James Wimpenny**  
Director and Chief Executive  
BAM Construct UK Limited  
30 April 2021

BAM Energy promotes energy efficiency and energy generation from renewable sources. This includes the design, installation, operation and - where necessary - the financing of renewable energy systems including PV, heat pumps and energy storage.

By funding the installation of photovoltaics (PVs) at the scheme, BAM saved the school a significant sum.

Our approach helps customers to meet their energy targets and save upfront capital costs. Instead, the cost of installing and operating the PVs is recovered through

a Power Purchase Agreement (PPA), which is separate to the construction contract. Under the agreement, the client agrees to buy its electricity through BAM Energy for the next 20 years, at a fixed unit cost. The agreement is scrutinised by an independent body to ensure the scheme represents value for money.

This is a long-term investment for BAM and allows us to present customers with economic and sustainable energy solutions for the short, medium and long term.



# Statement of directors' responsibilities

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## **The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.**

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and 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 Group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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## Opinion

We have audited the financial statements of BAM Construct UK Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of changes in equity, consolidated cash flow statement and the related notes 1 to 28 for the consolidated financial statements and Notes 1 to 20 for the parent company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including 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 group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the group's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We performed our own assessment of the going concern risks at the planning and execution stages of the audit.
- We obtained management's going concern assessment, including the cash forecast for the going concern period to 30 June 2022 (the review period). The group has modelled base case and downside scenarios in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the group.
- We have tested the key assumptions included in the base and downside cash forecasts by reference to supporting information and searched for contrary evidence to challenge the assumptions.
- We assessed the impact of Covid-19 on the projections, testing management sensitivities and applying our own.
- We determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.
- Given the group's reliance on its ultimate parent undertaking for its treasury function, including safe keeping and return of cash deposits as required, we examined the letters of support from the ultimate parent to determine the adequacy of comfort provided to the Directors of BAM Construct UK Limited and the ability of the ultimate parent to provide the support as required. This included reviewing the going concern assessment performed by the parent company auditors, requesting additional information from those auditors and considering various financing sensitivities.

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

- We challenged the group's and the parent company's going concern disclosures included in the annual report to ensure that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the review period to 30 June 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the parent company's ability to continue as a going concern.

## 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 contained within the annual report.

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.

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are Companies Act 2006, Bribery Act 2010, Construction Act 2009, Minimum Wage regulations and Money Laundering regulations.
- We understood how BAM Construct UK is complying with those frameworks by making enquires of management and those responsible for legal and compliance procedures, including the Board of Directors. We corroborated our enquires through our review of board minutes, compliance issues reported and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management within various part of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage contract results. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals, reviewing legal advice where relevant and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://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.

DocuSigned by:  
*Bob Forsyth*  
8E2B31AD31EC46C...

April 30, 2021

**Bob Forsyth** (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London

## Notes:

1. The maintenance and integrity of the BAM Construct UK Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the 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.

# Consolidated statement of comprehensive income

<b>For the year ended 31 December</b>	Notes	<b>2020</b>	2019
		<b>£m</b>	£m
<b>Continuing operations</b>			
Revenue	3	<b>793.1</b>	930.5
Cost of sales		<b>(745.9)</b>	(892.3)
Gross profit		<b>47.2</b>	38.2
Administration and other expenses		<b>(34.2)</b>	(30.9)
Impairment loss	13	<b>(1.7)</b>	–
Other operating income		<b>0.9</b>	(0.8)
Operating profit	5	<b>12.2</b>	6.5
Finance income	9	<b>2.2</b>	2.6
Finance expense	20	<b>(0.7)</b>	(0.6)
Share of the profit of associates and joint ventures	4	<b>–</b>	0.9
Profit before tax from continuing operations		<b>13.7</b>	9.4
Income tax expense	10	<b>(5.0)</b>	(2.7)
Profit for the year from continuing operations		<b>8.7</b>	6.7
<b>Profit for the year</b>		<b>8.7</b>	6.7
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>			
Re-measurement gains / (losses) on defined benefit plans, net of tax		<b>0.6</b>	(36.6)
<b>Total comprehensive income / (expense)</b>		<b>9.3</b>	(29.9)
<b>Profit / (loss) attributable to:</b>			
Equity holders of the Company		<b>9.3</b>	(29.9)
<b>Total comprehensive income / (expense)</b>			
Equity holders of the Company		<b>9.3</b>	(29.9)

# Consolidated statement of financial position

At 31 December	Notes	2020 £m	2019 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	4.2	5.0
Intangible assets	14	–	–
Right-of-use assets	15	18.2	17.0
Investment in an associate or joint venture	4	5.0	5.1
Retentions	16	14.1	15.2
Loans to Joint venture	16	12.3	6.8
Defined benefit pension asset	21	24.1	23.6
Deferred tax assets	10	1.1	0.6
<b>Total non-current assets</b>		<b>79.0</b>	<b>73.3</b>
<b>Current assets</b>			
Inventories		59.5	63.7
Trade and other receivables	16	252.8	269.0
Income tax receivable		4.2	4.2
Amounts due from customers for contract work (contract asset)		27.7	39.9
Prepayments and accrued income		1.3	0.8
Cash and short-term deposits		80.7	85.8
<b>Total current assets</b>		<b>426.2</b>	<b>463.4</b>
<b>Total assets</b>		<b>505.2</b>	<b>536.7</b>

# Consolidated statement of financial position

At 31 December	Notes	2020 £m	2019 £m
<b>Current liabilities:</b>			
Trade and other payables	18	239.1	284.8
Lease liabilities	20	3.4	5.1
Amounts due to customers under construction contracts (contract liability)		70.9	54.5
Income tax payable		–	–
<b>Total current liabilities</b>		<b>313.4</b>	<b>344.4</b>
<b>Non-current liabilities:</b>			
Lease liabilities	20	17.2	12.6
Trade and other payables	18	8.8	10.0
Deferred tax liabilities	10	4.6	4.0
Other payable		0.5	–
Provisions	22	15.7	30.0
<b>Total non-current liabilities</b>		<b>46.8</b>	<b>56.6</b>
<b>Total liabilities</b>		<b>360.2</b>	<b>401.0</b>
<b>Equity</b>			
Share capital	23	40.0	40.0
Retained earnings		105.0	95.7
Equity attributable to equity holders of the Parent		145.0	135.7
<b>Total equity</b>		<b>145.0</b>	<b>135.7</b>
<b>Total equity and liabilities</b>		<b>505.2</b>	<b>536.7</b>

Approved by the Board on 30 April 2021 and signed on its behalf by:

DocuSigned by:  
  
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**James Wimpenny**  
 Director and Chief Executive

## Consolidated statement of changes in equity

	Notes	Attributable to the equity holders of the parent		
		Share capital £m	Retained earnings £m	Total £m
<b>For the year ended 31 December 2020</b>				
<b>Balance at 1 January 2019</b>	23	40.0	133.6	<b>173.6</b>
Profit for the year		–	6.7	<b>6.7</b>
Other comprehensive expense for the year, net of income tax		–	(36.6)	<b>(36.6)</b>
Total comprehensive expense for the year		–	(29.9)	<b>(29.9)</b>
Payment of dividends	11	–	(8.0)	<b>(8.0)</b>
<b>Balance at 31 December 2019</b>	23	40.0	95.7	<b>135.7</b>
Profit for the year		–	8.7	<b>8.7</b>
Other comprehensive income for the year, net of income tax		–	0.6	<b>0.6</b>
Total comprehensive income for the year		–	9.3	<b>9.3</b>
Payment of dividends	11	–	–	–
<b>Balance at 31 December 2020</b>	23	40.0	105.0	<b>145.0</b>

# Consolidated cash flow statement

For the year ended 31 December	Notes	2020 £m	2019 £m
<b>Operating activities</b>			
Profit after tax from continuing operations		8.7	6.7
<b>Non-cash adjustments to reconcile profit after tax to net cash flows</b>			
Income tax expense recognised in profit or loss	10	5.0	2.7
Depreciation and amortisation of non-current assets	12	1.8	1.9
Depreciation of right-of-use assets	15	6.6	9.8
Amortisation of intangible assets	14	–	–
Decrease in pension assets	21	0.1	3.0
Result on sale of property, plant and equipment		–	(0.1)
Share of result of joint ventures		–	(0.9)
Finance income	9	(2.2)	(2.6)
Finance expense		0.7	0.6
<b>Working capital adjustments</b>			
(Increase) / decrease in trade and other receivables	16	(3.7)	10.9
Decrease in amounts due from customers under construction contracts		12.1	3.4
Decrease / (increase) in inventories		4.2	(21.2)
Decrease / (increase) in other assets	16	11.4	(23.1)
(Decrease) / increase in trade and other payables	18	(65.7)	24.3
Increase in amounts due to customers under construction contracts		16.4	5.2
(Increase) / decrease in other liabilities		2.2	(1.3)
Finance income received		2.2	2.6
Finance expense paid		(0.7)	(0.6)
Income tax paid		(2.1)	(3.1)
<b>Net cash generated by operating activities</b>		<b>(3.0)</b>	<b>18.2</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	12	(1.0)	(1.6)
Proceeds from disposal of property, plant and equipment	12	0.2	0.2
Receipt of Government grants		4.4	2.4
<b>Net cash generated by investing activities</b>		<b>3.6</b>	<b>1.0</b>
<b>Cash flows used in financing activities</b>			
Repayment of principal portion of lease liabilities		(5.7)	(8.3)
Dividends paid	11	–	(8.0)
<b>Net cash flows used in financing activities</b>		<b>(5.7)</b>	<b>(16.3)</b>
Net (decrease) / increase in cash and cash equivalents		(5.1)	2.9
Cash and cash equivalents at the beginning of the year		85.8	82.9
<b>Cash and cash equivalents at the end of the year</b>		<b>80.7</b>	<b>85.8</b>

**Registered number**  
3311781

# Notes to the consolidated financial statements

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## 1. Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of the BAM Construct UK Limited Group (the 'Group') for the year ended 31 December 2020 were authorised for issue by the board of directors on 30 April 2021 and the consolidated statement of financial position was signed on the board's behalf by James Wimpenny. The parent company, BAM Construct UK Limited ('the Parent') is incorporated and domiciled in England and Wales.

The consolidated financial statements were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

These consolidated financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds (£0.1m) except when otherwise indicated.

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

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

The financial statements of BAM Construct UK Limited (the Company) and of its subsidiaries (together the Group) have been prepared on a going concern basis as the Directors have concluded that the Company and Group will continue in operational existence and meet its liabilities as they fall due for at least the period of their assessment which is to 30 June 2022.

The Company has net current assets of £112.8m and net assets of £145.0m. The Company meets its day to day working capital requirements through the cash retained in the Group (at year end £80.7m) and through access to its other cash pooling balances held with the Royal BAM Group (at year end £182.2m). The Company and Group do not have any bank debt or other external borrowings or facilities. The Company is a guarantor to borrowing facilities that are held by the Company's ultimate parent entity, Royal BAM Group n.v.. Please refer to note 22 for further details.

The Directors have considered the impact of the COVID-19 crisis on the Group's business operations and future prospects. The Group's operations have remained open under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for their people in order to maintain safe operational activity. Since the pandemic was declared by the World Health Organization on 11 March 2020, the productivity of the Group has been in excess of the initial expectations of the Directors. Construction activity was initially paused across all sites within the Group from 26 to 30 March 2020 to enable detailed reviews of the working practices necessary to reduce the risks of COVID-19. However all sites reopened, and the majority of sites have remained open since. The Group also announced cost saving measures and took advantage of the UK Government Job Retention Scheme. The Directors continue to consider the impact of COVID 19 and the impact on future operating performance of the Group and the uncertainties that this situation creates.

The Directors have prepared base case and severe but plausible downside financial forecasts for the review period until 30 June 2022. Taking into consideration the current environment, the forecasts show that the Group is expected to maintain positive cash flows in the base case and in the downside scenario, which models reduced productivity and increased costs across the Group. The Group has been able to utilise certain government stimulus initiatives.

However, given the Group is reliant upon cash reserves held by the Royal BAM Group and is a guarantor of borrowings of its ultimate parent company, the Company and Group are reliant upon ongoing support of its ultimate parent. The Directors have received confirmation from the Company's ultimate parent entity that the Company and Group will be provided financial support for the period until 30 June 2022. The Directors have assessed the ability of its ultimate parent company to provide this support, based on financial information for the Royal BAM Group that has been shared to certain members of the Board. The Directors also attend monthly and quarterly management meetings and weekly liquidity reports are provided by Royal BAM Group's treasury function.

In view of the assessment performed, the Directors are satisfied that sufficient financial resources will be generated by the Company or received from its ultimate parent entity, Royal BAM Group n.v., to enable the Company and the Group to continue in operation and meet its liabilities as they fall due for at least the period to 30 June 2022. Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of consideration given in exchange for goods and services at the time.

The consolidated financial statements provide comparative information in respect of the previous period.

The accounting policies which follow set out those policies which apply in preparing the consolidated financial statements for the years ended 31 December 2020 and 2019.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote-holders of the investee;
- Rights arising from other contractual arrangements; and
- The wider Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of Other Comprehensive Income are attributed to the equity holders of the Parent company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any part-investment retained is recognised at fair value.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.3 Changes in accounting policies and disclosures (continued)

#### *New and amended standards and interpretations*

The group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not yet early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### Amendment to IFRS 3, 'Business combinations – Definition of a business'

The narrow-scope amendments clarify how to determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test. This amendment did not have a material impact on the consolidated financial statements of the Group.

#### Amendments to IFRS 7 and IFRS 9 'Interest Rate Benchmark Reform'

The amendments to IFRS 9 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no material impact on the consolidated financial statements of the Group.

#### Amendments to IAS 1 and IAS 8 'Definition of Material'

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

There are no other IFRSs or IFRIC amendments effective as per 1 January 2020 that have a material impact on the Group.

#### *New standards and interpretations in issue but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

#### Amendments to IFRS 16 'Covid-19 Related Rent Concessions'

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. Although the Group has received rental concessions in some contracts, this amendment has no impact on the consolidated financial statements of the Group as it has chosen not to apply and does not plan to adopt the practical expedient.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.3 Changes in accounting policies and disclosures (continued)

#### *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The current accounting policies are not expected to deviate significantly from the amendments to IAS 37 but a further detailed assessment of the impact of the amendments is required.

#### *Classification of liabilities as current or non-current - Amendments to IAS 1*

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

Companies are required to apply the amendments for annual periods beginning on or after 1 January 2023, with early application permitted. A further detailed assessment of the impact of the amendments is required.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 2.4 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and the current market and Covid-19 conditions. The basis for these estimates remain unchanged compared to those described in the 2019 financial statements, provided that the estimation uncertainty is inherently increased due to the impact of the Covid-19 pandemic. This has especially effect on the estimates made regarding the valuation of goodwill, deferred tax assets, projects, land and building rights and property development. Actual results may differ materially from these estimates.

The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements:

#### *Defined benefit plans (pension benefits)*

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. An indication of the effect of changes in assumptions, such as the discount rate used and member life expectancy is disclosed in note 20.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.4 Judgements and key sources of estimation uncertainty (continued)

#### *Determining the lease term*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. changes in business strategy).

The Group included the renewal period as part of the lease term for leases when the renewal is reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

#### *Revenue Recognition*

##### *Contract revenue and costs*

The group recognises revenue from construction contracts over time as it performs its obligations. For each performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards full satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of an entity's performance obligation). The Group applies an input method to measure progress. At the end of each reporting period, the Group remeasures its progress towards complete satisfaction of a performance obligation satisfied over time. As work is performed on the assets being constructed they are controlled by the customer and have no alternative use to the Group, with the Group having a right to payment for performance to date.

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 estimated costs including contingencies 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 whole contract loss is recognised as an expense immediately, with the future element recorded 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 with a nil margin to the extent of the cost incurred, until the outcome of a contract can be reliably measured.

In determining the stage of completion the Group has efficient, coordinated systems for cost estimating, forecasting and revenue and costs reporting. The system also requires a consistent 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 materially from the estimated outcome, specifically for major and complex construction contracts. See paragraph 2.5 for further explanation regarding the recognition of revenue for construction contracts.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.4 Judgements and key sources of estimation uncertainty (continued)

#### *Unpriced variation orders*

Variation orders are changes that are clearly instructed by the client. The Group assesses that variable considerations involving unpriced variation orders are highly probable when it has a probability of at least 75%, that a significant reversal in the amount of cumulative revenue will not occur once the uncertainty related to the variable consideration is subsequently resolved. The group recognizes variable considerations in unpriced variation orders in the following circumstances:

Variation orders that have clear evidence available that the amounts meets the highly probable criterion are usually in (but not limited to) the following circumstances:

- The instruction or approval is documented. Amounts are expected to be based on costs or costs plus regular margin or contract rates
- Amounts covered by customer payments
- Amounts covered by documented settlement offers from the customer

Variation orders where the highly probable criterion is based on judgement are present in the following circumstances:

- Changes are without documented instruction of the client but the variation order is substantiated by other evidence such as advanced stage of negotiations. In some cases, the form of the contract entitles the Group to additional remuneration in case the work changes or additional work is required.
- Additional project cost, on top of direct cost from variation orders (e.g. delays or redesign / adjustments)

When variable considerations are constrained, the Group tries to resolve these with the customer first, otherwise with the help of third parties.

#### *Claims receivable*

In the normal course of business the Group 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 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 2.5 for further explanation regarding the recognition of variable considerations.

#### *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 10.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.4 Judgements and key sources of estimation uncertainty (continued)

#### *Impairment of land and building rights and property development*

The valuation of land and building rights and property development is based on the outcome of the related calculations of the land's net realisable value. These calculations are based on assumptions relating to the future market developments, decisions of governmental bodies, interest rates and future cost and price increases. In most cases the Group uses external valuations (by rotation) to benchmark the net realisable value. Partly because estimates relate to projects with a duration varying from one year to more than thirty years, significant changes in these assumptions might result in a material impairment. See note 13.

#### *Cash flow forecasts*

To support significant estimates, cash flow forecasts are produced periodically and reviewed by senior management on all projects and at a business level. These cash flow forecasts enable BAM Construct UK to support the going concern assumption and impairment reviews.

### 2.5 Significant accounting policies

#### *a) Presentation*

##### *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 date of the statement of financial position. All differences are taken to the income statement.

#### *b) Revenue recognition*

##### *Construction contracts*

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 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 and 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 consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.5 Significant 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.

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 Group 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 Group, 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 Group 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 Group will provide a good or service based on the Group's customary business practices, published policies or specific statements.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

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).

#### *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 Group 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 of a range of possible consideration amounts. On the level of each performance obligation it has to be decided which approach best predicts the amount of the consideration to which the Group will be entitled.

The Group 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 Group 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 Group. Based on IFRS 15, the Group interprets variation orders and contract claims as contract modifications for which the consideration is variable.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

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 Group 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 Group 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 2.4 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.

When determining the transaction price, the Group 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 Group 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 Group 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 Group substantiates for example the average margin on bids for similar projects/services on a stand-alone basis (not in combination with other performance obligations).

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### Step 5 'Recognise revenue'

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

The Group 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 Group 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 Group 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-of-completion 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.

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.

# Notes to the consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### (a) Costs of inefficiencies

The Group 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.

#### (b) Property development

Sale of property development are recognised in respect of contracts exchanged during the year, provided that no material conditions remain outstanding on the balance sheet date and all conditions are fully satisfied by the date on which the contract is signed.

Further the accounting policies for property development are the same as mentioned under Note 2.5 (b) - Revenue recognition.

#### (c) Service concession arrangements and other

Under the terms of IFRIC 12 'Service concession arrangements' comprise construction and/or upgrade activities, as well as operating and maintenance activities. Both activities recognise revenue in conformity with IFRS 15. The consideration (concession payments) received is allocated between construction/upgrade activities and operating/maintenance services according to the relative Stand-alone selling prices of the individual performance obligations.

The financial assets relating to service concession arrangements are subsequently measured at amortised cost. Interest is calculated using the effective interest method and is recognised in the income statement as 'finance income'.

Sales of services are recognised when a performance obligations is satisfied. Usually, revenues from services are recognized over time by reference to the stage of completion on the basis of the actual service costs realised respective to the total expected service costs under the contract.

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.

#### Construction contracts (contract assets and contract liabilities)

The Group defines a construction contract as a contract specifically negotiated for the construction of an asset. On the balance sheet, the Group reports the net contract position for each (construction) contract as either a contract asset or a contract liability. A contract asset is recognized when the Group 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 Group 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 consolidated financial statements (continued)

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## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### c) Joint arrangements

Investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations. Joint ventures are joint arrangements whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint venture. The parties to the arrangement have agreed contractually that control is shared and decisions regarding relevant activities require unanimous consent of the parties which have joint control of the joint venture.

Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### d) 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 property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

- Leased property fixtures and fittings – over shorter of full lease term or expected useful economic life
- Plant, machinery and vehicles – over 1 to 12 years
- Office fixtures and equipment – over 5 to 10 years

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.

#### e) Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The intangible asset comprises non-integrated software. The initial cost is capitalised and then amortised over three years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### f) Provisions for liabilities

A provision is recognised when the Group 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 Group 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.

#### g) Financial Instruments

##### 1) Financial assets

###### 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 Group's financial assets comprise 'other financial assets', '(trade) receivables – net', 'contract assets', 'contract receivables' and 'cash and cash equivalents' in the balance sheet.

The Group 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 Group 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 Group 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 Group measures debt instruments at amortised cost if both of the following conditions are met:

- the debt instrument is held with the objective to hold financial assets in order to 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 Group 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.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### *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.

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

#### *Initial recognition and measurement*

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.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### *h) Inventories*

Inventories 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
- Land and property developments - The Group capitalises interest on specific finance raised once development commences and until practical completion, based on the total actual finance cost incurred on the borrowings during the year. When properties are acquired for future redevelopment, interest on borrowings is expensed to the profit and loss account. When redevelopment commences interest on borrowings is capitalised as above. The cumulative amount of interest capitalised in the land and developments relating to assets included in work in progress at the date of the statement of financial position is £2.8m (2019: £2.8m).

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.

#### *i) Trade and other receivables*

Trade receivables and other debtors, which generally have 30-90 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 value and subsequently measured at amortised cost using the effective interest method, less any expected credit loss.

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

#### *j) Cash at bank and in hand*

Cash and short term deposits in the statement of financial position 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 date of the statement of financial position.

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 date of the statement of financial position.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position.

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) Borrowing costs*

Borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### *m) Pensions and other post-employment benefits*

The Group participates in two multi-employer defined benefit pension plans that required contributions to be held in separate trustee administered funds. These schemes were closed to new members from August 2004 at which time membership of a defined contribution plan has been available. From October 2010 both defined benefit pension plans were closed to future accruals or contributions from their existing members and from 2016 the link to final salary for calculating benefits due to these members was removed.

The cost of providing benefits under the now closed defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net finance income is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, effect of the asset ceiling and return on net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which

the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

The Group also participates in several defined benefit pension schemes under 'TUPE' arrangements that relate to historic staff transfers, where they were members of either the 'Local Government Pension Scheme (LGPS)' or the 'Federated Pension Plan (FPP)', collectively referred to as 'TUPE Schemes'. These schemes are multi-employer schemes where the Group Company's UK parent has 'Admitted Body' status as a sponsoring employer with minority participation. With the exception of the Federated Pension Plan and the Lothian Scheme, the Group is unable to identify its share of the assets and liabilities in these schemes on a reliable and consistent basis. The information available from the respective scheme Actuaries relates to the overall scheme valuations rather than the relevant Group Company's participation as an Admitted Body. The Group accounts for these non-disaggregated schemes as defined contribution schemes.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

An analysis of pension arrangements is provided in Note 21.

#### *n) Research and development*

Research and development costs, which predominately relate to projects, are considered to be part of contract costs. Other research and development costs are charged to the income statement as incurred.

#### *o) Exceptional items*

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. These are material items of income and expense that have been shown separately due to the significance of their nature or amount.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

#### p) Trade and other payables

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.

#### q) Right-of-use asset

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing. The estimated useful life of the leased assets are as follows:

Land and buildings	1 to 10 years
Cars	1 to 4 years
Equipment	1 to 8 years
IT equipment	1 to 10 years
Other	1 to 11 years

The majority of the lease contracts in land and buildings have a useful life up to 10 years. The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption that are considered of low value (i.e., below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

For several leases, the Group has renewal/extension options. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of Lease liabilities and Right-of-use asset recognised. See note 15.

#### r) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, non-lease components related to the leased asset, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the profit and loss.

# Notes to the consolidated financial statements (continued)

## 2. Accounting policies (continued)

### 2.5 Significant accounting policies (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date, if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has applied judgement to determine the lease term, which significantly affects the amount of right-of-use asset and lease liabilities recognised. See note 15 Right-of-use assets and note 20 Lease liabilities.

The Group:

- Has not separated non-lease components from lease components and instead each lease component and any associated non-lease components are accounted for as a single lease component. Variable lease payments such as petrol for cars or variable maintenance fees for buildings are excluded from the measurement of the lease liability;
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group determined incremental borrowing rates that are currency specific and vary with the length of the contract. The Group has used a more high-level method to determine the incremental borrowing rate. The Group has assessed the impact of the incremental borrowing rate determined using this method on the value of the lease liabilities using a sensitivity analysis. Based upon this analysis, the Group concludes that the impact of using this method to determine the incremental borrowing rate has no material impact on the value of the lease liabilities.

#### *Lease Modifications*

A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease - e.g. adding or terminating the right to use one or more underlying assets. Lease modifications are accounted for either as separate leases or not separate leases.

The Group accounts for lease modifications as separate lease if both:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group shall remeasure the lease liability using a revised discount rate. The adjustment to the lease liability is accounted for against the right of use asset with no profit and loss impact, with the exception of decreases in scope of the lease. In this case, a gain or loss to reflect the partial or full termination is recognized.

#### *Sale and leaseback transactions*

A sale and leaseback transaction comprises two separate transactions:

- The sale of an asset previously held by the selling entity; and
- An agreement to lease the same asset, usually from the purchasing entity.

The Group applies the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale. When the transfer of the asset satisfies the requirements of IFRS 15, the Group, as a seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Group recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

#### *s) Government grants*

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as a compensation for expenses or losses already incurred are recognised in the income statement in the period in which they become receivable.

## Notes to the consolidated financial statements (continued)

### 3. Revenue

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

	2020	2019
	£m	£m
Construction contracts revenue	715.5	869.7
Facilities Management services revenue	65.2	59.0
Rental income	0.3	0.3
Properties sales	12.1	1.5
Revenue from continuing operations	793.1	930.5

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

	2020	2019
	£m	£m
Aggregate amount of costs incurred and recognised profits (less losses) to date	2,022.7	2,183.3
Retention asset	39.3	40.1
Advances received	14.8	1.0

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:

	2020	2019
	£m	£m
Up to 1 year	694.9	678.0
2 to 5 years	347.7	269.6
	1,042.6	947.6
Over 5 years	429.3	455.3
<b>Total</b>	<b>1,471.9</b>	<b>1,402.9</b>

The Group 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 consolidated financial statements (continued)

### 4. Joint venture

A part of the Group's activities is carried out in joint arrangements classified as joint ventures. These arrangements remain in place until a project is finished. In practice, the duration of the majority of the joint venture is limited to a period of between 1 and 4 years, with the exception of joint venture in connection with land and building rights held for strategic purposes. The Group has a 100% interest in BAM Connislow Limited (joint venture) the ownership changed from 50% to 100% during 2019 and a 50% interest in BAM TCP Atlantic Square Limited (joint venture).

Set out below is the joint venture of the Group as at 31 December 2020 that is individually material to the Group.

Nature of investment in the joint venture in 2020 and 2019:

	Principal activity	Country of incorporation	% Share 2020	% Share 2019
BAM TCP Atlantic Square Limited	Property development	United Kingdom	50%	50%

Set out below are the summarised financial information for the joint venture that is individually material to the Group, including reconciliation to the carrying amount of the Group's share in the joint venture, as recognised in the consolidated financial statements. This information reflects the amounts presented in the financial statements of the joint venture adjusted for differences in the Group's accounting policies and the joint venture.

	2020 £m	2019 £m
<b>BAM TCP Atlantic Square Limited</b>		
Current assets	38.3	26.3
Non-current assets	–	–
Current liabilities	(32.2)	(20.4)
Non-current liabilities	–	–
Net assets	6.1	5.9
Of which:		
Cash and cash equivalents	3.6	0.4
Current financial liabilities	–	–
Non-current financial liabilities	–	–
Revenue	20.6	20.2
Net result	0.1	1.8
Other comprehensive income	–	–
Of which:		
Finance income	–	–
Finance expense	–	–
Income tax	–	0.4
Net result	0.1	5.9
<b>Share in net result</b>	–	0.9
Net assets	6.1	5.9
<b>Carrying amount</b>	5.2	5.1

The carrying amount of the investment in joint venture is higher than BAM's is percentage interest in the net assets of the joint venture due to the preferential right of return included in the distribution policy in the JV agreement.

## Notes to the consolidated financial statements (continued)

### 4. Joint venture (continued)

The Group's share in the joint venture BAM TCP Atlantic Square is based on its share in the members' capital. Contractually, the Group has a 50 per cent share in profit rights. In addition, the Group bears the risks in the operational phase until completion of the projects which are acquired by the joint venture. If the Group's share in losses exceeds the carrying amount of the joint venture, further losses will not be recognised, unless the Group has a legal or constructive obligation.

Set out below are the aggregate information of joint ventures that are not individually material to the Group.

	2020	2019
	£m	£m
Share in net result joint venture BAM TCP Atlantic Square	–	0.9
Share in net result other joint ventures that are not individually material to the Group	–	–
	–	0.9
Share in equity joint venture BAM TCP Atlantic Square	5.2	5.1
Share in equity other joint ventures that are not individually material to the Group	–	–
	5.2	5.1

### 5. Operating profit

	2020	2019
	£m	£m
This is stated after charging:		
Depreciation of owned assets	1.8	1.9
Depreciation of right-of use assets	6.6	9.8
Amortisation of intangible assets	–	–
Operating lease rentals		
- land and building	–	–
- plant and vehicles	–	–

In 2019 there were additional depreciation charges due to the recognition of right-of-use assets upon adoption of IFRS16. This replaced operating lease rental payments which are consequently zero in 2019.

### 6. Auditor's remuneration

	2020	2019
	£000	£000
Audit of Group's consolidated financial statements	119	115
Audit of Parent Company's financial statements	98	94
Audit of Parent Company's subsidiaries	355	342
Total audit	572	551
Audit-related fees	–	–
<b>Total fees paid by the Group</b>	<b>572</b>	<b>551</b>

Fees paid to the Group's auditor, Ernst & Young LLP, include services other than the statutory audit of the Group, Parent Company and subsidiaries. These non-audit fees are shown separately on a consolidated basis.

## Notes to the consolidated financial statements (continued)

### 7. Capital management

For the purpose of the Group's capital management, capital includes issued share capital and all other equity reserves attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximise shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of financial covenants operating on loan facilities held by the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the immediate parent or return capital to shareholders. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, trade and other payables, less cash and short-term deposits, excluding discontinued operations. In prior years net debt also included interest bearing loans and borrowings.

	2020	2019
	£m	£m
Trade and other payables (Note 18)	79.3	78.5
Less: cash and short-term deposits	(80.7)	(85.8)
Net deficit	(1.4)	(7.3)
Shareholders' equity	145.0	135.7
Capital and net debt	143.6	128.4
Gearing ratio %	(1.0)	(5.7)

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it assists Royal BAM Group n.v. in meeting the financial covenants attached to the loan facilities and borrowings at the ultimate parent company, that define capital structure requirements that existed in previous years. On 7 August 2020, BAM obtained a waiver from its lenders for the recourse leverage and recourse interest cover. The waiver is applicable with retrospective effect as of 30 June 2020 and applies for four quarters up to the period ending 31 March 2021. Breaches in meeting the financial covenants would permit the bank to immediately call in loans and borrowings.

Royal BAM Group n.v. are responsible for managing the compliance with the financial covenants, and there have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

### 8. Staff costs and directors' remuneration

All staff costs and directors' remuneration costs for the Group were met by the Parent Company, BAM Construct UK Limited.

	2020	2019
	£m	£m
<b>Staff costs</b>		
Short-term employee benefits	104.6	113.5
Social security charges incurred by the employer	10.7	12.0
Retirement benefits	12.7	12.6
Termination benefits paid	1.6	1.0
<b>Total staff costs incurred</b>	<b>129.6</b>	<b>139.1</b>

## Notes to the consolidated financial statements (continued)

### 8. Staff costs and directors' remuneration (continued)

The average number of persons employed by the Group during the year including directors, was as follows:

	2020	2019
	No.	No.
Staff	1,589	1,653
Operatives	493	505
	<b>2,082</b>	<b>2,158</b>

Key management of the Group represents the directors appointed to the board of the Parent Company who perform services in one or more of the operating companies in the Group. Their costs along with those of other members of staff may be subject to recharge as part of an administration fee levied on these entities.

	2020	2019
	£000	£000
<b>Directors' remuneration</b>		
Short-term employee benefits	595	629
Social security charges incurred by the employer	82	87
<b>Total compensation paid</b>	<b>677</b>	<b>716</b>

The highest paid director received total emoluments (including benefits but excluding social security charges levied on the employer) of £314,050 in 2020 (2019: £332,179).

	2020	2019
	£000	£000
Amounts receivable under long term incentive plans	4	63
Number of directors who received shares in respect of qualifying services	1	1

The highest paid director in 2020 and 2019 received shares under the ultimate group undertaking's long term incentive scheme.

#### Share Based Payments

A director of BAM Construct UK participates in a long-term incentive plan operated by the parent Company, Royal BAM Group nv. The long-term incentive plan consists of a conditional share-based compensation plan called the Performance Share Plan. The Performance Share Plan is applicable for members of the Executive Board and selected positions below the Executive Board of Royal BAM Group n.v.

Under the Performance Share Plan the number of performance shares granted is calculated by dividing the award value (expressed as a percentage of fixed remuneration) by the average share price based on the five trading days after the Royal BAM Group n.v. Annual General Meeting ('AGM'). The shares are granted on the sixth trading day following the day of the Royal BAM Group n.v. AGM and vest subject to the achievement of pre-determined performance conditions during a three-year period and provided that the participant is still employed by BAM Construct UK Limited or Royal BAM Group n.v. Participants are not allowed to divest any shareholding until the two year lock-up period has lapsed and the minimum share ownership requirements are met, with the exception of any sale of shares during the lock-up period to finance tax (and other levies) payable at the date of vesting. The value at the date of vesting of the Performance Share Plan is capped at 2.5 times the award value.

The full assumptions applied to the Performance Share Plan are disclosed in the Royal BAM Group n.v. financial statements.

## Notes to the consolidated financial statements (continued)

### 9. Finance income

	2020	2019
	£m	£m
Bank interest receivable	0.5	0.4
Interest receivable from wider group undertakings	0.5	1.5
Capitalised interest	1.2	0.7
	2.2	2.6

Interest receivable from wider Group undertakings relates to outstanding loans made to subsidiaries in the wider Royal BAM Group n.v..

### 10. Income tax

#### a) Income tax expense

The major components of income tax expense for the years ended 31 December 2020 and 2019 are:

	2020	2019
	£m	£m
<b>Current income tax:</b>		
Current income tax charge	2.1	2.0
Adjustments in respect of current income tax of previous year	0.4	–
Current tax charge	2.5	2.0
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	2.5	0.7
Total deferred tax	2.5	0.7
Income tax expense reported in the profit or loss	5.0	2.7
<b>Deferred tax relating to items recognised in other comprehensive income during the year:</b>		
Net gain on re-measurement gains and losses on defined benefit plans	(2.3)	(7.5)
Income tax recognised in other comprehensive income	(2.3)	(7.5)

#### b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2020 is higher (2019: higher) than the statutory corporation tax rate enacted in the UK. The corporation tax rate of 19.00% for 2020 (2019: 19.00%) is derived as a pro-rata figure due to the change in statutory corporation tax rates enacted for the fiscal year (April to March).

	2020	2019
	£m	£m
Accounting profit before tax	13.7	9.4
Profit on ordinary activities multiplied by UK Corporation tax rate of 19.00% (2019: 19.00%)	2.6	1.9
Adjustments in respect of current income tax of previous years	0.4	–
Income not taxable for tax purposes	(0.5)	–
Effect of changes in tax rate	2.5	0.8
Income tax expense reported in the statement of profit or loss	5.0	2.7

# Notes to the consolidated financial statements (continued)

## 10. Income tax (continued)

### 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. It has recently been announced that the rate will be increased to 25% from 1 April 2023. The Finance Act 2021 will be substantially enacted once it receives Royal assent hence there is no deferred tax re-measurement. The rate increase to 25%, when substantially enacted, will increase the net deferred tax liability by an additional £1.2m from £3.5m to £4.7m.

### d) Deferred tax

The deferred tax included in the consolidated statement of financial position relates to the following:

	2020	2019
	£m	£m
<b>Deferred tax asset</b>		
Balance at 1 January	0.6	0.6
Tax income recognised in the profit and loss	0.5	-
Balance at 31 December	1.1	0.6

A deferred tax asset in respect of depreciation in advance of capital allowance relief has been recognised in the accounts on the grounds that there will be suitable taxable profits within the tax group. Based on all available evidence management believe this will allow for the future reversal of the underlying temporary differences.

	2020	2019
	£m	£m
<b>Deferred tax liability</b>		
Balance at 1 January	(4.0)	(10.8)
Tax expense recognised in the profit and loss	(2.9)	(0.7)
Tax income recognised in the OCI	2.3	7.5)
Balance at 31 December	(4.6)	(4.0)

The deferred tax liability is in respect of the Group's defined benefit pension liabilities. There are no income tax consequences attached to the payment of dividends in either 2020 or 2019 by the group to its shareholders.

## 11. Dividends paid and proposed

Dividends declared and paid during the year amounted to £nil (2019: £8.0m).

## Notes to the consolidated financial statements (continued)

### 12. Tangible fixed assets

	Short leasehold property £m	Plant, machinery and vehicles £m	Fixtures and office equipment £m	Total £m
<b>Cost</b>				
Balance at 1 January 2019	1.1	11.7	13.3	26.1
Additions	–	1.1	0.5	1.6
Disposals	–	(0.7)	–	(0.7)
Balance at 31 December 2019	1.1	12.1	13.8	27.0
Additions	–	0.7	0.3	1.0
Disposals	–	(0.8)	(0.1)	(0.9)
<b>Balance at 31 December 2020</b>	<b>1.1</b>	<b>12.0</b>	<b>14.0</b>	<b>27.1</b>
<b>Depreciation</b>				
Balance at 1 January 2019	1.1	8.1	11.5	20.7
Charge for the year	–	1.0	0.9	1.9
Disposals	–	(0.6)	–	(0.6)
Balance at 31 December 2019	1.1	8.5	12.4	22.0
Charge for the year	–	1.0	0.8	1.8
Disposals	–	(0.8)	(0.1)	(0.9)
<b>Balance at 31 December 2020</b>	<b>1.1</b>	<b>8.7</b>	<b>13.1</b>	<b>22.9</b>
<b>Net book value</b>				
At 1 January 2019	–	3.6	1.8	5.4
At 31 December 2019	–	3.6	1.4	5.0
<b>At 31 December 2020</b>	<b>–</b>	<b>3.3</b>	<b>0.9</b>	<b>4.2</b>

Vehicles are being renewed under operating leases that typically run for no more than 4 years.

Plant and machinery include assets with a net book value of £0.3m (2019: £0.3m) which are hired out 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 £0.4m (2019: £0.4m).

The gross carrying value of fully depreciated property, plant and equipment still in use at the date of the consolidated statement of financial position is £17.4m (2019: £16.5m)

### 13. Inventory, land and property developments

	2020 £m	2019 £m
Balance at 1 January	63.7	42.4
Additions	8.8	22.3
Impairment	(1.7)	–
Sale	(11.3)	(1.0)
<b>Balance at 31 December</b>	<b>59.5</b>	<b>63.7</b>

Impairment in 2020 includes an impairment loss of 1.7m on Latitude, a development opportunity in Leeds, that had been bought in the expectation of being developed and sold.

## Notes to the consolidated financial statements (continued)

### 14. Intangible assets

	Software costs £m	Total £m
<b>Cost</b>		
Balance at 1 January 2019	0.9	<b>0.9</b>
Disposal	(0.9)	<b>(0.9)</b>
Balance at 31 December 2019	–	–
Additions	–	–
Disposal	–	–
<b>Balance at 31 December 2020</b>	–	–
<b>Amortisation and impairment</b>		
Balance at 1 January 2019	0.9	<b>0.9</b>
Charge for the year	–	–
Disposal	(0.9)	<b>(0.9)</b>
Balance at 31 December 2019	–	–
Additions	–	–
Charge for the year	–	–
Disposal	–	–
<b>Balance at 31 December 2020</b>	–	–
<b>Carrying value</b>		
At 1 January 2019	–	–
At 31 December 2019	–	–
<b>At 31 December 2020</b>	–	–

## Notes to the consolidated financial statements (continued)

### 15. Right-of-use assets

	Land and buildings £m	Equipment and installation £m	IT equipment £m	Cars £m	Other £m	Total £m
<b>As at 1 January 2019</b>	<b>7.8</b>	<b>5.6</b>	<b>0.4</b>	<b>2.2</b>	<b>0.2</b>	<b>16.2</b>
Additions	8.0	2.2	–	0.4	0.1	10.7
Disposals	–	–	–	(0.1)	–	(0.1)
Depreciation charges	(2.6)	(5.9)	(0.2)	(1.0)	(0.1)	(9.8)
	5.4	(3.7)	(0.2)	(0.7)	–	(0.8)
<b>As at 1 January 2020</b>	<b>13.2</b>	<b>1.9</b>	<b>0.2</b>	<b>1.5</b>	<b>0.2</b>	<b>17.0</b>
Additions	6.3	0.8	–	0.7	–	7.8
Disposals	–	–	–	–	–	–
Depreciation charges	(3.2)	(2.3)	(0.1)	(1.0)	–	(6.6)
	3.1	(1.5)	(0.1)	(0.3)	–	1.2
<b>As at 31 December 2020</b>	<b>16.3</b>	<b>0.4</b>	<b>0.1</b>	<b>1.2</b>	<b>0.2</b>	<b>18.2</b>

See note 20 Lease liabilities for the corresponding lease liabilities.

### 16. Trade and other receivables

	2020 £m	2019 £m
<b>Current</b>		
Trade receivables	37.0	37.1
Retentions	25.2	24.9
Amounts due from ultimate parent	182.2	199.0
Amounts due from other group undertakings	1.1	0.7
Amounts due from related parties	0.9	–
Other debtors	6.4	7.3
	<b>252.8</b>	269.0
<b>Non-current</b>		
Loans to joint venture	12.3	6.8
Retentions	14.1	15.2
	<b>26.4</b>	22.0

The loan to joint venture is to BAM TCP Atlantic Square Limited at 5% interest and is repayable on demand. The loan to joint ventures is classified as non-current due to the expectation of it being settled in greater than 12 months. Apart from trade receivables none of the other assets were subject to impairment. 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.

## Notes to the consolidated financial statements (continued)

### 16. Trade and other receivables (continued)

Retentions relate to amounts retained by customers on progress billings.

	2020	2019
	£m	£m
<b>Allowance for doubtful debts</b>		
Balance at 1 January	0.8	0.8
Change for year	–	–
Release unused provision	(0.5)	–
Utilised	–	–
Balance at 31 December	0.3	0.8
Current	0.3	0.8
Non-current	–	–

The creation and release of provisions for impaired receivables have been included in 'Administration and other expenses' in the income statement.

	2020	2019
	£m	£m
<b>Aged analysis of trade receivables</b>		
Not past due	31.8	30.0
60 - 90 days	3.2	5.3
90 - 120 days	0.2	0.4
Over 120 days	1.8	1.4
	37.0	37.1

Customer credit risk is managed by each business in accordance with the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on credit rating and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

### 17. Cash and short-term deposits

	2020	2019
	£m	£m
Cash at banks and on hand	80.7	85.8

£2.5m (2019: £2.6m) of cash at bank and on hand is not available to be utilised without joint agreement with third parties.

# Notes to the consolidated financial statements (continued)

## 18. Trade and other payables

	2020	2019
	£m	£m
<b>Current</b>		
Lease liabilities	3.4	5.1
Trade payables	62.6	65.5
Accrued costs completed projects	39.2	44.6
Accrued costs work in progress	110.1	156.8
Amounts due to ultimate parent	2.4	0.2
Other creditors	14.3	12.8
Accruals and deferred income	10.5	4.9
	<b>242.5</b>	<b>289.9</b>
<b>Non-current</b>		
Lease liabilities	17.2	12.6
Retentions	8.8	10.0

Trade payables are non-interest bearing and are normally settled on 30-60 day terms. The Group took advantage of the HMRC VAT deferral scheme during 2020 and deferred £5.3m. Included within other creditors is £4.8m (2019: nil) of deferred VAT to be settled in 9 instalments April to December 2021. A non-current payable of £0.5m (2019: nil) is due to be settled in a final instalment in January 2022.

## 19. Financial assets and liabilities

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

### a) Credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 16.

The Group's top 10 customers owed it £18.0m (2019: £25.4m) and this constitutes 49% (2019: 68%) of trade receivables total.

The Group expects there to be little or no impact of Covid-19 on the credit risk of the Group.

### 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.

# Notes to the consolidated financial statements (continued)

## 19. Financial assets and liabilities (continued)

### c) Price and value risk

Price and value risk is monitored constantly at Group level 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 Group 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.

The Group's principal financial liabilities comprise trade and other payables and amounts due to customers under construction contracts. The main purpose of these financial liabilities is as a consequence of its operations within a traditional Construction business. The Group's principal financial assets include trade and other payables, deferred tax and provisions that arrive directly from its operations.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

<b>Year ended 31 December 2020</b>	<b>Carrying amount</b>	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>
Trade and other payables	88.1	79.3	8.8	–
Lease liabilities	20.6	3.4	9.4	7.8
	108.7	82.7	18.2	7.8

<b>Year ended 31 December 2019</b>	<b>Carrying amount</b>	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>
Trade and other payables	88.5	78.5	10.0	–
Lease liabilities	17.7	5.1	9.4	3.2
	106.2	83.6	19.4	3.2

### Fair values of financial assets and liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost.

## Notes to the consolidated financial statements (continued)

### 20. Lease liabilities

The Group leases various land and buildings, equipment and installations, IT equipment, cars and other items from third parties under non-cancellable lease agreements. The lease agreements vary in duration, termination clauses and renewal options. The average incremental borrowing rate applied is 2.0 per cent as per 31 December 2020 (2019: 2.1 per cent).

As from 2019 the lease liabilities in the balance sheet include leases that were formerly classified as operational and finance leases less exempted leases (i.e. short term leases and low value leases).

See note 15 Right-of-use assets for the corresponding right-of-use assets.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Lease liabilities	Lease liabilities
	2020	2019
	£m	£m
<b>As at 1 January 2020</b>	<b>17.7</b>	16.2
Additions	7.9	9.8
Accretion of interest	0.7	0.6
Payments	(5.7)	(8.9)
<b>As at 31 December 2020</b>	<b>20.6</b>	17.7
Current	3.4	5.1
Non-current	17.2	12.6
<b>As at 31 December 2020</b>	<b>20.6</b>	17.7

The undiscounted future lease payments as included in the lease liabilities, presented in time buckets, are as follows:

	Lease liabilities	Lease liabilities
	2020	2019
	£m	£m
Up to 1 year	3.4	5.2
1 to 5 years	12.0	9.4
Over 5 years	8.0	5.4
	<b>23.4</b>	20.0

In addition to the identified lease liabilities above, an amount of £nil million of lease commitments exist regarding the short-term leases. Given the applied practical expedient, these leases have not been included in the lease liabilities and are therefore not stated in the table above.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see note 2.3).

There are no undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

# Notes to the consolidated financial statements (continued)

## 20. Lease liabilities (continued)

### Expenses

The following are the amounts recognised in profit or loss:

	Notes	2020 £m	2019 £m
Depreciation expense of right-of-use assets	15	6.6	9.8
Interest expense on lease liabilities		0.7	0.6
Rent expenses - short term leases		-	-
Rent expenses - leases of low value		-	-
Rent expenses – variable lease payments		-	-
<b>Total</b>		<b>7.3</b>	<b>10.4</b>

The group has lease contracts for equipment and installation and cars that contain variable payments related to usage and fuel and insurance.

### Cash flows

Amounts recognised in the consolidated statement of cash flows:

	2020 £m	2019 £m
Payments	5.7	8.9
Interest	(0.7)	(0.6)
<b>Total</b>	<b>5.0</b>	<b>8.3</b>

The Group had no non-cash additions to right-of-use assets and lease liabilities in 2020.

The Group has no lease contracts that have not yet commenced as at 31 December 2020.

The Group has no future variable lease payments which are not recognised in lease liabilities, but are recognised as expense in profit and loss.

## 21. Pensions and other post-employment benefit plans

The Group participates in two multi-employer defined benefit pension scheme plans that required contributions to be held in separate trustee administered funds. The two schemes are sponsored by BAM Construct UK Limited and are named 'HBG UK Scheme' and 'HBG GA Scheme'. These schemes were closed to new members from August 2004 at which time membership of a defined contribution plan has been available. From October 2010 both defined benefit pension plans were closed to future accruals or contributions from their existing members and in 2016 the two defined benefit schemes were delinked of pension benefits to a member's salary.

During 2019 and in line with the Company's pension strategy BAM Construct UK purchased a bulk annuity in respect of the HBG GA Pension Scheme. As a result of this transaction a loss of £25.5m has been recognised within the Other Comprehensive Loss / (Income) statement.

### GMP equalisation

Following the recent High Court judgement in the second Lloyds case ruling, pension benefits in the United Kingdom should be equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"), for those members that had elected to transfer out their benefit between 17 May 1990 and 5 April 1997. This will mean higher benefits for some members and therefore higher overall costs. Under IAS 19/FRS 101, the additional liability has been recognised during the year. The additional liability for the Group amounted to £0.6 million and has been recognised as an exceptional loss in the statement of comprehensive income.

# Notes to the consolidated financial statements (continued)

## 21. Pensions and other post-employment benefit plans (continued)

### Memorandum of understanding

As part of the Company's ongoing commitment to the two defined benefit pension schemes, the Company has worked with the respective pension trustees to agree a memorandum of understanding ('MOU'). In broad terms the MOU sets out the principles by which the Company and Trustees will work together to achieve the agreed, long term objectives of the two schemes. The schemes objectives are:

- HBG UK Scheme - reach a 'self-sufficiency' funding level by December 2030
- HBG GA Scheme - a 'buy out' funding target by 31 December 2027

Both Company and Trustees understand that the investment strategy and Company discretionary funding need to be aligned in order to achieve the mutually beneficial objectives, which is what the MOU tries to address. Both parties also acknowledge that due to the long term nature of their funding, things may change as the economy goes through a number of cycles.

The pension contributions made by the Group to the two defined benefit pension plans in the year are shown below on the valuation date of 31 December 2017:

	2020	2019
HBG UK / HBG GA Schemes	£m	£m
Contributions made	3.4	3.4

The most recent actuarial triennial valuations of plan assets and the present value of the defined benefit obligation were carried out by the following on the valuation date of 31 December 2017:

- HBG UK Scheme - XPS Pensions (March 2019)
- HBG GA Scheme - Mercer Limited (March 2019)

Both defined benefit pension plans are required to have a triennial actuarial valuation as of 31 December 2020. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows.

HBG UK / HBG GA Schemes	31 December 2020	31 December 2019
Discount rate(s)	1.4%	2.1%
Expected rate(s) of salary increase	3.6%	3.6%
Pension growth rate	2.10-2.90%	2.20 - 3.00%

The expense for the year is included in the employee benefits expense in the consolidated statement of comprehensive income. Of the expense for the year, £0.8m (2019: £0.7m) has been included in the consolidated statement of comprehensive income as cost of sales and the remainder in administration expenses.

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

HBG UK / HBG GA Schemes	2020	2019
	£m	£m
Past service cost	(0.6)	-
Net finance income	0.5	1.8
Administration expenses	(0.8)	(0.7)
	(0.9)	1.1

## Notes to the consolidated financial statements (continued)

### 21. Pensions and other post-employment benefit plans (continued)

Amounts recognised in other comprehensive income:

	2020	2019
	£m	£m
<b>HBG UK Scheme</b>		
Return on plan assets (excluding amounts included in net interest expense)	(47.0)	(25.7)
Actuarial loss / (gain) arising from changes in demographic assumptions	–	6.4
Actuarial loss / (gain) arising from changes in financial assumptions	50.5	34.3
Actuarial (gain) arising from experience adjustments	(2.5)	(1.6)
<b>Total remeasurements recognised in other comprehensive loss</b>	<b>1.1</b>	<b>13.4</b>
Tax effect	(0.2)	(2.3)
<b>Other comprehensive loss (net of tax)</b>	<b>0.9</b>	<b>11.1</b>
	2020	2019
	£m	£m
<b>HBG GA Scheme</b>		
Return on plan assets (excluding amounts included in net interest expense)	(12.8)	19.4
Actuarial loss / (gain) arising from changes in demographic assumptions	–	2.9
Actuarial loss / (gain) arising from changes in financial assumptions	13.5	8.4
Actuarial (gain) arising from experience adjustments	–	–
<b>Total remeasurements recognised in other comprehensive income</b>	<b>0.6</b>	<b>30.7</b>
Tax effect	(0.1)	(5.2)
<b>Other comprehensive loss (net of tax)</b>	<b>0.5</b>	<b>25.5</b>

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2020	2019
	£m	£m
Present value of funded defined benefit obligation	(520.8)	(475.5)
Fair value of plan assets	545.2	499.1
	24.2	23.6

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2020	2019
	£m	£m
<b>HBG UK / HBG GA Schemes</b>		
Opening defined benefit obligation	475.5	427.9
Past service loss	0.6	–
Interest cost	9.7	11.8
Actuarial gain	61.6	50.4
Benefits paid	(26.5)	(14.6)
Closing defined benefit obligation	520.8	475.5

## Notes to the consolidated financial statements (continued)

### 21. Pensions and other post-employment benefit plans (continued)

Through its defined benefit plans the Group is exposed to a number of risks, the most significant of which are the following:

**Asset volatility:** The plan liabilities are calculated using a discount rate with reference to corporate bond yield; if the plans' assets underperform this yield, this will create a deficit.

**Changes in bond yields:** A decrease in corporate bond yields will increase the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

**Salary growth:** The plan liabilities are calculated based on the salaries of the plans' participants. The de-linking of pension benefits to a member salaries completed in 2016, has significantly reduced the volatility of these increases in the plans' liabilities.

**Pension growth:** The majority of the plans' liabilities is calculated based on future pension increases, so these increases will result in an increase in the plans' liabilities.

**Life expectancy:** The majority of the plans' liabilities is to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The average duration of the defined benefit obligation:

	2020	2019
	years	years
<b>HBG UK Schemes</b>		
<b>Implied life expectancy at 65</b>		
Male currently aged 65	22.9	22.8
Male currently aged 45	24.6	24.5
Female currently aged 65	24.5	24.4
Female currently aged 45	26.3	26.2

	2020	2019
	years	years
<b>HBG GA Schemes</b>		
<b>Implied life expectancy at 65</b>		
Male currently aged 65	22.5	22.4
Male currently aged 40	24.8	24.7
Female currently aged 65	24.2	24.1
Female currently aged 40	26.5	26.4

# Notes to the consolidated financial statements (continued)

## 21. Pensions and other post-employment benefit plans (continued)

### Sensitivity analysis

A sensitivity analysis of the principal assumptions used to measure the scheme liabilities:

#### HBG UK Scheme

As at December 2020	Change in assumption	Impact on defined benefit obligation £m	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	(40.0)	46.4
Discount rate	1.00%	(74.7)	100.4
Future salary increases	0.50%	0.2	(0.2)
Inflation assumption	0.50%	42.4	(38.3)
Life expectancy	1 year	19.3	(19.2)

As at December 2019	Change in assumption	Impact on defined benefit obligation £m	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	(35.3)	40.8
Discount rate	1.00%	(66.0)	88.1
Future salary increases	0.50%	0.4	(0.4)
Inflation assumption	0.50%	36.6	(34.2)
Life expectancy	1 year	16.2	(16.2)

#### HBG GA Scheme

As at December 2020	Change in assumption	Impact on defined benefit obligation £m	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	(10.0)	13.6
Discount rate	1.00%	(18.8)	25.1
Future salary increases	0.50%	–	(0.1)
Inflation assumption	0.50%	5.3	(5.0)
Life expectancy	1 year	4.6	(4.5)

As at December 2019	Change in assumption	Impact on defined benefit obligation £m	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	(8.5)	9.8
Discount rate	1.00%	(15.9)	21.2
Future salary increases	0.50%	–	(0.2)
Inflation assumption	0.50%	4.6	(3.7)
Life expectancy	1 year	3.8	(3.7)

# Notes to the consolidated financial statements (continued)

## 21. Pensions and other post-employment benefit plans (continued)

The average duration of the defined benefit plan obligation for the HBG UK Scheme was 20 years (2019: 20 years).  
The average duration of the defined benefit plan obligation for the HBG GA UK Scheme was 19 years (2019: 19 years).  
Movements in the present value of the defined plan assets in the current year were as follows:

	2020	2019
	£m	£m
<b>HBG UK / HBG GA Schemes</b>		
Opening fair value of plan assets	499.1	491.1
Actuarial gain	59.8	6.3
Contributions from the employer	3.4	3.4
Benefits paid	(26.5)	(14.6)
Administration costs	(0.8)	(0.7)
Finance income	10.2	13.6
Closing fair value of plan assets	545.2	499.1

	2020	2019
	£m	£m
<b>Fair value of plan assets</b>		
<b>HBG UK Scheme</b>		
Equity and property (quoted)	–	25.8
Corporate bonds (quoted)	–	113.9
Fixed interest bonds	111.4	–
Government bonds (quoted)	–	6.0
Commodities (quoted)	–	0.3
Cash and cash equivalents	1.5	7.2
Other - liability hedge (quoted)	280.3	247.4
Other – loans (quoted)	59.3	11.4
<b>Fair value of plan assets</b>	452.6	412.0

	2020	2019
	£m	£m
<b>HBG GA Scheme</b>		
Equity and property (quoted)	–	–
Cash and cash equivalents	0.5	1.5
Debt instruments (quoted)	0.5	0.5
Real estate (quoted)	–	–
Insured contracts	91.5	85.1
<b>Fair value of plan assets</b>	92.5	87.1

In line with the funding requirements of the triennial valuation, the Group expects to make a contribution of £2.0m to the defined benefit plans during the next financial year (2019: £3.0m). In the subsequent 3 years (years 3-5) the Group expects to make total contributions of £3.0m to the defined benefit plans.

We are unable to accurately estimate how the potential future cash outflows in the memorandum of understanding entered into by the entity in relation to the defined benefit plans may affect the amount and timing of the entity's future cash flows, as these are not legally binding and are reviewed in good faith annually.

## Notes to the consolidated financial statements (continued)

### 21. Pensions and other post-employment benefit plans (continued)

The Group also has a defined contribution scheme administered by Legal and General Assurance Society, which was set up in 2004. Contributions to this defined contribution scheme are recognised in the income statement in the period in which they become payable.

	2020	2019
	£m	£m
<b>Legal &amp; General Defined Contribution Scheme</b>		
Group contributions	12.6	12.6

The Group also participates in several defined benefit pension schemes under 'TUPE' arrangements that relate to historic staff transfers, where they were members of either the 'Local Government Pension Scheme (LGPS)' or the 'Federated Pension Plan (FPP)', collectively referred to as 'TUPE Schemes'. These schemes are multi-employer schemes where the relevant Group Company's UK parent BAM Construct UK Ltd has 'Admitted Body' status as a sponsoring employer with minority participation.

With the exception of the Federated Pension Plan and the Lothian Scheme, the Group is unable to identify its share of the assets and liabilities in these schemes on a reliable and consistent basis. The information made available by the respective scheme Actuaries relates to the overall scheme valuations rather than the Group's participation as an Admitted Body. The Group accounts for these non-disaggregated schemes as defined contribution schemes.

It is expected that contributions for the next financial year are expected to be in line with the current year contributions.

The pension contributions made by the Company under the Transfer of Undertakings (Protection of Employment) Regulations 2006 during the year are shown below:

	2020	2019
	£m	£m
<b>TUPE related pension plans</b>		
Company contributions	0.9	0.7

### 22. Provisions and contingent liabilities

	Reorganisation	Onerous contract	Onerous lease	Insolvency Insurer	IFRS 16 provision for restoration	2020	2019
	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 1 January</b>	–	27.7	1.8	0.2	0.3	30.0	3.8
Arising in the year	3.8	–	–	–	–	3.8	28.6
Utilised	(3.8)	–	(0.2)	–	(0.2)	(4.2)	(1.8)
Unused amounts reversed	–	(13.9)	–	–	–	(13.9)	(0.6)
<b>Balance at 31 December</b>	–	13.8	1.6	0.2	0.1	15.7	30.0
Current	–	–	–	–	–	–	–
Non-current	–	13.8	1.6	0.2	0.1	15.7	30.0

Provisions comprise of obligations in respect of the insolvency of one of the Group's insurers and an onerous lease on one of the property developments. The provision on the insurer insolvency relates to claims previously covered by Builders Accidents Insurers (BAI) that went into administration in previous years.

The onerous contact provision shows 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.

# Notes to the consolidated financial statements (continued)

## 22. Provisions and contingent liabilities (continued)

IFRS 16 provision for restoration relates to certain equipment and installation leases where there is an obligation at completion of the lease to restore the item to its original condition.

The reorganisation provision created and utilised during the year relates to redundancy costs and an office move.

The Parent Company, along with other Group entities, is party to a guarantee in respect of the cash pool overdraft balance within the cash pooling facility with NatWest Bank Plc. At 31 December 2020 there were £nil (2019: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2020 was £nil (2019: £nil). This guarantee is not expected to give rise to any loss.

The Parent 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 2020 there were nil (2019: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2020 was £nil (2019: £nil). This guarantee is not expected to give rise to any loss.

The Parent 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 ABN AMRO Bank n.v. At 31 December 2020 there were £nil (2019: £nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2020 was £nil (2019: £nil). This guarantee is not expected to give rise to any loss.

During the year the Royal BAM Group n.v. drew down the revolving credit facility of €400m, to which BAM Construct UK Ltd and other Group entities, is a guarantor. On 24 April 2020, the committed revolving credit facility was extended by one year to 31 March 2024, with the committed amount reducing to €360m from 1 April 2023. The utilisation of this facility as at 31 December 2020 was €400m (2019: €nil). 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.

Bonds and Guarantees are provided in the ordinary course of business to our clients, either by the Company (parental guarantees), by banks (bank guarantees), or by surety companies (surety bonds), securing due performance of the obligations under the contracts by the subsidiaries of the Company.

It is not expected that any material risks will arise from these securities. These securities are limited in amount and can only be called upon in case of (proven) default.

The parent company guarantees issued amount to €186 million (2019: €178 million). Guarantees issued by banks and surety companies amount to €2 billion (2019: €2 billion). Guarantee facilities amount to €2.9 billion (2019: €3.2 billion).

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

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.

## 23. Authorised and issued share capital

	Number	2020 £m	Number	2019 £m
<b>Share capital</b>				
Authorised: ordinary shares of £1 each	40,000,000	40.0	40,000,000	40.0
Issued: ordinary shares of £1 each	40,000,000	40.0	40,000,000	40.0

# Notes to the consolidated financial statements (continued)

## 24. Government grants

Government grants received in 2020 amount to £4.4m (2019: £2.4m), of which £1.4m is related to R&D, and £3.0m to the UK Governments job retention scheme.

## 25. Subsequent events

There have been no other material events arising after the reporting date.

## 26. Other related party transactions

The Group identifies subsidiaries, associates, joint arrangements, third parties executing the Group's defined benefit pension plans and key management as related parties. Transactions with related parties are conducted at arm's length, on terms comparable to those for transactions with third parties.

The following transactions were carried out with related parties:

### Sales and purchase of goods and services

A part of the Group's activities is carried out in joint arrangements. These activities include the assignment and/or financing of land as well as carrying out construction contracts.

The Group carried out transactions with associates and joint arrangements related to the sale of goods and services for £4.0m (2019: nil) and none related to the purchase of goods and services (2019: nil).

The 2020 year-end balance of short term receivables amounts to £0.9m (2019: nil). In 2020, short term receivables by BAM PPP for the amount of £0.9m, were derecognised as a result of the transfer by BAM of 50 per cent of the shares of BAM PPP to PGGM.

No director or employee of the BAM Construct UK Limited Group of companies has entered, either directly or through a closely related party, into non-employment related commercial transactions with any Royal BAM Group company during the period. Transactions with related parties include the following:

	2020	2019
	£m	£m
<b>Dividends paid out in the year</b>		
Final declared and paid of £nil per share (2019: £0.20 per share)	–	8.0
Royal BAM Group n.v. (ultimate parent) - loan @ 0.04% (2019: 0.71%)	182.2	199.0
Amount owed to Royal BAM Group n.v. (ultimate parent) - trade payables	(2.4)	(0.2)
Total amount outstanding at 31 December	179.8	198.8

For the year ended 31 December 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: nil).

Details about guarantees provided to banks for loans made to related Group entities are included in Note 22.

## 27. Ultimate group undertaking

The Parent Company's immediate parent undertaking is BAM Group (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) are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

## Notes to the consolidated financial statements (continued)

### 28. Subsidiary, associate and joint venture entities

Entity name	Interest in voting equity (%)	Country of incorporation	Registered Office	Nature of business
BAM Construction Limited	100%	United Kingdom	1	Building contracting
BAM Design Limited	99.99%	United Kingdom	1	Construction design services
BAM Properties Limited	100%	United Kingdom	1	Property development
BAM Monk Bridge Limited	100%	United Kingdom	1	Property development
BAM Glory Mill Limited	100%	United Kingdom	1	Property development
BAM Swindon Limited	100%	United Kingdom	1	Property development
Lydiard Fields Business Park Management Limited	100%	United Kingdom	1	Property development
BAM Queen Street Limited *	100%	United Kingdom	2	Property development
BAM FM Limited *	100%	United Kingdom	2	Property services
BAM Energy Limited *	100%	United Kingdom	2	Property services
Sutton Group Limited	100%	United Kingdom	1	Property services
Sutton Maintenance Limited	100%	United Kingdom	1	Property services
BAM Connislow Limited *	100%	United Kingdom	2	Property development
BAM TCP Atlantic Square Limited (Joint Venture)	50%	United Kingdom	1	Property development
BAM Civil Engineering Limited	100%	United Kingdom	1	Dormant
BAM Infrastructure Limited	100%	United Kingdom	1	Dormant
BAM Plant Limited	100%	United Kingdom	1	Dormant
BAM Services Engineering Limited	100%	United Kingdom	1	Dormant
HBG UK Pension Trustee Limited	50%	United Kingdom	1	Dormant
Kyle Stewart Executive Pension Trustee Limited	50%	United Kingdom	1	Dormant

\* Entities registered in Scotland.

The registered offices for the companies is as follows:

1. Breakspear Park, Breakspear Way, Hemel Hempstead, Herts, HP2 4FL
2. Kelvin House, Buchanan Gate Business Park, Stepps, Glasgow, G33 6FB

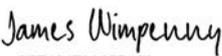
# Company statement of financial position

At 31 December	Notes	2020 £m	2019 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	0.7	1.1
Right-of-use assets	10	16.3	13.2
Intangible assets	9	–	–
Investments in subsidiaries	11	81.9	81.9
Defined benefit pension asset	15	24.1	23.6
Deferred tax assets	6	0.9	0.8
<b>Total non-current assets</b>		<b>123.9</b>	<b>120.6</b>
<b>Current assets</b>			
Other receivables	12	4.9	4.3
Amounts due from ultimate parent	12	181.5	199.0
Amounts due from group undertakings	12	56.0	48.8
Amounts due from related parties		0.3	–
Prepayments and accrued income		1.1	1.2
Cash and short term deposits		22.8	34.2
<b>Total current assets</b>		<b>266.6</b>	<b>287.5</b>
<b>Total assets</b>		<b>390.5</b>	<b>408.1</b>

## Company statement of financial position (continued)

At 31 December	Notes	2020 £m	2019 £m
<b>Current liabilities</b>			
Trade and other payables	13	11.5	11.3
Lease liabilities	14	2.3	2.0
Amounts owed to group undertakings	13	256.5	284.9
<b>Total current liabilities</b>		<b>270.3</b>	<b>298.2</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	6	4.6	4.0
Lease liabilities	14	16.4	11.8
Provisions	13	3.2	2.0
<b>Total non-current liabilities</b>		<b>24.2</b>	<b>17.8</b>
<b>Total liabilities</b>		<b>294.5</b>	<b>316.0</b>
<b>Equity</b>			
Share capital	17	40.0	40.0
Retained earnings		56.0	52.1
Equity attributable to owners of the Company		96.0	92.1
<b>Total equity</b>		<b>96.0</b>	<b>92.1</b>
<b>Total equity and liabilities</b>		<b>390.5</b>	<b>408.1</b>

Approved by the board on 30 April 2021 and signed on its behalf by:

DocuSigned by:  
  
 35E40479A25B488...

**James Wimpenny**  
 Director and Chief Executive

## Company statement of changes in equity

		Share capital £m	Retained earnings £m	Total £m
<b>For the year ended 31 December 2020</b>				
<b>Balance at 1 January 2019</b>	Notes 17	40.0	87.9	<b>117.7</b>
Profit for the year		–	8.8	<b>(1.9)</b>
Other comprehensive expense for the year, net of income tax		–	(36.6)	<b>16.1</b>
Total comprehensive expense for the year		–	(27.8)	<b>14.2</b>
Payment of dividends	7	–	(8.0)	<b>(4.0)</b>
<b>Balance at 31 December 2019</b>	17	40.0	52.1	<b>92.1</b>
Profit for the year		–	3.3	<b>3.3</b>
Other comprehensive income for the year, net of income tax		–	0.6	<b>0.6</b>
Total comprehensive income for the year		–	4.1	<b>4.1</b>
Payment of dividends		–	–	–
<b>Balance at 31 December 2020</b>	17	40.0	56.0	<b>96.0</b>

Registered number  
3311781

# Notes to the parent company financial statements

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

The financial statements of BAM Construct UK Limited (the 'Company') for the year ended 31 December 2020 were authorised for issue by the board of directors on 30 April 2021 and the consolidated statement of financial position was signed on the board's behalf by James Wimpenny. BAM Construct UK Limited 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 prepared under the historical cost convention and presented in Sterling with all values rounded to the nearest hundred thousand pounds (£0.1m) except when otherwise indicated. The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to prepare a profit and loss account as the Company's results are included in the consolidated statement of comprehensive income shown on page 23.

The results of BAM Construct UK Limited are included in the consolidated financial statements shown for the BAM Construct UK Limited Group earlier in this document. They are also included in the consolidated financial statements of the ultimate parent entity Royal BAM Group n.v., which are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

The financial statements of BAM Construct UK Limited (the Company) have been prepared on a going concern basis as the Directors have concluded that the Company will continue in operational existence and meet its liabilities as they fall due for at least the period of their assessment which is to 30 June 2022.

The Company has net current liabilities of £3.7m and net assets of £96.0m. The Company meets its day to day working capital requirements through the cash retained in the Company (at year end £22.8m) and through access to its other cash pooling balances held with the Royal BAM Group (at year-end £182.2m). The Company does not have any bank debt or other external borrowings or facilities. The Company is a guarantor to borrowing facilities that are held by the Company's ultimate parent entity, Royal BAM Group n.v. Please refer to note 22 in the BAM Construct UK consolidated financial statements for further details.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects. The Company's operations have remained open under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for their people in order to maintain safe operational activity. Since the pandemic was declared by the World Health Organization on 11 March 2020, the productivity of the Company has been in excess of the initial expectations of the Directors. Construction activity was initially paused across all sites within the Company from 26 to 30 March 2020 to enable detailed reviews of the working practices necessary to reduce the risks of COVID-19. However all sites reopened, and the majority of sites have remained open since. The Company also announced cost saving measures and took advantage of the UK Government Job Retention Scheme. The Directors continue to consider the impact of COVID 19 and the impact on future operating performance of the Company and the uncertainties that this situation creates.

The Directors have prepared base case and severe but plausible downside financial forecasts for the review period until 30 June 2022. Taking into consideration the current environment, the forecasts show that the Company is expected to maintain positive cash flows in the base case and in the downside scenario, which models reduced productivity and increased costs across the Company. The Company has been able to utilise certain government stimulus initiatives.

However, given the Company is reliant upon cash reserves held by the Royal BAM Group and is a guarantor of borrowings of its ultimate parent company, the Company is reliant upon ongoing support of its ultimate parent. The Directors have received confirmation from the Company's ultimate parent entity that the Company will be provided financial support for the period until 30 June 2022. The Directors have assessed the ability of its ultimate parent company to provide this support, based on financial information for the Royal BAM Group that has been shared to certain members of the Board. The Directors also attend monthly and quarterly management meetings and weekly liquidity reports are provided by Royal BAM Group's treasury function.

In view of the assessment performed, the Directors are satisfied that sufficient financial resources will be generated by the Company or received from its ultimate parent entity, Royal BAM Group n.v., to enable the Company to continue in operation and meet its liabilities as they fall due for at least the period to 30 June 2022. Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted by the Company are the same as those outlined in Note 2 to the consolidated financial statements. The following additional policies are also relevant to the company financial statements.

# Notes to the parent company financial statements (continued)

## 2. Accounting policies

### 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 that were applied in preparing the financial statements for the years ended 31 December 2019 and 2020 are described in Note 2. In addition 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), (e), (g), (h), (j) to (m), (n)(ii), (o)(ii), (p), (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;
  - iii) paragraph 118 (e) of IAS 38 Intangible Assets; and
  - iv) paragraphs 76 and 79(d) of IAS 40 investment Property;
- g) The requirements of paragraphs 10 (d), 10 (f), 16, 38A to 38D, 40A to 40D 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 paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting estimates and errors;
- j) The requirements of paragraph 17 and 18A of IAS 24 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 130f (ii), 130f (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 IFRS15.
- m) The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

## 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 financial statement 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.

### Pension and other post employment benefits

The judgement adopted by the Company are the same as those outlined in note 2.4 to the consolidated financial statement.

## 4. Significant accounting policies

### a) Investment 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.

### b) Dividends

Revenue is recognised when the Company's right to receive payment is established.

## Notes to the parent company financial statements (continued)

### 5. Auditor's remuneration

	2020	2019
	£	£000
Audit of Group's consolidated financial statements	119	115
Audit of Parent Company's financial statements	98	94
Audit of Parent Company's subsidiaries	355	342
Total audit	572	551
Other assurance services (non-audit)	–	–
Total fees paid by the Company	572	551

All auditors remuneration is paid by BAM Construct UK Limited.

### 6. Income tax

#### a) Income tax expense

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2020	2019
	£m	£m
<b>Current income tax</b>		
Current income tax charge	0.9	1.3
Adjustments in respect of current income tax of previous year	–	–
Current tax charge	0.9	1.3
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	2.9	0.8
Total deferred tax	2.9	0.8
Income tax charge reported in the profit or loss	3.8	2.1
<b>Deferred tax relating to items recognised in other comprehensive income during the year:</b>		
Net loss / (gain) on re-measurement gains and losses on defined benefit plans	(2.3)	(7.5)
	(2.3)	(7.5)

#### b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2020 is higher (2019: equal to) than the statutory corporation tax rate enacted in the UK. The corporation tax rate of 19.00% for 2020 (2019: 19.00%) is derived as a pro-rata figure due to the change in statutory corporation tax rates enacted for the fiscal year (April to March).

	2020	2019
	£m	£m
Accounting profit before tax	7.3	10.9
Profit on ordinary activities multiplied by UK Corporation tax rate of 19.00% (2019: 19.00%)	1.4	2.1
Income not taxable for tax purposes	(0.5)	–
Adjustments in respect of prior year	–	–
Expenses not deductible for corporation tax purposes	0.5	0.1
Effect of changes in tax rate	2.4	(0.1)
Income tax expense reported in the statement of profit or loss	3.8	2.1

# Notes to the parent company financial statements (continued)

## 6. Income tax (continued)

### 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. It has recently been announced that the rate will be increased to 25% from 1 April 2023. The Finance Act 2021 will be substantially enacted once it receives Royal assent hence there is no deferred tax re-measurement. The rate increase to 25%, when substantially enacted, will increase the net deferred tax liability by an additional £1.2m from £3.5m to £4.7m.

### d) Deferred tax

The deferred tax asset included in the company statement of financial position related to the following:

	2020	2019
	£m	£m
<b>Deferred tax asset</b>		
Balance at 1 January	0.8	0.8
Tax recognised in the profit and loss	0.1	–
<b>Balance at 31 December</b>	<b>0.9</b>	<b>0.8</b>

A deferred tax asset in respect of depreciation in advance of capital allowance relief 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. Based on all available evidence management believe this will allow for the future reversal of the underlying temporary differences.

Deferred tax liability provided in the financial statements is as follows:

	2020	2019
	£m	£m
<b>Deferred tax liability</b>		
Balance at 1 January	(4.0)	(10.8)
Tax expense recognised in the profit and loss	(2.9)	(0.8)
Tax income recognised in the OCI	2.3	7.6
<b>Balance at 31 December</b>	<b>(4.6)</b>	<b>(4.0)</b>

The deferred tax liability is in respect of the Company's defined benefit pension liabilities.

There are no income tax consequences attached to the payment of dividends in either 2020 or 2019 by the company to its shareholders.

## 7. Dividends paid and proposed

Dividends declared and paid by the Company during the year amounted to £ nil (2019: £8.0m).

## Notes to the parent company financial statements (continued)

### 8. Property, plant and equipment

	Short leasehold property £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 January 2019	1.1	12.3	13.4
Additions	–	0.5	0.5
Disposals	–	(0.1)	(0.1)
At 31 December 2019	1.1	12.7	13.8
Additions	–	0.4	0.4
Disposals	–	–	–
At 31 December 2020	1.1	13.1	14.2
<b>Depreciation</b>			
At 1 January 2019	1.1	10.8	11.9
Charge for the year	–	0.9	0.9
Disposals	–	(0.1)	(0.1)
At 31 December 2019	1.1	11.6	12.7
Charge for the year	–	0.8	0.8
Disposals	–	–	–
At 31 December 2020	1.1	12.4	13.5
<b>Net book value</b>			
At 1 January 2019	–	1.5	1.5
At 31 December 2019	–	1.1	1.1
At 31 December 2020	–	0.7	0.7

## Notes to the parent company financial statements (continued)

### 9. Intangible assets

	Software costs £m	Total £m
<b>Cost</b>		
At 1 January 2019	0.9	<b>0.9</b>
Disposals	(0.9)	<b>(0.9)</b>
At 31 December 2019	–	–
Additions	–	–
Disposals	–	–
<b>At 31 December 2020</b>	–	–
<b>Amortisation and impairment</b>		
At 1 January 2019	0.9	<b>0.9</b>
Amortisation	–	–
Disposals	(0.9)	<b>(0.9)</b>
At 31 December 2019	–	–
Additions	–	–
Amortisation	–	–
Disposals	–	–
<b>At 31 December 2020</b>	–	–
<b>Carrying value</b>		
At 1 January 2019	–	–
At 31 December 2019	–	–
<b>At 31 December 2020</b>	–	–

### 10. Right-of-use assets

	Land and buildings	Total
<b>Balance at 1 January 2019</b>	7.8	<b>7.8</b>
Additions	8.0	<b>8.0</b>
Depreciation charges	(2.6)	<b>(2.6)</b>
<b>Balance at 1 January 2020</b>	13.2	<b>13.2</b>
Additions	6.3	<b>6.3</b>
Depreciation charges	(3.2)	<b>(3.2)</b>
<b>Balance at 31 December 2020</b>	16.3	<b>16.3</b>

All right-of-use assets are related to former operational leases.

Additional information on right-of-use assets is disclosed in note 15 to the consolidated financial statements.

# Notes to the parent company financial statements (continued)

## 11. Investments

	Investments in subsidiaries £m	Total £m
<b>Cost</b>		
Balance at 1 January 2019	81.9	<b>81.9</b>
Additions	–	–
Impairments	–	–
Balance at 31 December 2019	81.9	<b>81.9</b>
Additions	–	–
Impairments	–	–
<b>Balance at 31 December 2020</b>	<b>81.9</b>	<b>81.9</b>
<b>Carrying value</b>		
At 1 January 2019	81.9	<b>81.9</b>
At 31 December 2019	81.9	<b>81.9</b>
<b>At 31 December 2020</b>	<b>81.9</b>	<b>81.9</b>

For a list of subsidiaries in which BAM Construct UK Limited has an investment see note 28 in the Group Financial Statements.

## 12. Trade and other receivables

	2020 £m	2019 £m
<b>Current</b>		
Other receivables	4.9	5.3
Amounts due from ultimate parent	181.5	199.0
Amounts due from other group undertakings	56.0	48.8
Amounts due from related parties	0.3	–
	<b>242.7</b>	<b>253.1</b>

## 13. Trade and other payables

	2020 £m	2019 £m
<b>Current</b>		
Amounts due to subsidiaries	256.0	284.9
Amounts due to other group undertakings	–	–
Right of use liabilities	2.3	2.0
Other payables	7.8	12.8
Accruals	3.7	3.2
	<b>269.8</b>	<b>302.9</b>
<b>Non-current</b>		
Right of use liabilities	16.4	11.8
Provisions	3.2	2.0
Deferred tax liability	4.6	4.0
	<b>24.2</b>	<b>17.8</b>

# Notes to the parent company financial statements (continued)

## 14. Lease liabilities

	2020	2019
	£m	£m
Lease liabilities	18.7	13.8
	18.7	13.8

As from 2019, all lease liabilities (former operational leases) are included in the balance sheet.

Additional information on lease liabilities is disclosed in note 20 to the consolidated financial statements.

## 15. Pensions and other post-employment benefit plans

The salaries and related pension expenses for staff employed in the BAM Construct UK Limited Group are incurred by the Parent Company. See BAM Construct UK consolidated financial statements for further details of salaries and pension schemes.

## 16. Provisions and contingent liabilities

See BAM Construct UK consolidated financial statements note 22 for further details of provisions and contingent liabilities.

## 17. Authorised and issued share capital

	Number	2020	Number	2019
		£m		£m
<b>Share capital</b>				
Authorised: ordinary shares of £1 each	40,000,000	40.0	40,000,000	40.0
Issued: ordinary shares of £1 each	40,000,000	40.0	40,000,000	40.0

## 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 undertakings of the ultimate parent undertaking, Royal BAM Group n.v.

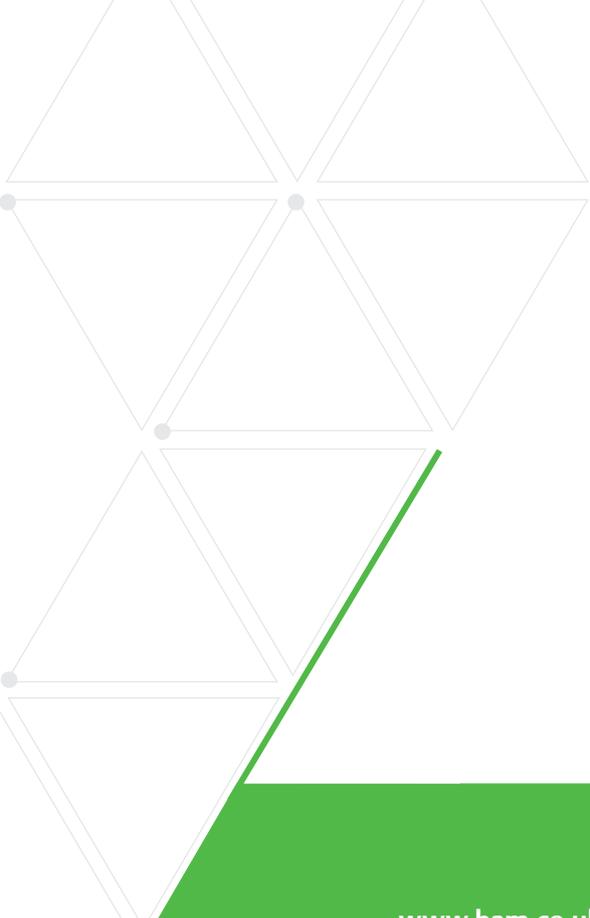
## 19. Ultimate group undertaking

The Company's immediate parent undertaking is BAM Group (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) are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

## 20. Subsequent event disclosure

There have been no other material events arising after the reporting date.



**[www.bam.co.uk](http://www.bam.co.uk)**

Here you will find downloadable PDFs of:  
BAM Construct UK Limited Report and Accounts  
BAM Construction Limited Report and Accounts  
BAM Properties Limited Report and Accounts  
BAM FM Limited Report and Accounts

**Registered office**

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Registered number: 3311781

