



BAM Construct UK Limited

Annual Report and Accounts 2019





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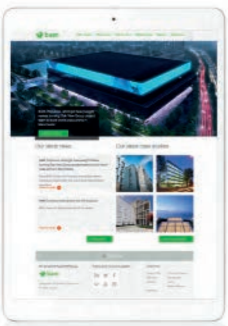
An overview of our 2019 performance, our future direction, and a review of the strategy underpinning our businesses.



Registered number
3311781

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

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

We have 14 offices around the country to enable us to offer an integrated service that operates close to local markets and our customers.

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

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

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

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

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

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.

Group turnover (£m)
£930.5m

2019	930.5
2018	949.8
2017	953.0

Profit before tax (£m)
£9.4m

2019	9.4
2018	19.4
2017	14.8

Order book (£m)
£1,402.9m

2019	1,402.9
2018	1,757.3
2017	1,624.0

Cash and cash equivalents (£m)
£85.8m

2019	85.8
2018	82.9
2017	82.3

Shareholder's funds at year end (£m)
£135.7m

2019	135.7
2018	173.6
2017	146.0

Working capital at year-end(£m)
£119.0m

2019	119.0
2018	104.8
2017	100.0

Riddor accidents*
24

2019	24
2018	19
2017	13

CO_2 emissions (tonnes)
10,149

2019	10,149
2018	11,488
2017	13,208

Value of cash and in-kind community support
£524,369

2019	524,369
2018	411,201
2017	437,871

Considerate Constructor Awards
12

sites were nominated for CCS awards

Apprentices had work experience on our sites in 2019
70

Directors' safety tours of sites
112

* Previous years excluded FM business values

Chief Executive's foreword

We continue to develop digital construction innovations and technology to significantly reduce programme delivery times and risks.

James Wimpenny
Chief Executive

2019 – our 150th year - was another year of profitable performance for BAM Construct UK, in spite of weak demand across the UK construction sector and a technical setback on one construction project, which required a financial provision to be recognised.

Our overall performance reflects strong client relationships, focusing on selecting opportunities with the right risk profiles, and our commitment to delivering projects safely and efficiently.

As a result of weaker demand and the financial provision, BAM Construct UK decreased profit before tax by 52% to £9.4m (2018: £19.4m) on slightly lower revenue of £930.5m (2018: £949.8m), resulting in a profit before tax margin of 1.0% (2018: 2.1%). Regarding the provision, the company is discussing a cost recovery plan with the client, the expert subcontractors involved and the insurer.

Our focus on cash resulted in another strong cash balance, including cash held by the parent company, of £285m (2018: £265m) and a strong balance sheet of £95.7m (2018: £133.6m).

Our employees' committed focus on working safely and reliably was embodied in our 'Your Safety is My Safety' programme. In 2019, we maintained our Incident Frequency Rate (the number of injured people per 1 million hours worked) at 3.7.

Marking Royal BAM Group's 150th anniversary, we participated in a global effort to plant 150,000 trees. Employees and stakeholders joined forces to plant many thousands across the UK. This effort is part of our wider commitment to our planet.

In 2019, Royal BAM Group set a new science-based target for greenhouse gas emission reduction, committing to reduce the CO2 intensity of its operations by 50 per cent by 2030 compared to 2015. BAM is one of the first companies in the construction industry to do this and joins a limited group of 204 global companies with validated science-based targets.

We aim to reduce our CO2 footprint through energy efficiency measures, early grid connection on projects and decarbonising our vehicles. Furthermore, we are committed to purchasing 100 per cent of electricity from renewable sources and to work together with partners to drive CO2 reductions through our value chain.

We continue to develop digital construction innovations and technology to significantly reduce programme delivery times and risks.

We are also at the forefront of developing better working environments that will attract more, talented people to choose construction as a career.

Together with flexible working consultants Timewise, we have launched a research project to re-design working on site, enabling more flexible working. The first pilots are underway. Insights will be shared in a bid to help improve overall wellbeing and mental health; helping tackle the long hours culture; attracting a diverse talent pool, including more women, and retaining more men, particularly in later life.

Brexit and Coronavirus

If demand was subdued in 2019 then in 2020 the situation has worsened.

Government negotiations on the future trading relationship with the EU continue and to mitigate programme delays our sites regularly review any supply chain risks to reduce the likelihood that materials are not available at the right time.

The economic impact of the Coronavirus pandemic on the construction sector has been more severe though. As a result of being appointed to a Department of Health framework we were selected to build - very quickly - two NHS Nightingale hospitals however coronavirus has reduced both construction productivity and demand, and increased development uncertainties. Whilst productivity may return to near normal levels, we expect demand will continue to be suppressed through 2020 and 2021, until government- spending stimuli take effect.

We have moved quickly to protect people’s physical safety and rapidly reduced costs, including reluctantly making some redundancies so that we remain competitive and well placed to service clients.

That capability to compete successfully is reinforced by the breadth and depth of our expertise, and our strong balance sheet and order book of order book of £1,402.9m as at 31 December 2019, which means we remain a strong, profitable, sustainable and reliable contractor.

Consequently, we continue to pursue only profitable work for clients that want us to design, construct and manage high-quality buildings using our low carbon and sustainable capabilities.

Conclusion

I believe that the built environment sector is one of the most exciting and rewarding sectors to work in. Buildings are central to people’s lives. The quality of what people experience in a building depends on the quality of the people involved in them. At BAM Construct UK we are proud to design, develop, build, maintain and manage some of the finest buildings in the country.

DocuSigned by:
James Wimpenny
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James Wimpenny
Chief Executive
BAM Construct UK
18 December 2020

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1 Our Midlands team worked with BAM Services Engineering to deliver the high-spec headquarters for IM Group on Fore Business Park. BAM FM has secured the contract to deliver hard FM services to the £27.5m Solihull building.

2 At the end of September we welcomed our latest group of Early Career new starters, with our annual BIG BAM Induction at Stephenson College, Coalville.

3 BAM Volunteers have recently been part of a collaboration with The Forest of Hearts and NHS Stratford Hospital to help create a Garden of Wellbeing in the hospital grounds.

4 Coal Drops Yard scheme in London won a highly regarded award at the Structural Steel Design Awards 2019. Judges commended the project for its delivery of Heatherwick Studio's 'kissing roofs' linking the two 19th Century buildings on the site.

The directors present their strategic report for the year ended 31 December 2019 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 2019 for the Group was £9.4m (2018: £19.4m). After taxation the profit attributable to the shareholder was £6.7m (2018: £15.5m). During the year a dividend of £8.0m was declared and paid (2018: £4.0m) and pension deficit repair contributions of £3.0m were made (2018: £3.1m).

During the year, BAM Construct UK delivered revenue of £930.5m (2018: £949.8m) and an operating profit of £6.5m (2018: £14.5m).

Revenue decreased fractionally during the year as BAM Construct UK continued to concentrate on construction projects that delivered higher margins and recognised the added value that BAM Construct UK brings to the project.

Work in hand has decreased 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 £1,402.9m (2018: £1,757.3m). The Board consider this to be a solid basis for growth and further improvement in profitability in 2020.

Cash and equivalents

Managing cashflow effectively is a key objective. Cash and short-term deposits continue to show a healthy position at £85.8m (2018: £82.9m). Further funds are placed on deposit with BAM Group nv and are identified in note 15. 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 39 days to pay an invoice. (6 months to December 2018: 41 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.

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 £119.0m (2018 restated: £104.8m).

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. Insufficient investment in future technologies
4. Health, safety and environmental risks
5. Skills shortage, including both staff and the wider supply chain

	Risk-description	Controls / Mitigation strategy
1 Economic and political factors	Following the passing of the Withdrawal Act and the onset of Covid 19, the UK's economy is very volatile.	• While the impact of Brexit is still unclear, BAM Construct UK has a flexible operating model that is able to accommodate change. We maintain positive close relationships with key subcontractors to ensure BAM remains a main contractor of choice. • We seek a balance of public and private sector work and procurement routes to avoid over dependency on any one source of work or procurement method. • 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.
2 Loss making projects	Operating on relatively slim contract margins, means we cannot afford to take on contracts that will ultimately deliver significant losses. Dealing with the impacts of loss- making projects drains significant resources from the business and the risk that senior management focuses on short term crisis management rather than planning for the long term.	• Royal BAM Group's stagegate approval system used on all tenders, ensures that all risk and opportunities are identified within the tender process. • Focusing on two-stage work and negotiated procurement enable the business to identify and price risk on a realistic basis. • Experienced and knowledgeable staff are involved in the pre- construction period to ensure risks are identified and mitigated or closed-out before construction commences. • By creating a learning culture and a willingness to share issues and experiences, allows BAM Construct UK to both avoid problematic projects as well as mitigating any losses that may be incurred.
3 Insufficient investment in future technologies	As the business moves towards a more digital environment, it is essential to ensure there are sufficient resources for investment in technology and new ways of working.	• Over the past two years BAM Construct UK has invested in 'BMS 2020'. This project looks to create a Business Management System that utilises new technologies and ways of working, to deliver projects efficiently and to the highest standards possible.
4 Health, safety and environmental risks	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.	• Implementation of rigorous training programmes, with particular emphasis in 2019 on the most frequent causes of lost time accidents. • A visible leadership approach with, for example, senior managers of both the company and our supply chain engaging in Directors' safety tours of sites. • Engaging with staff and supply chain with cultural workshops, safe-to-start meetings, toolbox talks and regular communications through all of our channels to ensure a mindset of constant vigilance about safety.
5 Skills shortage	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.	• 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. • We aim to maintain a culture of open collaboration, where individuals are encouraged to voice new ideas that helps to keep staff engaged and supports good levels of staff retention. • We work collaboratively and respectfully with our supply chain, treating subcontractors fairly and as project partners, to nurture long term relationships and ensure that BAM Construct UK remains a main contractor of choice.

As part of the strategy BAM Construct UK is supporting and participating in a drive to align core functions across Royal BAM Group to achieve aligned processes and procedures.

Future strategy
BAM Construct UK's principal priority for 2020 is to continue to improve its profitability by operating more efficiently and managing cash effectively.

Along with the other operating companies in Royal BAM Group, we are following a strategy covering the period up to 2020 entitled 'Building the present, creating the future'. The principal component of the strategy is to maintain focus on executing projects effectively and efficiently. This includes being selective about those projects where BAM can perform at its best and deliver a winning performance and where BAM can either compete effectively on scale or by offering differentiating capabilities.

The second component of the strategy is to develop BAM's complementary and value-added services to projects where these can create synergy and strengthen BAM's attractiveness as a project partner.

The final component of the strategy involves BAM being at the forefront of new digital construction and data management techniques. As part of the strategy BAM Construct UK is supporting and participating in a drive to align core functions across Royal BAM Group to achieve aligned processes and procedures in the fields of IT, human resources and financial accountability and reporting. This will support greater efficiency and enable all ten operating companies in Royal BAM Group to leverage their combined capabilities.

BAM Construct UK aims to maintain a balanced portfolio of construction work with commercial, education, and health, as our primary market segments. We also aim to secure work through frameworks, which enables us to to establish strong relationships.

Participation on frameworks also supports our overall objective of having a balance of public / and private sector work and avoiding over dependency on any one market segment or procurement route.

A key focus for 2020 is the roll out of BMS2020. 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.

BAM Construct UK will continue to focus in 2020 on extending the reach of its FM business into private sector markets and larger projects.

During 2019 the Group extended the scope of its services engineering offering, across all business units. This is now fully integrated within the Group and allows in house M&E solutions to be delivered wherever necessary.

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 it operates.

COVID 19 Pandemic
The COVID-19 pandemic has fundamentally impacted the UK economy and our industry. The Directors have been monitoring the situation closely since early 2020. From March 2020, the Directors introduced increased operational reporting and review across all sites 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.

Strategic report (continued)

Divisional review

BAM Construction

BAM Construction delivered loss before taxation of £2.4m (2018: profit £19.0m) on a revenue of £867.8m in 2019 (2018: £891.6m). The value of forward orders at year-end was £681.6m (2018: £1,043.8m).

Projects completed by BAM Construction during the year include: Bronte Girls Academy, Project Cavendish, Science Teaching Laboratory Huddersfield University, UCLAN Engineering and Innovation Building, Didsbury School, Studley Castle, Dover Leisure Centre and Breacon School.

BAM Construction secured a number of exciting projects during the year, including: 103 Colemore Row, One Causeway Park Egham, Maidstone School of Science and Technology, Northgate House (Jesus College Oxford), Gwent Police HQ, Madras College (Langlands) and Project Genie.

We maintain our strategy of forming long-term strategic alliances with clients that 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 2019, 56% was for public sector clients and 44% was for private sector clients. 62% was repeat business.

BAM FM

In 2019 BAM FM's turnover was £58.9m (2018: £54.4m). Profit before taxation was £3.6m (2018: £1.2m). Throughout the year, BAM FM successfully pursued its strategy of broadening its portfolio and won contracts with new clients, which has grown revenue by 8.3%.

BAM Properties

Through 2019, BAM Properties has been working on two major commercial developments in Scotland. Capital Square is a landmark office development in the heart of Edinburgh City Centre offering 122,500 square feet of Grade A accommodation and is targeted to complete in Q2 2020. Edinburgh. The second major development in the heart of Glasgow's most dynamic business district with excellent local amenities and easy access to transport links, is Atlantic Square. Building one has been pre-let to HMRC, with the second offering 96,650 square feet of Grade A accommodation scheduled for completion in 2020

BAM Properties are also developing opportunities at our site in Latitude, Leeds City centre. The development will comprise 463 studio, one, two and three bedroom apartments arranged across 17 and 21 storeys.

BAM Design

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

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

Approximately 18% of BAM Design's work in 2019 was for external clients. BAM Design intends to grow the proportion of external work in 2020 by increasing the amount of work it undertakes for other Operating Companies of Royal BAM Group and its work for external developers and architectural consultancies. The primary focus of BAM Design, however, will remain on adding value within our business.

BAM Plant

BAM Plant provides site accommodation, communications installation, 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 increased substantially, as well as developing an electric car policy.

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

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

1

2

4

3

1 The Department for Education (DfE) praised our team's collaborative spirit and flexibility during a customer feedback interview following the handover of Laurus Cheadle Hulme High School. The £20 million secondary school is one of three that we are building for the Laurus Trust.

2 The BAM Plant drone team

3 The £40m Bonus Arena Hull has won a Royal Institute of Chartered Surveyors regional award, in the Design Through Innovation category.

4 Our Western team delivered The Deanery CE Academy, the Department for Education's first BIM level 2 school, which is a leading exemplar in digital asset information.

1 Around 50 volunteers from across BAM, came together to plant the final batch of saplings to mark the end of our 150th anniversary year. The team were joined by CEO, James Wimpenny and Group CEO, Rob van Wingerden.

2 Our South East team handed over a £26m six-storey multi-storey car park scheme at Stansted Airport on time and to budget. It was procured via the Manchester Airport Group (MAG) framework and has a capacity of 2,846 spaces.

3 The Duke and Duchess of Cambridge officially opened the V&A Dundee.

4 BAM in the North East handed over the £12m Kepier School.The school was completed in under 51 weeks and the client was very pleased with result.

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.

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.

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

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

In 2019 the Group rolled out its BAM Mentoring programme. The programme has been introduced to encourage people to seek mentoring support, or to act as mentees, as part of their personal and career development. BAM Mentoring was launched in January 2019 and has already attracted more than 20 expressions of interest.

BAM Construct UK directly employed 2,329 people at 31 December 2019.

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 promote wellbeing throughout the company and among our supply chain through activities such as talks about detecting cancers, nurses attending sites to undertake health check and to offer advice.

In 2019, the main causes of accidents involving lost time related to manual handling, slips and trips, falling objects and lifting. Our accident rate is low, but pursuing further improvement especially in these areas is proving difficult. In 2019, the safety team developed a 'changing perceptions' workshop to challenge any perception that these kinds of accidents are inevitable.

Safety leadership teams have been set up in all business units to share best practice and to learn lessons from accidents.

Senior management in BAM display visible leadership on safety by conducting regular Directors' safety tours on construction sites. BAM Construction Directors achieved the targets set in undertaking 112 safety tours in 2019. BAM Construct view this visible safety leadership when Directors, senior BAM Staff and supply chain members come together and talk through site safety.

BAM Construct UK's Your Safety is My Safety programme has now bedded in and continues to place emphasis on individuals and collective responsibility for safety among all employees and particularly the value of proactive ownership in improving safety performance. Our safety performance depends on collaboration and engagement with our supply chain. As usual, our seven construction divisions staged knowledge sharing conferences with their supply chains as well as staging awards recognising good safety performance among our subcontractors.

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

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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 1 million people by 2020 through activities to above and beyond our day-to-day operations.

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.

We have 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 2019, our emissions reduced by 11% compared with 2018 and by 34% since 2015. During 2019 our electricity consumption reduced by 15% compared with 2018. These reductions are the result of a changing project mix (towards less energy intensive construction projects and project phases), reduced use of fuel from generators via grid connection and ongoing roll out of energy efficiency measures within our construction business (including more efficient temporary accommodation, LED site lighting, energy management and monitoring systems). We have also committed to purchase 100% renewable energy going forward.

Enhancing lives
Our enhancing lives programme encompasses a wide range of activities and support, by offering apprenticeships and work experience, supporting our own people to live healthier lives or to improve their education / training, and supporting organisations which have a positive social impact (charities, social enterprises). During 2019 we enhanced the lives of 26,700 people.

As part of our commitment to being a responsible contractor, all BAM Construction sites register with the Considerate Constructors Scheme (CCS). In 2019, our average CCS score was 40, against an industry average of 36. Our sites at the University of Southampton and English Martyrs School both achieved the highest BAM score in 2019 achieving 45/50 in their CCS audits.

2019 was the last year of our national charity partnership with CLIC Sargent. Since the partnership begun we have raised £83,000 that will enable CLIC Sargent to provide support to 430 children. During the first few months of 2020, it is expected that a new charity partnership will be selected, following consultation with staff.

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: www.bam.co.uk

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		**2019**		**2018**	
	Unit	**tCO2e**	**Quantity**	**tCO$_2$e**	**Quantity**
Electricity	kWh	2,219	7,999,957	2,849	9,462,940
Gas	kWh	190	1,031,652	177	962,216
Gas Oil	Ltr	2,072	751,131	2503	842,714
Diesel	Ltr	1,062	409,226	879	334,468
Company car (business)	Miles	274	1,434,862	395	2,115,291
Car allowance (business)	Miles	2,061	7,735,070	2005	7,523,904
Company car (commuting)	Miles	48	252,704	89	474,847
Car allowance (commuting)	Miles	853	3,202,331	849	3,187,330
Air miles (domestic)	p/km	195	763,585	321	-
Waste to landfill	tonnes	1,176	7,374	1420	27,049
100% renewable energy	kWh	(937)	2,027,941	(154)	332,550
Total		**10,149**		**11,488**	
Market based		9,212		11,334	

1 Colleagues from BAM Construct UK, BAM Nuttall and BAM PPP joined London's Pride march, alongside other construction-industry partners under the banner of Building Equality.

2 Our North West team installed a nine-foot hand-crafted bronze statue of Mahatma Gandhi in front of Manchester Cathedral. The statue marks what would have been Gandhi's 150th birthday, uncannily chiming with Royal BAM Group's own origin.

3 Colleagues in BAM Plant collected 27 Easter eggs and soft toys for the young patients who had to spend the break at Kettering General Hospital Children's ward.

4 BAMs annual Christmas Jumper Day raising money for our charity partener CLIC Sargent.

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.

Application of the Dutch Code by BAM Construct UK

As noted above, 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, which is available on the company's website.

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 five year 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 and safety and Environmental Social Governance) KPI's.

1.2 Risk management
Objectives are set as part of each five year business plan and each annual 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 and five year business 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.

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 value 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 Nuttall'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 independence is assured by the attendance of the company secretary, compliance officer and general counsel at board meetings. Monthly, quarterly and annual performance measures are reviewed by Group.

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 no other board positions
- The Company doesn't have an external auditor or 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 meetings and independence is assured via the presence of the company secretary, compliance officer and general counsel at board meetings
- The Company does not have committees as referred to in best practice 2.3.2
- The Company does not have non-executive directors

DocuSigned by:
James Wimpenny
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James Wimpenny
Director and Chief Executive
BAM Construct UK Limited
18 December 2020

Introduction
Strategic Report
Reports
Consolidated statements
Company statements

Director’s report

The Directors present their report and group accounts for the year ended 31 December 2019.

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.

Subsequent events
BAM Construct UK has deemed the need to re-pile the Faculty of Social Sciences building for the University of Sheffield an adjusting post balance sheet event and the impact of this event has been reflected at the balance sheet date. On the 23 March 2020 the Government in the UK announced a national lockdown in response to the COVID-19 pandemic. The Directors have considered the impact of COVID 19 and the impact on future operating performance of the Group and the uncertainties that this event create. The Directors consider that COVID 19 to be a non-adjusting post balance sheet event under IAS 10 and hence does not have an impact on the balances recorded on the balance sheet date.

The directors note that in 2017 the United Kingdom gave notice under Article 50 of the Treaty on European Union of its intention to withdraw from the European Union. At the time of preparing this report the final terms of a withdrawal agreement (if any) are not yet concluded. The directors are currently unable to estimate the impacts, if any, on the company’s property valuation or the prospects for its business generally. These uncertainties are not reflected in the statement of financial position as at 31 December 2019.

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 18 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.

In 2015 the company developed a vision that by 2020 BAM would be a consciously unbiased employer and set up a working party that met regularly throughout 2019 to review progress on improving diversity and inclusion in BAM.

Employee involvement
As reported in the Strategic Report (see page 14) 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.

There is an annual discretionary staff bonus to reward staff for the achievement of company targets.

Dividends
During the year a dividend of £8.0m was declared and paid (2018: £4.0m).

Subsidiaries
The principal activities of subsidiary undertakings are shown in Note 26 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 2019 and up to the date of the report:

- D Keillor
- JWR Wimpenny

Consideration of going concern
The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The Company has net current assets of £119m and net assets of £135.7m. The Company meets its day to day working capital requirements through the Cash held at year end of £85.8m, and through the inter-company pooling arrangement, for which BAM Construct UK has unrestricted access to its cash held in the cash pooling facilities. 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, please refer to note 21 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 opened under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for our 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 Group from 26 March to 30 March 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's financial forecasts for the period ending 31 December 2021, taking into consideration the current environment, show that the Company is expected to maintain positive cash flows, after considering plausible downside scenarios modelling reduced productivity and increased costs across the Group. The Company has been able to utilise certain government stimulus initiatives and the Directors have also received confirmation from the Company's ultimate parent entity, Royal BAM Group BV, that the Company will be provided financial support for a period of at least 12 months from the date of approval of the Company's financial statements.

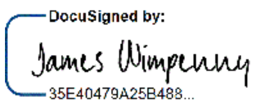
In view of the circumstances referred to above, the directors are satisfied that sufficient financial resources will be generated by Company or received from its ultimate parent entity, Royal BAM Group BV, for the foreseeable future. Accordingly, the directors of the Group believe that it is appropriate 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.

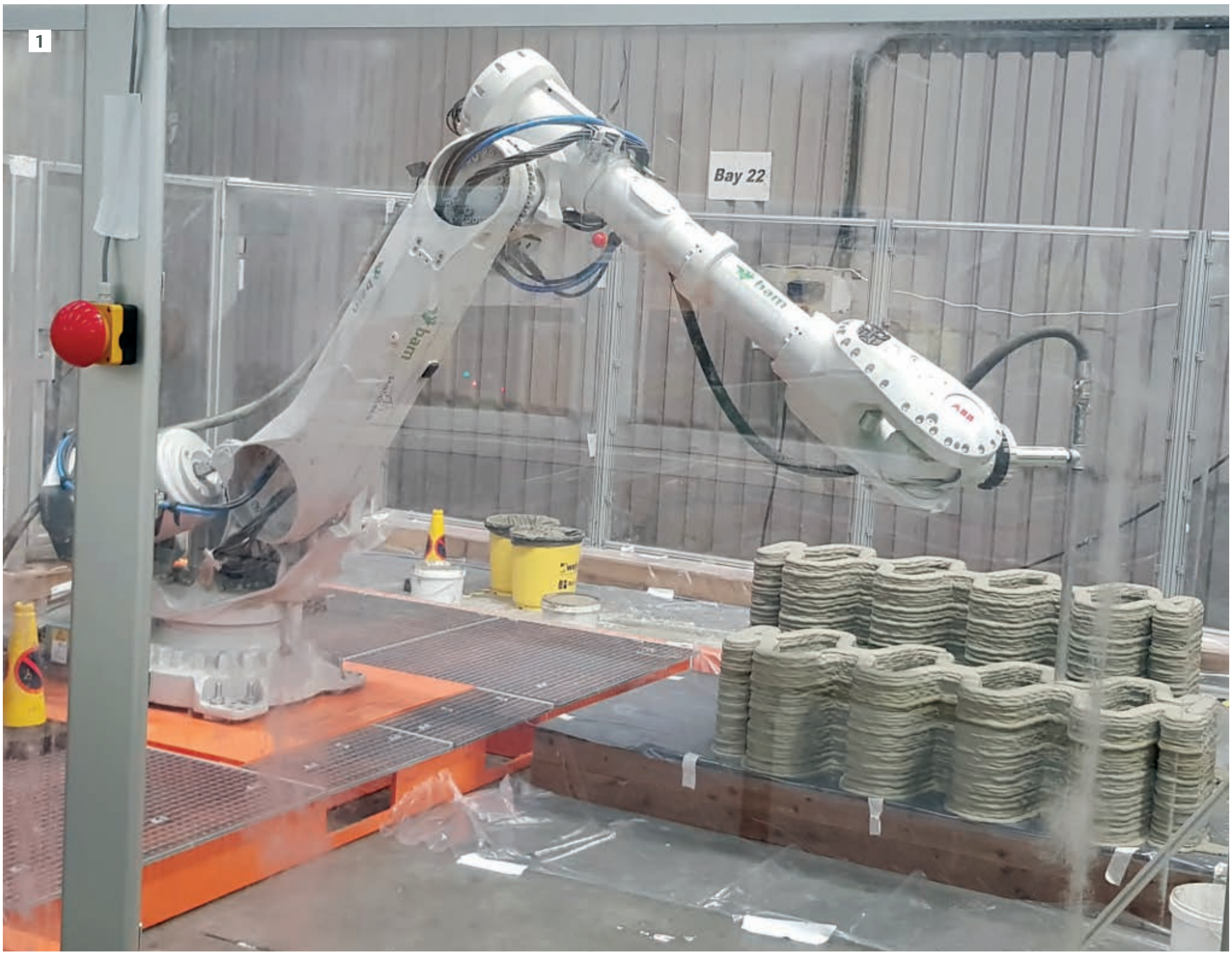
Auditors
Ernst & Young LLP will be re-appointed as the company's auditor in accordance with the elective resolution passed by the company under section 485 of the Companies Act 2006.

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

As our order book remains strong, we will be applying a conservative approach to 2020 and beyond due to the COVID-19 pandemic. The directors are also monitoring the changing UK political landscape resulting from uncertainty of the UK's exit from the EU at the end of 2020. Our industry remains in an uncertain position as the future impact of Brexit on issues such as access to labour and tariffs currently remain unresolved. The directors have put various measures in place to deal with various scenarios that may arise.



James Wimpenny
Director and Chief Executive
BAM Construct UK Limited
18 December 2020



1 The BAM Weber Beamix 3D printer being showcased at Heathrow Airport, uses a unique concrete mortar mix to make elements that can be combined into structures such as bridges, retaining walls, outlet details, street furniture and even skate ramps.

2 BAM Construct UK looks to make use of technology on site wherever possible.

3 A group of BAM volunteers filled 15 bags of litter from the neighbouring streets, in support of the Great British Spring Clean, an organisation aimed at inspiring people to reduce litter pollution.

4 Three Snowhill, a 19 storey city centre office development, is a true 'landmark' building at the gateway to Birmingham's commercial Quarter.

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 Financial Reporting Standards (IFRS) as adopted by the EU 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

Opinion
We have audited the financial statements of BAM Construct UK ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 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 27 for the consolidated financial statements and Notes 1 to 20 for the company financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; 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 below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – effects of COVID-19
We draw attention to note 24 of the consolidated financial statements, and note 20 of the company financial statements, which describes the potential operational disruption, resulting from the temporary closure of certain sites so new working practices could be implemented as a result of COVID-19. Our opinion is not modified in respect of this matter

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

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

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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.

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

Use of our report

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

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

21 December 2020

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.

BAM in the Western region handed over the £30m project, The UK Hydrographic Office. The 11,000sqm office building incorporates the latest lighting, ventilation and data technology providing a collaborative and flexible workspace.

Consolidated statement of comprehensive income

For the year ended 31 December	Notes	2019 £m	2018 £m
Continuing operations			
Revenue	3	**930.5**	949.8
Cost of sales		**(892.3)**	(889.0)
Gross profit		**38.2**	60.8
Administration and other expenses		**(30.9)**	(38.9)
Exceptional loss pension GMP equalisation	20	**–**	(7.6)
Other operating income		**(0.8)**	0.2
Operating profit	5	**6.5**	14.5
Finance income	9	**2.6**	1.9
Finance expense	19	**(0.6)**	–
Share of the profit of associates and joint ventures	4	**0.9**	3.0
Profit before tax from continuing operations		**9.4**	19.4
Income tax expense	10	**(2.7)**	(3.9)
Profit for the year from continuing operations		**6.7**	15.5
Profit for the year		**6.7**	15.5
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Re-measurement (losses) / gains on defined benefit plans, net of tax		**(36.6)**	16.1
Total comprehensive (expense) / income for the year		**(29.9)**	31.6
(Loss) / profit attributable to:			
Equity holders of the Company		**(29.9)**	31.6
Total comprehensive (expense) / income attributable to:			
Equity holders of the Company		**(29.9)**	31.6

Consolidated statement of financial position

At 31December	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	12	**5.0**	5.4
Intangible assets	13	**–**	–
Right-of-use assets	14	**17.0**	–
Investment in an associate or joint venture	4	**5.1**	4.2
Retentions	15	**15.2**	12.6
Loans to Joint venture		**6.8**	4.3
Defined benefit pension asset	20	**23.6**	63.2
Deferred tax assets	10	**0.6**	0.6
Total non-current assets		**73.3**	90.3
Current assets			
Inventories		**63.7**	42.4
Trade and other receivables	15	**269.0**	263.2
Income tax receivable		**4.2**	0.8
Amounts due from customers for contract work (contract asset)		**39.9**	43.4
Prepayments and accrued income		**0.8**	2.7
Cash and short-term deposits		**85.8**	82.9
Total current assets		**463.4**	435.4
Total assets		**536.7**	525.7

Consolidated statement of financial position

At 31 December	Notes	2019 £m	2018 £m
Current liabilities:			
Trade and other payables	17	**284.8**	281.3
Lease liabilities	19	**5.1**	–
Amounts due to customers under construction contracts (contract liability)		**54.5**	49.3
Income tax payable		**–**	–
Total current liabilities		**344.4**	330.6
Non-current liabilities:			
Lease liabilities	19	**12.6**	–
Trade and other payables	17	**10.0**	6.9
Deferred tax liabilities	10	**4.0**	10.8
Provisions	21	**30.0**	3.8
Total non-current liabilities		**56.6**	21.5
Total liabilities		**401.0**	352.1
Equity			
Share capital	22	**40.0**	40.0
Retained earnings		**95.7**	133.6
Equity attributable to equity holders of the Parent		**135.7**	173.6
Total equity		**135.7**	173.6
Total equity and liabilities		**536.7**	525.7

Approved by the Board on 18 December 2020 and signed on its behalf by:

DocuSigned by:
James Wimpenny
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James Wimpenny
Director and Chief Executive

Consolidated statement of changes in equity

		Attributable to the equity holders of the parent		
		Share capital	Retained earnings	**Total**
For the year ended 31 December 2019	Notes	£m	£m	**£m**
Balance at 1 January 2018	22	40.0	106.0	**146.0**
Profit for the year		–	15.5	**15.5**
Other comprehensive income for the year, net of income tax		–	16.1	**16.1**
Total comprehensive income for the year		–	31.6	**31.6**
Payment of dividends	11	–	(4.0)	**(4.0)**
Balance at 31 December 2018	22	40.0	133.6	**173.6**
Profit for the year		–	6.7	**6.7**
Other comprehensive expense for the year, net of income tax		–	(36.6)	**(36.6)**
Total comprehensive expense for the year		–	(29.9)	**(29.9)**
Payment of dividends	11	–	(8.0)	**(8.0)**
Balance at 31 December 2019	22	40.0	95.7	**135.7**

Registered number
3311781

Consolidated cash flow statement

For the year ended 31 December	Notes	2019 £m	2018 £m
Operating activities			
Profit after tax from continuing operations		**6.7**	15.5
Non-cash adjustments to reconcile profit after tax to net cash flows			
Income tax expense recognised in profit or loss	10	**2.7**	3.9
Depreciation and amortisation of non-current assets	12	**1.9**	2.0
Depreciation of right-of-use assets	14	**9.8**	–
Amortisation of intangible assets	13	**–**	0.4
Decrease / increase in pension assets	20	**3.0**	(0.1)
Result on sale of property, plant and equipment		**(0.1)**	(0.2)
Share of result of joint ventures		**(0.9)**	(3.0)
Finance income	9	**(2.6)**	(1.9)
Finance expense		**0.6**	–
Working capital adjustments			
Decrease / (increase) in trade and other receivables	15	**10.9**	(15.2)
Decrease / (increase) in amounts due from customers under construction contracts		**3.4**	(10.9)
Increase in inventories		**(21.2)**	(8.0)
(Increase) / decrease in other assets	15	**(23.1)**	9.4
Increase in trade and other payables	17	**24.3**	17.5
(Increase) / decrease in amounts due to customers under construction contracts		**5.2**	(0.5)
Decrease / (increase) in other liabilities		**(1.3)**	0.4
Finance income received		**2.6**	1.9
Finance expense paid		**(0.6)**	–
Income tax paid		**(3.1)**	(3.9)
Net cash generated by operating activities		**18.2**	7.3
Investing activities			
Purchase of property, plant and equipment	12	**(1.6)**	(2.9)
Proceeds from disposal of property, plant and equipment	12	**0.2**	0.2
Receipt of Governments grants		**2.4**	–
Net cash generated / (used) in investing activities		**1.0**	(2.7)
Cash flows used in financing activities			
Repayment of principal portion of lease liabilities		**(8.3)**	–
Dividends paid	11	**(8.0)**	(4.0)
Net cash flows used in financing activities		**(16.3)**	(4.0)
Net increase in cash and cash equivalents		**2.9**	0.6
Cash and cash equivalents at the beginning of the year		**82.9**	82.3
Cash and cash equivalents at the end of the year		**85.8**	82.9

Notes to the consolidated financial statements

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 2019 were authorised for issue by the board of directors on 18 December 2020 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 Financial Reporting Standards (IFRS) as adopted by the European Union and 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 have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The Company has net current assets of £119m and net assets of £135.7m. The Company meets its day to day working capital requirements through the Cash held at year end of £85.8m, and through the inter-company pooling arrangement, for which BAM Construct UK has unrestricted access to its cash held in the cash pooling facilities. 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, please refer to note 21 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 opened under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for our 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 Group from 26 March to 30 March 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's financial forecasts for the period ending 31 December 2021, taking into consideration the current environment, show that the Company is expected to maintain positive cash flows, after considering plausible downside scenarios modelling reduced productivity and increased costs across the Group. The Company has been able to utilise certain government stimulus initiatives and the Directors have also received confirmation from the Company's ultimate parent entity, Royal BAM Group BV, that the Company will be provided financial support for a period of at least 12 months from the date of approval of the Company's financial statements.

In view of the circumstances referred to above, the directors are satisfied that sufficient financial resources will be generated by Company or received from its ultimate parent entity, Royal BAM Group BV, for the foreseeable future. Accordingly, the directors of the Group believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

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 2018 and 2019.

2. Accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. 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;
- 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;
- 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.

2.2 Basis of consolidation (continued)

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.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

IFRS 9, 'Prepayment Features with Negative Compensation'

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendment to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have a material impact on the financial statements of the Group.

IFRS 16, 'Leases'

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

The Group has lease contracts for various items of land and buildings, equipment and installations, IT equipment, cars and other. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease.

Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Adoption of IFRS 16

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases for which the Group is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

For leases previously recorded as financial lease, the Group did not change the carrying amounts of recognised assets and liabilities as of initial application date. The Group used the transition method IFRS 16.C11 to reclass the previous reported finance lease liabilities and property, plant and equipment to the lease liabilities and right-of-use assets respectively. The requirements of IFRS 16 are applied to these leases as of 1 January 2019.

At transition, for leases classified as operating leases under IAS 17, lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rates as at 1 January 2019 (weighted average 2.1 per cent). The right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and provisions for onerous contracts related to such leases.

Transition method

The group decided to implement IFRS 16 using the modified retrospective approach in accordance with IFRS 16 C5(b) and IFRS 16 C8(b)(ii). This means that all leases previously classified as operating leases under IAS 17 shall have a right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Practical expedients at initial application (transition options) elected by the Group as included in the standard.

The Group:

- applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at initial application date ('grandfathering');
- opted on a lease-by-lease basis the practical expedient of IFRS 16.C10(c) for leases for which the lease term ends within 12 months of the date of initial application; this practical expedient is mostly applied for some non-recurring leases;
- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Practical expedients and recognition exemptions elected by the Group as included in the standard.

The Group:

- used the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short- term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets');
- 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;

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

- 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.

New accounting principles

The new accounting principles regarding the recognition of a right-of-use asset have been included in paragraph 2.6 Right-of-use assets and the accounting principles regarding the lease liabilities in 2.5 r) Lease liabilities.

IFRS 16 leases

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The subsequent measurement principles of IFRS 16 are only applied after that date.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	2019 **£m**
Operating lease commitments disclosed as at 31 December 2018	**16.8**
Discounted using the incremental borrowing rate of at the date of initial application	**(0.9)**
Add: Additional lease contracts identified	**4.3**
Add: finance lease liabilities recognised as at 31 December 2018	–
(Less): short-term lease commitments recognised on a straight-line basis as expense	–
Add/(Less): non-lease components	**(2.3)**
Add/(Less): adjustments as a result of different treatment of extension and termination options	**(1.7)**
Lease liability recognised as per 1 January 2019	**16.2**

The effect of the adoption of IFRS 16 is as follows on the statement of financial position as at 1 January 2019:

- right-of-use assets of £16.2 million were recognised and presented separately in the statement of financial position.
- lease liabilities of £16.2 million were recognised.

In relation to the leases under IFRS 16, the Group in 2019 has recognized depreciation (£9.8 million) and interest costs (£0.6 million), instead of operating lease expense. Therefore also performance measures like EBIDTA are affected. In the statement of cash flows the interest paid related to these leases is presented as part of the cash flow from operating activities (£0.6 million), while the repayments are presented as part of the cash flows from financing activities (£8.9 million).

There is no net impact on retained earnings on 1 January 2019, since the Group applied the modified retrospective approach, option B (IFRS16.C8(b)(ii).

'Annual Improvements to IFRSs - 2015-2017 Cycle'

The Group has applied the amendments for the first time for their annual reporting period commencing 1 January 2019 in connection with the 'Annual Improvements to IFRSs 2015-2017 Cycle'. The adoption of these amendments did not have a material impact on the current period or any prior period and is not likely to affect future periods.

IFRIC 23, 'Uncertainty over Income Tax Treatment'

Furthermore, the IFRIC 23 interpretation on 'Uncertainty over Income Tax Treatment' was issued. The Group determined, based on its tax compliance and transfer pricing policy study, that it is probable that its tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities. The interpretation did not have a material impact on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC amendments effective as per 1 January 2019 that have a material impact on the Group.

2. Accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

New standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 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, except for the following set out below:

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.

The Group is required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted. These amendments will apply only to any future business combinations of the Group.

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 date of the statement of financial position and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

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.

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.

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2. Accounting policies (continued)

2.4 Judgements and key sources of estimation uncertainty (continued)

Revenue Recognition

Contract revenue and costs

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

In determining the stage of completion the Group has efficient, coordinated systems for cost estimating, forecasting and revenue and costs reporting. The system also requires a consistent judgment (forecast) of the final outcome of the project, including variance analyses of divergences compared with earlier assessment dates. Estimates are an inherent part of this assessment and actual future outcome may deviate from the estimated outcome, specifically for major and complex construction contracts. However, historical experience has also shown that estimates are, on the whole, sufficiently reliable. See paragraph 2.5 for further explanation regarding the recognition of revenue for construction contracts.

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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

b) Revenue recognition

Construction contracts

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

The following 5 steps are identified within IFRS 15:

- Step 1 'Identify the contract with the customer': Agreement between two or more parties that creates enforceable rights 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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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).

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

Capitalised cost

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

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

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

Costs of inefficiencies

The 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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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 an 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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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 assest comprises non-integrated software. The initial cost is capitised 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.

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).

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2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the 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.

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 2. 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. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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.

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 (2018: £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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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.

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.

2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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 20.

n) Research and development

Research and development costs, which predominatley 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.

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.

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2. Accounting policies (continued)

2.5 Significant accounting policies (continued)

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 14.

For further details regarding the transition method applied, see paragraph 2.3.

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.

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 14 Right-of-use assets and note 19 Lease liabilities.

For further details regarding the transition method applied, see paragraph 2.3.

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.

3. Revenue

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

	2019	2018
	£m	£m
Construction contracts revenue	**869.7**	892.0
Facilities Management services revenue	**59.0**	57.4
Rental income	**0.3**	0.4
Properties sales	**1.5**	–
Revenue from continuing operations	**930.5**	949.8

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

	2019	2018
	£m	£m
Aggregate amount of costs incurred and recognised profits (less losses) to date	**2,183.3**	1,878.5
Retention asset	**40.1**	40.2
Advances received	**1.0**	4.9

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:

	2019	2018
	£m	£m
Up to 1 year	**678.0**	799.9
2 to 5 years	**269.6**	458.2
	947.6	1,258.1
Over 5 years	**455.3**	499.2
Total	**1,402.9**	1,757.3

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.

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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 2019 that is individually material to the Group.

Nature of investment in the joint venture in 2019 and 2018:

	Principal activity	Country of incorporation	**% Share 2019**	% Share 2018
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.

BAM TCP Atlantic Square Limited	**2019 £m**	2018 £m
Current assets	**26.3**	19.9
Non-current assets	**–**	–
Current liabilities	**(20.4)**	(9.1)
Non-current liabilities	**–**	(2.4)
Net assets	**5.9**	8.4
Of which:		
Cash and cash equivalents	**0.4**	11.4
Current financial liabilities	**–**	–
Non-current financial liabilities	**–**	–
Revenue	**20.2**	19.7
Net result	**1.8**	6.1
Other comprehensive income	**–**	–
Of which:		
Finance income	**–**	–
Finance expense	**–**	–
Income tax	**0.4**	1.4
Net result	**5.9**	6.1
Share in net result	**0.9**	3.0
Net assets	**5.9**	8.4
Carrying amount	**5.1**	4.2

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.

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.

	2019	2018
Share in net result joint venture BAM TCP Atlantic Square	**0.9**	3.0
Share in net result property development joint ventures that are not material to the Group	**–**	–
Share in net result other joint ventures that are not individually material to the Group	**–**	–
	0.9	3.0
Share in equity joint venture BAM TCP Atlantic Square	**5.1**	4.2
Share in equity property development joint ventures that are not material to the Group	**–**	–
Share in equity other joint ventures that are not individually material to the Group	**–**	–
	5.1	4.2

5. Operating profit

		2019	2018
		£m	£m
This is stated after charging:			
Depreciation of owned assets		**1.9**	2.0
Depreciation of right-of use assets		**9.8**	–
Amortisation of intangible assets		**–**	0.4
Operating lease rentals	- land and building	**–**	3.3
	- plant and vehicles	**–**	1.3

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

6. Auditor's remuneration

	2019	2018
	£000	£000
Audit of Group's consolidated financial statements	**115**	105
Audit of Parent Company's financial statements	**94**	91
Audit of Parent Company's subsidiaries	**342**	334
Total audit	**551**	530
Audit-related fees	**–**	36
Total fees paid by the Group	**551**	566

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.

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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.

	2019	2018
	£m	£m
Trade and other payables (Note 17)	**78.5**	89.3
Less: cash and short-term deposits	**(85.8)**	(82.9)
Net deficit	**(7.3)**	6.4
Shareholders' equity	**135.7**	173.6
Capital and net debt	**128.4**	180.0
Gearing ratio %	**(5.7)**	3.6

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. 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 2019 and 2018.

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.

	2019	2018
	£m	£m
Staff costs		
Short-term employee benefits	**113.5**	114.1
Social security charges incurred by the employer	**12.0**	11.8
Retirement benefits	**12.6**	11.6
Termination benefits paid	**1.0**	–
Total staff costs incurred	**139.1**	137.5

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

	2019	2018
	No.	No.
Staff	**1,653**	1,664
Operatives	**505**	577
	2,158	2,241

8. Staff costs and directors' remuneration (continued)

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.

	2019 £000	2018 £000
Directors' remuneration		
Short-term employee benefits	**629**	851
Social security charges incurred by the employer	**87**	117
Total compensation paid	**716**	968

The highest paid director received total emoluments (including benefits but excluding social security charges levied on the employer) of £332,179 in 2019 (2018: £450,514).

	2019 £000	2018 £000
Amounts receivable under long term incentive plans	**63**	13
Number of directors who received shares in respect of qualifying services	**1**	1

The highest paid director in 2019 and 2018 received shares under the ultimate group undertaking's long term incentive scheme.

Share Based Payments

The directors of BAM Construct UK participate 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.

9. Finance income

	2019 £m	2018 £m
Bank interest receivable	**0.4**	0.4
Interest receivable from wider group undertakings	**1.5**	1.3
Capitalised interest	**0.7**	0.2
	2.6	1.9

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

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10. Income tax

a) Income tax expense

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

	2019	2018
	£m	£m
Current income tax:		
Current income tax charge	**2.0**	2.0
Adjustments in respect of current income tax of previous year	**–**	–
Current tax charge	**2.0**	2.0
Deferred tax:		
Relating to origination and reversal of temporary differences	**0.7**	1.9
Total deferred tax	**0.7**	1.9
Income tax expense reported in the profit or loss	**2.7**	3.9

Deferred tax relating to items recognised in other comprehensive income during the year:		
Net (gain) / loss on re-measurement gains and losses on defined benefit plans	**(7.5)**	3.3
Income tax recognised in other comprehensive income	**(7.5)**	3.3

b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2019 is higher (2018: higher) than the statutory corporation tax rate enacted in the UK. The corporation tax rate of 19.00% for 2019 (2018: 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).

	2019	2018
	£m	£m
Accounting profit before tax	**9.4**	19.4
Profit on ordinary activities multiplied by UK Corporation tax rate of 19.00% (2018: 19.00%)	**1.9**	3.7
Adjustments in respect of current income tax of previous years	**–**	0.4
Income not taxable for tax purposes	**–**	(0.6)
Effect of changes in tax rate	**0.8**	0.4
Income tax expense reported in the statement of profit or loss	**2.7**	3.9

c) Factors that may affect future tax charges

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

d) Deferred tax

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

	2019	2018
	£m	£m
Deferred tax asset		
Balance at 1 January	**0.6**	2.1
IFRS 15 reclassification	–	0.9
Tax (expense) recognised in the profit and loss	**–**	(2.4)
Balance at 31 December	**0.6**	0.6

10. Income tax (continued)

d) Deferred tax (continued)

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.

Deferred tax liability		
Balance at 1 January	**(10.8)**	(8.0)
Tax (expense) / income recognised in the profit and loss	**(0.7)**	0.5
Tax income / (expense) recognised in the OCI	**7.5**	(3.3)
Balance at 31 December	**(4.0)**	(10.8)

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 2019 or 2019 by the group to its shareholders.

11. Dividends paid and proposed

Dividends declared and paid during the year amounted to £8.0m (2018: £4.0m).

12. Tangible fixed assets

	Short leasehold property £m	Plant, machinery and vehicles £m	Fixtures and office equipment £m	**Total £m**
Cost				
Balance at 1 January 2018	1.1	12.2	11.2	**24.5**
Additions	–	1.8	1.1	**2.9**
Disposals	–	(0.8)	(0.4)	**(1.2)**
Reclassification	–	(1.5)	1.4	**(0.1)**
Balance at 31 December 2018	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**
Depreciation				
Balance at 1 January 2018	1.1	9.2	9.7	**20.0**
Charge for the year	–	1.2	0.8	**2.0**
Disposals	–	(0.8)	(0.4)	**(1.2)**
Reclassification	–	(1.5)	1.4	**(0.1)**
Balance at 31 December 2018	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**
Net book value				
At 1 January 2018	–	3.0	1.5	4.5
At 31 December 2018	–	3.6	1.8	5.4
At 31 December 2019	**–**	**3.6**	**1.4**	**5.0**

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12. Tangible fixed assets (continued)

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 (2018: £0.2m) 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 (2018: £0.5m).

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 £16.5m (2018: £15.7m)

13. Intangible assets

	Software costs £m	**Total £m**
Cost		
Balance at 1 January 2018	3.6	**3.6**
Disposal	(2.7)	**(2.7)**
Balance at 31 December 2018	0.9	**0.9**
Additions	–	–
Disposal	(0.9)	**(0.9)**
Balance at 31 December 2019	–	–
Amortisation and impairment		
Balance at 1 January 2018	3.2	**3.2**
Charge for the year	0.4	**0.4**
Disposal	(2.7)	**(2.7)**
Balance at 31 December 2018	0.9	**0.9**
Additions	–	–
Charge for the year	–	–
Disposal	(0.9)	**(0.9)**
Balance at 31 December 2019	–	–
Carrying value		
At 1 January 2018	0.4	**0.4**
At 31 December 2018	–	–
At 31 December 2019	–	–

14. Right-of-use assets

	Land and buildings	Equipment and installation	IT equipment	Cars	Other	Total
	£m	£m	£m	£m	£m	£m
As at 1 January 2019	**7.8**	**5.6**	**0.4**	**2.2**	**0.2**	**16.2**
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
As at 31 December 2019	**13.2**	**1.9**	**0.2**	**1.5**	**0.2**	**17.0**

Amount included as per 1 January 2019 concern the former operational leases. See paragraph 2.3.

See note 19 Lease liabilities for the corresponding lease liabilities.

15. Trade and other receivables

	2019	2018
	£m	£m
Current		
Trade receivables	**37.1**	51.0
Retentions	**24.9**	27.6
Amounts due from ultimate parent	**199.0**	177.1
Amounts due from other group undertakings	**0.7**	1.0
Other debtors	**7.3**	6.5
	269.0	263.2
Non-current		
Loans to Joint venture	**6.8**	4.3
Retentions	**15.2**	12.6
	22.0	16.9

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 siginificant 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.

Retentions relate to amounts retained by customers on progress billings.

	2019	2018
	£m	£m
Allowance for doubtful debts		
Balance at 1 January	**0.8**	1.4
Change for year	**–**	-
Utilised	**–**	(0.6)
Balance at 31 December	**0.8**	0.8
Current	**0.8**	0.8
Non-current	**–**	-

15. Trade and other receivables (continued)

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

	2019 £m	2018 £m
Aged analysis of trade receivables		
Not past due	**30.0**	43.8
60 - 90 days	**5.3**	4.8
90 - 120 days	**0.4**	0.8
Over 120 days	**1.4**	1.6
	37.1	51.0

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.

16. Cash and short-term deposits

	2019 £m	2018 £m
Cash at banks and on hand	**85.8**	82.9

£2.6m (2018: £3.0m) of cash at bank and on hand is not available to be utilised without joint agreement with third parties.

17. Trade and other payables

	2019 £m	2018 £m
Current		
Lease liabilities	**5.1**	–
Trade payables	**65.5**	71.3
Accrued costs completed projects	**44.6**	54.5
Accrued costs work in progress	**156.8**	127.7
Amounts due to ultimate parent	**0.2**	1.5
Other creditors	**12.8**	16.5
Accruals and deferred income	**4.9**	9.8
	289.9	281.3
Non-current		
Retentions	**10.0**	6.9

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

18. 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 £25.4m (2018: £25.6m) and this constitutes 68% (2018: 50%) 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.

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:

Year ended 31 December 2019	Carrying amount	<1 year	1-5 years	>5 years
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

Year ended 31 December 2018	Carrying amount	<1 year	1-5 years	>5 years
Trade and other payables	96.2	89.3	6.9	–
Lease liabilities	–	–	–	–
	96.2	89.3	6.9	–

18. Financial assets and liabilities (continued)

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.

19. 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 2.1 per cent as per 31 December 2019.

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). The operational lease liabilities in 2018 were shown as off-balance lease commitments.

See note 14 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 2019 £m
As at 1 January 2019	**16.2**
Additions	9.8
Accretion of interest	0.6
Payments	(8.9)
As at 31 December 2019	**17.7**
Current	5.1
Non-current	12.6
As at 31 December 2019	**17.7**

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

	Lease liabilities 2019 £m
Up to 1 year	5.2
1 to 5 years	9.4
Over 5 years	5.4
	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.

19. Lease liabilities (continued)

Expenses

The following are the amounts recognised in profit or loss:

	Note	2019 £m
Depreciation expense of right-of-use assets	14	9.8
Interest expense on lease liabilities		0.6
Rent expenses - short term leases		–
Rent expenses - leases of low value		–
Rent expenses – variable lease payments		–
Total		**10.4**

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:

	2019 £m
Payments	8.9
Interest	(0.6)
Repayments of principal portion of lease liabilities	**8.3**

The Group had no non-cash additions to right-of-use assets and lease liabilities in 2019.

The Group has no lease contracts that have not yet commenced as at 31 December 2019.

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

20. 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 the year 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 Lloyds case, overall pension benefits in the United Kingdom are equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"). This equalization affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. Under IAS 19/FRS 101, the additional liability was immediately recognized in 2018 as a plan amendment. The additional liability for the Group amounted to £7.6 million and has been recognised as an exceptional loss in the statement of comprehensive income.

20. 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:

HBG UK / HBG GA Schemes	**2019 £m**	2018 £m
Ordinary contributions	–	0.5
Special contributions	**3.4**	3.7
	3.4	4.2

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 2019**	31 December 2018
Discount rate(s)	**2.1%**	2.8%
Expected rate(s) of salary increase	**3.6%**	3.6%
Pension growth rate	**2.20 - 3.00%**	2.40-3.30%

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, £0.7m (2018: £1.0m) 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	**2019 £m**	2018 £m
Net finance income	**1.8**	1.2
Administration expenses	**(0.7)**	(1.0)
	1.1	0.2

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

Amounts recognised in other comprehensive income:

HBG UK Scheme	2019 £m	2018 £m
Return on plan assets (excluding amounts included in net interest expense)	**(25.7)**	15.0
Actuarial loss / (gain) arising from changes in demographic assumptions	**6.4**	(6.0)
Actuarial loss / (gain) arising from changes in financial assumptions	**34.3**	(21.3)
Actuarial (gain) arising from experience adjustments	**(1.6)**	-
Total remeasurements recognised in other comprehensive loss / (income)	**13.4**	(12.3)
Tax effect	**(2.3)**	2.1
Other comprehensive (loss) / income (net of tax)	**11.1**	(10.2)

HBG GA Scheme	2019 £m	2018 £m
Return on plan assets (excluding amounts included in net interest expense)	**19.4**	4.5
Actuarial loss / (gain) arising from changes in demographic assumptions	**2.9**	(3.9)
Actuarial loss / (gain) arising from changes in financial assumptions	**8.4**	(4.0)
Actuarial (gain) arising from experience adjustments	**–**	(3.7)
Total remeasurements recognised in other comprehensive income	**30.7**	(7.1)
Tax effect	**(5.2)**	1.2
Other comprehensive loss / (income) (net of tax)	**25.5**	(5.9)

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:

	2019 £m	2018 £m
Present value of funded defined benefit obligation	**(475.5)**	(427.9)
Fair value of plan assets	**499.1**	491.1
	23.6	63.2

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

HBG UK / HBG GA Schemes	2019 £m	2018 £m
Opening defined benefit obligation	**427.9**	471.1
Past service gain	**–**	7.6
Interest cost	**11.8**	11.5
Actuarial gain / (loss)	**50.4**	(38.9)
Benefits paid	**(14.6)**	(23.3)
Closing defined benefit obligation	**475.5**	427.9

20. 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:

HBG UK Schemes	**2019 years**	2018 years
Implied life expectancy at 65		
Male currently aged 65	**22.8**	22.7
Male currently aged 40	**24.5**	24.4
Female currently aged 65	**24.4**	24.3
Female currently aged 40	**26.2**	26.1

HBG GA Schemes	**2019 years**	2018 years
Implied life expectancy at 65		
Male currently aged 65	**22.4**	22.4
Male currently aged 40	**24.7**	24.6
Female currently aged 65	**24.1**	24.0
Female currently aged 40	**26.4**	26.3

20. 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

		Impact on defined benefit obligation £m	
As at December 2019	Change in assumption	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)

		Impact on defined benefit obligation £m	
As at December 2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(30.3)	35.0
Discount rate	1.00%	(56.9)	75.4
Future salary increases	0.50%	0.9	(0.9)
Inflation assumption	0.50%	30.4	(29.5)
Life expectancy	1 year	13.4	(13.4)

HBG GA Scheme

		Impact on defined benefit obligation £m	
As at December 2019	Change in assumption	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)

		Impact on defined benefit obligation £m	
As at December 2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(6.5)	7.3
Discount rate	1.00%	(12.1)	15.9
Future salary increases	0.50%	–	(0.2)
Inflation assumption	0.50%	2.8	(3.2)
Life expectancy	1 year	2.7	(2.7)

20. 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 (2018: 20 years).
The average duration of the defined benefit plan obligation for the HBG GA UK Scheme was 19 years (2018: 22 years).
Movements in the present value of the defined plan assets in the current year were as follows:

HBG UK / HBG GA Schemes	2019 £m	2018 £m
Opening fair value of plan assets	**491.1**	518.1
Actuarial loss / (gain)	**6.3**	(19.5)
Contributions from the employer	**3.4**	4.2
Benefits paid	**(14.6)**	(23.3)
Administration costs	**(0.7)**	(1.1)
Finance income	**13.6**	12.7
Closing fair value of plan assets	**499.1**	491.1

Fair value of plan assets	2019 £m	2018 £m
HBG UK Scheme		
Equity and property (quoted)	**25.8**	24.7
Corporate bonds (quoted)	**113.9**	39.9
Government bonds (quoted)	**6.0**	10.2
Commodities (quoted)	**0.3**	0.3
Cash and cash equivalents	**7.2**	23.0
Other - liability hedge (quoted)	**247.4**	276.9
Other – loans (quoted)	**11.4**	10.1
Fair value of plan assets	**412.0**	385.1

HBG GA Scheme	2019 £m	2018 £m
Equity and property (quoted)	**–**	–
Cash and cash equivalents	**1.5**	10.1
Debt instruments (quoted)	**0.5**	93.5
Real estate (quoted)	**–**	2.4
Insured contracts	**85.1**	–
Fair value of plan assets	**87.1**	106.0

In line with the funding requirements of the triennial valuation, the Group expects to make a contribution of £3.0m to the defined benefit plans during the next financial year (2018: £3.0m). In the subsequent 3 years (years 3-5) the Group expects to make total contributions of £7.0m 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.

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.

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

	2019 £m	2018 £m
Legal & General Defined Contribution Scheme		
Group contributions	**12.6**	11.1

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.

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

	2019 £m	2018 £m
TUPE related pension plans		
Company contributions	**0.7**	0.7

21. Provisions and contingent liabilities

	Reorganisation £m	Onerous contract £m	Onerous lease £m	Insolvency Insurer £m	IFRS 16 provision for restoration £m	2019 £m	2018 £m
Balance at 1 January	–	1.0	2.0	0.8	–	**3.8**	5.3
Arising in the year	1.2	26.7	–	–	0.7	**28.6**	0.9
Utilised	(1.2)	–	(0.2)	–	(0.4)	**(1.8)**	(2.4)
Unused amounts reversed	–	–	–	(0.6)	–	**(0.6)**	–
Balance at 31 December	–	27.7	1.8	0.2	0.3	**30.0**	3.8
Current	–	–	–	–	–	–	–
Non-current	–	27.7	1.8	0.2	0.3	**30.0**	3.8

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.

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.

21. Provisions and contingent liabilities (continued)

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 2019 there were £nil (2018: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2019 was £nil (2018: £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 2019 there were nil (2018: nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2019 was £nil (2018: £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 2019 there were £nil (2018: £nil) overdraft balances in companies in the cash pooling facility. The net overdraft position in the cash pooling facility as at 31 December 2019 was £nil (2018: £nil). This guarantee is not expected to give rise to any loss.

During the year the Royal BAM Group n.v. maintained a revolving credit facility, to which BAM Construct UK Ltd and other Group entities, is a guarantor. The revolving credit facility, was €400m (2018: €400m), with a maturity date of March 2023. The utilisation of this facility as at 31 December 2019 was £nil (2018: £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.

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.

22. Authorised and issued share capital

	2019		2018	
	Number	**£m**	Number	£m
Share capital				
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

23. Government grants

Government grants received in 2019 amount to £2.4m (2018: nil), all of which is related to R&D.

24. Subsequent events

The directors note that the United Kingdom has given notice under Article 50 of the Treaty on European Union of its intention to withdraw from the European Union and that discussions on the terms of exit will take place over a two year period. The directors are currently unable to estimate the impacts, if any, on the company's property valuation or the prospects for its business generally. These uncertainties are not reflected in the consolidated statement of financial position as at 31 December 2019.

BAM Construct UK has deemed the need to re-pile the Faculty of Social Sciences building for the University of Sheffield an adjusting post balance sheet event and the impact of this event has been reflected at the balance sheet date. The recent outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic on 11 March 2020, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries.

The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

The identification of the virus after 31 December 2019 as a new coronavirus, and its subsequent spread, is considered a non-adjusting event after the reporting period. As a result of the virus, the Group closed its construction sites from 26 March to 30 March 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 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 event creates.

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

25. Other related party transactions

Apart from transactions with related Group entities, no other related party transactions were recorded for 2019 (2018: nil).

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:

	2019	2018
	£m	£m
Dividends paid out in the year		
Final declared and paid of £0.20 per share (2018: £0.10 per share)	**8.0**	4.0
Royal BAM Group n.v. (ultimate parent) - loan @ 0.71% (2018: 0.49%)	**199.0**	177.1
Amount owed to Royal BAM Group n.v. (ultimate parent) - trade payables	**(0.2)**	(1.5)
Total amount outstanding at 31 December	**198.8**	175.6

For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: nil).

Details about guarantees provided to banks for loans made to related Group entities are included in Note 20.

26. 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.

27. 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
HBG Parklands SPV Limited	100%	United Kingdom	1	Property development
BAM Monk Bridge Limited	100%	United Kingdom	1	Property development
BAM Buchanan Limited *	100%	United Kingdom	2	Property development
HBG Haymarket 3 Limited *	100%	United Kingdom	2	Property development
BAM Glory Mill Limited	100%	United Kingdom	1	Property development
BAM Cadogan Limited *	100%	United Kingdom	2	Property development
BAM Princes Street Limited *	100%	United Kingdom	2	Property development
BAM Chiswick 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	3	Property services
BAM Energy Limited *	100%	United Kingdom	3	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. 183 St Vincent Street, Glasgow, G2 5QD
3. Kelvin House, Buchanan Gate Business Park, Stepps, Glasgow, G33 6FB

Company statement of financial position

At 31 December	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**1.1**	1.5
Right-of-use assets	10	**13.2**	–
Intangible assets	9	**–**	–
Investments in subsidiaries	11	**81.9**	81.9
Defined benefit pension asset	15	**23.6**	63.2
Deferred tax assets	6	**0.8**	0.8
Total non-current assets		**120.6**	147.4
Current assets			
Other receivables	12	**4.3**	2.7
Amounts due from ultimate parent	12	**199.0**	177.1
Amounts due from group undertakings	12	**48.8**	25.2
Prepayments and accrued income		**1.2**	1.3
Cash and short term deposits		**34.2**	33.7
Total current assets		**287.5**	240.0
Total assets		**408.1**	387.4

Company statement of financial position (continued)

At 31 December	Notes	2019 £m	2018 £m
Current liabilities			
Trade and other payables	13	**11.3**	16.6
Lease liabilities	14	**2.0**	–
Amounts owed to group undertakings	13	**284.9**	229.3
Total current liabilities		**298.2**	245.9
Non-current liabilities			
Deferred tax liabilities	6	**4.0**	10.8
Lease liabilities	14	**11.8**	–
Provisions	13	**2.0**	2.8
Total non-current liabilities		**17.8**	13.6
Total liabilities		**316.0**	259.5
Equity			
Share capital	17	**40.0**	40.0
Retained earnings		**52.1**	87.9
Equity attributable to owners of the Company		**92.1**	127.9
Total equity		**92.1**	127.9
Total equity and liabilities		**408.1**	387.4

Approved by the board on 18 December 2020 and signed on its behalf by:

DocuSigned by:
James Wimpenny
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James Wimpenny
Director and Chief Executive

Company statement of changes in equity

For the year ended 31 December 2018	Notes	Share capital £m	Retained earnings £m	**Total £m**
Balance at 1 January 2018	17	40.0	77.7	**117.7**
Loss for the year		–	(1.9)	**(1.9)**
Other comprehensive income for the year, net of income tax		–	16.1	**16.1**
Total comprehensive income for the year		–	14.2	**14.2**
Payment of dividends	7	–	(4.0)	**(4.0)**
Balance at 31 December 2018	17	40.0	87.9	**127.9**
Profit for the year		–	8.8	**8.8**
Other comprehensive expense for the year, net of income tax		–	(36.6)	**(36.6)**
Total comprehensive expense for the year		–	(27.8)	**(27.8)**
Payment of dividends		–	(8.0)	**(8.0)**
Balance at 31 December 2019	17	40.0	52.1	**92.1**

Registered number
3311781

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 2019 were authorised for issue by the board of directors on 18 December 2020 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 27.

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 have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The Company has net current liabilities of £10.7m and net assets of £92.1m. The Company meets its day to day working capital requirements through the Cash held at year end of £34.2m, and through the inter-company pooling arrangement, for which BAM Construct UK has unrestricted access to its cash held in the cash pooling facilities. 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, please refer to note 21 in the 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 opened under UK Government guidelines, and specific measures have been implemented to ensure adequate protection for our 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 Group from 26 March to 30 March 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's financial forecasts for the period ending 31 December 2021, taking into consideration the current environment, show that the Company is expected to maintain positive cash flows, after considering plausible downside scenarios modelling reduced productivity and increased costs across the Group. The Company has been able to utilise certain government stimulus initiatives and the Directors have also received confirmation from the Company's ultimate parent entity, Royal BAM Group BV, that the Company will be provided financial support for a period of at least 12 months from the date of approval of the Company's financial statements.

In view of the circumstances referred to above, the directors are satisfied that sufficient financial resources will be generated by Company or received from its ultimate parent entity, Royal BAM Group BV, for the foreseeable future. Accordingly, the directors of the Group 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 2018 and 2019 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 finanical 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.

5. Auditor's remuneration

	2019 £000	2018 £000
Audit of Group's consolidated financial statements	**115**	105
Audit of Parent Company's financial statements	**94**	91
Audit of Parent Company's subsidiaries	**342**	334
Total audit	**551**	530
Other assurance services (non-audit)	**–**	36
Total fees paid by the Company	**551**	566

All auditors renumeration 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:

	2019 £m	2018 £m
Current income tax		
Current income tax charge / (credit)	**1.3**	0.1
Adjustments in respect of current income tax of previous year	**–**	0.1
Current tax charge / (credit)	**1.3**	0.2
Deferred tax:		
Relating to origination and reversal of temporary differences	**0.8**	(0.5)
Total deferred tax	**0.8**	(0.5)
Income tax income reported in the profit or loss	**2.1**	(0.3)
Deferred tax relating to items recognised in other comprehensive income during the year:		
Net loss / (gain) on re-measurement gains and losses on defined benefit plans	**(7.5)**	3.3
	(7.5)	3.3

b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2019 is equal to (2018: lower) than the statutory corporation tax rate enacted in the UK. The corporation tax rate of 19.00% for 2019 (2018: 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).

	2019 £m	2018 £m
Accounting profit / (loss) before tax	**10.9**	(2.3)
Profit on ordinary activities multiplied by UK Corporation tax rate of 19.00% (2018: 19.00%)	**2.1**	(0.5)
Income not taxable for tax purposes	**–**	–
Adjustments in respect of prior year	**–**	0.1
Expenses not deductible for corporation tax purposes	**0.1**	–
Effect of changes in tax rate	**(0.1)**	0.1
Income tax expense / (credit) reported in the statement of profit or loss	**2.1**	(0.3)

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 and 17% from 1 April 2020. Any deferred tax expected to reverse in these years have been re-measured using these rates as appropriate.

d) Deferred tax

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

	2019	2010
	£m	£m
Deferred tax asset		
Balance at 1 January	**0.8**	0.7
Tax (expense) recognised in the profit and loss	**–**	0.1
Balance at 31 December	**0.8**	0.8

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:

	2019	2018
	£m	£m
Deferred tax liability		
Balance at 1 January	**(10.8)**	(8.0)
Tax (expense) recognised in the profit and loss	**(0.8)**	0.5
Tax income recognised in the OCI	**7.6**	(3.3)
Balance at 31 December	**(4.0)**	(10.8)

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 2019 or 2018 by the company to its shareholders.

7. Dividends paid and proposed

Dividends declared and paid by the Company during the year amounted to £8.0m (2018: £4.0m).

8. Property, plant and equipment

	Short leasehold property £m	Plant and equipment £m	**Total £m**
Cost			
At 1 January 2018	1.1	11.5	**12.6**
Additions	–	0.8	**0.8**
Disposals	–	–	**–**
At 31 December 2018	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**
Depreciation			
At 1 January 2018	1.1	9.8	**10.9**
Charge for the year	–	1.0	**1.0**
Disposals	–	–	**–**
At 31 December 2018	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**
Net book value			
At 1 January 2018	–	1.7	**1.7**
At 31 December 2018	–	1.5	**1.5**
At 31 December 2019	–	1.1	**1.1**

9. Intangible assets

	Software costs £m	**Total £m**
Cost		
At 1 January 2018	3.6	**3.6**
Disposals	(2.7)	**(2.7)**
At 31 December 2018	0.9	**0.9**
Additions	–	**–**
Disposals	(0.9)	**(0.9)**
At 31 December 2019	–	**–**
Amortisation and impairment		
At 1 January 2018	3.2	**3.2**
Amortisation	0.4	**0.4**
Disposals	(2.7)	**(2.7)**
At 31 December 2018	0.9	**0.9**
Additions	–	**–**
Amortisation	–	**–**
Disposals	(0.9)	**(0.9)**
At 31 December 2019	–	**–**
Carrying value		
At 1 January 2018	0.4	**0.4**
At 31 December 2018	–	**–**
At 31 December 2019	–	**–**

Notes to the parent company financial statements (continued)

10. Right-of-use assets

	Land and buildings	**Total**
Balance at 1 January 2019	7.8	**7.8**
Additions	8.0	**8.0**
Depreciation charges	(2.6)	**(2.6)**
Balance at 31 December 2019	13.2	**13.2**

All right-of-use assets are related to former operational leases, no finance lease were applicable in 2018.

Additional information on right-of-use assets is disclosed in note 14 to the consolidated financial statements.

11. Investments

	Investments in subsidiaries £m	**Total £m**
Cost		
Balance at 1 January 2018	81.9	**81.9**
Additions	–	**–**
Impairments	–	**–**
Balance at 31 December 2018	81.9	**81.9**
Additions	–	**–**
Impairments	–	**–**
Balance at 31 December 2019	81.9	**81.9**
Carrying value		
At 1 January 2018	81.9	**81.9**
At 31 December 2018	81.9	**81.9**
At 31 December 2019	81.9	**81.9**

For a list of subsidiaries in which BAM Construct UK Limited has an investment see note 25 in the Group Financial Statements.

12. Trade and other receivables

	2019 £m	2018 £m
Current		
Other receivables	**5.3**	2.7
Amounts due from ultimate parent	**199.0**	177.1
Amounts due from other group undertakings	**48.8**	25.2
	253.1	205.0

13. Trade and other payables

	2019 £m	2018 £m
Current		
Amounts due to subsidiaries	**284.9**	229.3
Amounts due to other group undertakings	**–**	–
Right of use liabilities	**2.0**	–
Other payables	**12.8**	13.0
Accruals	**3.2**	3.6
	302.9	245.9
Non-current		
Right of use liabilities	**11.8**	–
Provisions	**2.0**	3.4
Deferred tax liability	**4.0**	10.8
	17.8	14.2

14. Lease liabilities

	2019 £m	2018 £m
Lease liabilities	13.8	–
	13.8	–

As from 2019, all lease liabilities (former operational leases) are included in the balance sheet. There were no finance leases in 2018.

Additional information on lease liabilities is disclosed in note 19 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 20 for further details of provisions and contingent liabilities.

17. Authorised and issued share capital

	2019 Number	2019 £m	2018 Number	2018 £m
Share capital				
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 parent company financial statements (continued)

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

The recent outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic on 11 March 2020, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries.

The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

The identification of the virus after 31 December 2019 as a new coronavirus, and its subsequent spread, is considered a non-adjusting event after the reporting period. As a result of the virus, the Group closed its construction sites from 26 March to 30 March 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 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 event creates.

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

Offices

BAM Construct UK Limited
(Central office)
Breakspear Park, Breakspear Way,
Hemel Hempstead, Hertfordshire HP2 4FL
Tel 01442 238 300 **Fax** 01442 238 301

BAM Construction Limited
Scotland
Kelvin House, Buchanan Gate Business Park,
Stepps, Glasgow G33 6FB
Tel 0141 779 8888 **Fax** 0141 779 8889

Currie House, 597 Calder Road,
Pentland Gait Office Park, Edinburgh EH11 4HJ
Tel 0131 458 2000 **Fax** 0131 458 2001

North East
3125 Century Way, Thorpe Park, Leeds LS15 8ZB
Tel 0113 290 8800 **Fax** 0113 290 8801

Mikasa House, Asama Court, Newcastle Business Park,
Newcastle Upon Tyne, NE4 7YD
Tel 0191 273 7000

North West
Metro, 33 Trafford Road
Exchange Quay 2, Salford M5 3NN
Tel 0161 877 9274 **Fax** 0161 877 9276

Midlands
Fore 2, 2 Huskisson Way, Shirley, Solihull B90 4SS
Tel 0121 746 4000 **Fax** 0121 746 4090

Western
Millennium Gate, Gifford Court,
Fox Den Road, Stoke Gifford, Bristol BS34 8TT
Tel 0117 944 8800 **Fax** 0117 944 8855

387 Newport Road, Cardiff CF24 1TP
Tel 029 2048 8811 **Fax** 029 2046 1647

Crown House, Acland Road, Exeter, Devon EX4 6PB
Tel 01392 412 887 **Fax** 01392 412 886

South East
Centrium, Griffiths Way, St Albans,
Hertfordshire AL1 2RD
Tel 01727 894 200 **Fax** 01727 818 852

London
Level 32, Citypoint, 1 Ropemaker Street,
London, EC2Y 9AW
Tel 020 7374 3600

BAM Plant
Rixon Road, Wellingborough,
Northamptonshire NN8 4BB
Tel 01933 232 000 **Fax** 01933 232 009

Scott Lane, Morley, Leeds,
West Yorkshire LS27 0NQ
Tel 01132 521 594 **Fax** 01132 189 741

BAM Properties Limited
Kelvin House, Buchanan Gate Business Park,
Stepps, Glasgow G33 6FB
Tel 0141 222 1020 **Fax** 0141 222 1201

Metro, 33 Trafford Road
Exchange Quay 2, Salford M5 3NN
Tel 0161 877 9274 **Fax** 0161 877 9276

Millennium Gate, Gifford Court,
Fox Den Road, Stoke Gifford, Bristol BS34 8TT
Tel 0117 944 8803 **Fax** 0117 944 8855

Level 32, Citypoint, 1 Ropemaker Street,
London, EC2Y 9AW
Tel 020 7374 3600

BAM Design Limited
Centrium, Griffiths Way, St Albans,
Hertfordshire AL1 2RD
Tel 01727 894 200 **Fax** 01727 818 852

Level 32, Citypoint, 1 Ropemaker Street,
London, EC2Y 9AW
Tel 020 7374 3600

BAM FM Limited
Breakspear Park, Breakspear Way,
Hemel Hempstead, Hertfordshire HP2 4FL
Tel 01442 238 300 **Fax** 01442 238 301

Kelvin House, Buchanan Gate Business Park,
Stepps, Glasgow G33 6FB
Tel 0141 779 8888 **Fax** 0141 779 8889

Metro, 33 Trafford Road
Exchange Quay 2, Salford M5 3NN
Tel 0161 877 9274 **Fax** 0161 877 9276

Registered number
3311781

www.bam.co.uk
Here you will find downloadable PDFs of:
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BAM Properties Limited Report and Accounts
BAM FM Limited Report and Accounts

Registered office
Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire HP2 4FL
T: 01442 238 300 F: 01442 238 301

Registered number: 3311781

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