



BAM Construction Limited

# Annual Report and Accounts 2019

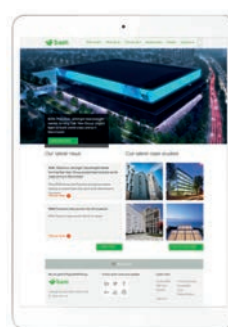




An overview of our 2019 performance, our future direction,  
and a review of the strategy underpinning our businesses.

<b>Introduction</b>		<b>Notes to the financial statements</b>	
BAM in brief	2	1 Authorisation of financial statements and statement of compliance with FRS 101	26
2019 at a glance	3	2 Accounting policies	27
<b>Strategic report</b>		3 Revenue	43
Organisational overview and external environment	5	4 Operating profit	44
Business performance	5	5 Auditor's remuneration	44
Principal risks and uncertainties	5	6 Staff costs and directors' remuneration	44
Future strategy	7	7 Income tax	44
Divisional review	8	8 Dividends paid and proposed	46
Corporate responsibility	8	9 Plant and equipment	46
Corporate Governance Statement	13	10 Right-of-use assets	46
<b>Reports</b>		11 Investments - non-current	47
Directors' report	16	12 Trade and other receivables, prepayments and accrued income	47
Statement of directors' responsibilities	19	13 Trade and other payables	48
Independent auditor's report	20	14 Financial risk management	48
<b>Financial statements</b>		15 Lease liabilities	49
Statement of comprehensive income	22	16 Provisions and contingent liabilities	51
Statement of financial position	23	17 Authorised and issued share capital	52
Statement of changes in equity	25	18 Retained earnings	52
		19 Other related party transactions	52
		20 Group structure	53
		21 Ultimate group undertaking	53
		22 Subsequent events to the statement of financial position	53
		<b>Offices</b>	<b>54</b>

Registered number  
2379469



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

## BAM in brief

---

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

We have 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



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

The board of BAM Construct UK.





Revenue (£m)  
**£867.8m**

2019	867.8
2018	891.6
2017 restated	899.0



Loss / Profit before tax (£m)  
**£2.4m**

2.4	2019	
	2018	19.0
	2017 restated	16.4



Year-end work in hand (£m)  
**£681.6m**

2019	681.6
2018	1,043.8
2017	863.3



Cash position at year-end (£m)  
**£36.9m**

2019	36.9
2018	36.2
2017	35.4



Shareholder's funds at year end (£m)  
**£73.1m**

2019	73.1
2018	75.3
2017 restated	60.0



Working capital at year-end (£m)  
**£88.6m**

2019	88.6
2018	66.6
2017 restated	52.4



Riddor accidents  
**22**

2019	22
2018	15
2017	11



CO<sub>2</sub> emissions (tonnes)  
**10,149**

2019	10,149
2018	11,487
2017	13,208



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

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



**12**  
Considerate  
Constructor Awards



**70**  
Apprentices had work  
experience on our sites in 2019



**112**  
Directors' safety  
tours of sites





The BAM site team at the University of Central Lancashire (UCLan) Engineering Innovation Centre, were keen to give something back to the local Preston community and engage with the university's students, by gearing them up for the world of work.



“A key feature of our sustainability strategy is to enhance the lives of people in the communities where we work.”

**Douglas Keillor**  
Executive Director



**The directors present their strategic report for the year ended 31 December 2019 which outlines BAM Construction’s strategy and financial results, the progress of its operations and performance on sustainability.**

## Organisational overview and external environment

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

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

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

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

## Business performance

### Profit and revenue

The loss before tax for the year ended 31 December 2019 was £2.4m (2018 profit:£19.0m).

Revenue for the year was £867.8m (2018: £891.6m).

Revenue decreased during the year as BAM Construction

bid selectively and continued to concentrate its efforts on securing high value added projects.

### Cash and equivalents

Managing cashflow effectively is a key objective in our business. The cash and cash equivalents continue to show a healthy position at £36.9m (2018: £36.2m). Maintaining a healthy cash balance within the business is important as it allows future investment. However BAM Construction does not seek to enhance our cash position at the expense of our supply chain and maintains fair payment terms.

### Working capital

The position on working capital improved in 2019. The working capital at year end was £88.6m (2018: £66.6m).

## Principal risks and uncertainties

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

1. UK economy - Brexit impacts and uncertainty internationally
2. Loss making projects
3. Insufficient investment in creating future portfolio
4. Health, safety and environmental risks
5. Skills shortage – staff and supply chain

# Strategic report (continued)

	Risk-description	Controls / Mitigation strategy
<b>1</b> <b>UK economy</b>	<p>Following the passing of the Withdrawal Act and the onset of Covid 19, the UK's economy is very volatile.</p>	<ul style="list-style-type: none"> <li>While the impact of Brexit is still unclear, BAM Construction Ltd 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.</li> <li>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.</li> <li>BAM Construction will continue to monitor the impact of Covid 19 very closely, ensure that our staff and supply chain work in a safe environment. We will consider utilising any future government support and manage the cost base in an efficient manner.</li> </ul>
<b>2</b> <b>Loss making projects</b>	<p>Operating on relatively slim contract margins, means we cannot afford to take on contracts that will ultimately deliver significant losses. Dealing with the impacts of loss-making projects drains significant resources from the business and the risk that senior management focuses on short term crisis management rather than planning for the long term.</p>	<ul style="list-style-type: none"> <li>Royal BAM Group's stagegate approval system used on all tenders, ensures that all risk and opportunities are identified within the tender process.</li> <li>Focusing on two-stage work and negotiated procurement enable the business to identify and price risk on a realistic basis.</li> <li>Experienced and knowledgeable staff are involved in the pre-construction period to ensure risks are identified and mitigated or closed-out before construction commences.</li> <li>By creating a learning culture and a willingness to share issues and experiences, allows BAM Construction Ltd to both avoid problematic projects as well as mitigating any losses that may be incurred.</li> </ul>
<b>3</b> <b>Insufficient investment in future technologies</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>Over the past two years BAM Construction Ltd 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.</li> </ul>
<b>4</b> <b>Health, safety and environmental risks</b>	<p>The Group's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. Failure to meet safety standards or ineffective management of safety requirements could result in the injury or death of employees, members of the public or third parties.</p>	<ul style="list-style-type: none"> <li>Implementation of rigorous training programmes, with particular emphasis in 2019 on the most frequent causes of lost time accidents.</li> <li>A visible leadership approach with, for example, senior managers of both the company and our supply chain engaging in Directors' safety tours of sites.</li> <li>Engaging with staff and supply chain with cultural workshops, safe-to-start meetings, toolbox talks and regular communications through all of our channels to ensure a mindset of constant vigilance about safety.</li> </ul>
<b>5</b> <b>Skills shortage</b>	<p>The Company's employees and those of our supply chain are critical to our performance. A lack of suitably qualified and skilled staff could lead to inefficient working and poor quality, in turn leading to an inability to provide value-adding solutions to our clients.</p>	<ul style="list-style-type: none"> <li>BAM Construction Ltd aims to recruit people with ability at all levels and from all backgrounds. The Company has a proactive strategy to make it an attractive place for people to work.</li> <li>We aim to maintain a culture of open collaboration, where individuals are encouraged to voice new ideas that helps to keep staff engaged and supports good levels of staff retention.</li> <li>We work collaboratively and respectfully with our supply chain, treating subcontractors fairly and as project partners, to nurture long term relationships and ensure that BAM Construction Ltd remains a main contractor of choice.</li> </ul>



As part of the strategy, BAM Construction Ltd is supporting and participating in a drive to align core functions across Royal BAM Group n.v. to achieve aligned processes and procedures.



## Future strategy

BAM Construction aligns its strategy with that of BAM Construct UK and our ultimate parent company Royal BAM Group n.v.. BAM Construction's principal priority for 2020 is to continue to improve its profitability by operating more efficiently and managing cash effectively.

Our ultimate parent company, Royal BAM Group, has published a headline strategy covering the period 2018 – 2020 entitled 'Building the present, creating the future'. The key components of the strategy are to maintain focus on executing projects effectively and efficiently. This includes being selective about those projects where BAM can perform at its best and deliver a winning performance and where BAM can either compete effectively on scale or by offering differentiating capabilities. The second facet of the strategy is to develop BAM's complementary and value-added services to projects where these can create synergy and strengthen BAM's attractiveness as a project partner. The final limb of the strategy involves BAM being at the forefront of new digital construction and data management techniques. As part of the strategy BAM Construct UK is supporting and participating in a drive to align core functions across Royal BAM Group to achieve aligned processes and procedures in the fields of IT, human resources and financial accountability and reporting. This will support greater efficiency and enable all ten operating companies in Royal BAM Group to leverage their combined capabilities.

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

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

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

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

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

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

## 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 Company complies with all Government guidelines in order to operate in a safe manner on all sites. The directors have also focused on cash

# Strategic report (continued)

---

management and collaboration with suppliers, customers and all our stakeholders to achieve as much efficiency as possible.

## Progress to 2020 and beyond

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

## Divisional review

### BAM Design

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

The primary focus of BAM Design is to add value to the Construction business. This is delivered by developing our digital construction capabilities and pioneering innovative methods to improve quality and speed of project delivery.

### BAM Plant

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

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.

## Corporate responsibility

### Ethics and Standards

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

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

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

### People

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

### Working for better health and safety

Our continuing goal is to have completely safe operations so that neither employees, nor anyone who works with BAM, suffers injury or ill-health as a result of our activities.

As well as extensive training and monitoring of health and safety, we promote well-being throughout the company and among our supply chain through activities such as talks about detecting cancers, nurses attending sites to undertake health checks and to offer advice. In 2015 BAM signed the Time to Talk pledge and there is a continuing programme of activities to help employees manage their mental health, to speak openly about mental health issues and to raise awareness of sources of support for mental health issues.

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

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

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.





- 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 had a total flight time of 62 hours, travelling approximately 222 miles.
- 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 the result.



## 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, and 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 41,740 people.

As part of our commitment to being a responsible contractor, all BAM Construction sites register with the Considerate Constructors Scheme (CCS). In 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 began 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.

Emissions Source	Unit	2019		2018	
		tCO <sub>2</sub> e	Quantity	tCO <sub>2</sub> 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
<b>Total</b>		<b>10,149</b>		<b>11,487</b>	
Market based		9,212		11,333	



- 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** BAM's annual Christmas Jumper Day raising money for our charity partner CLIC Sargent.



## Corporate Governance Statement

### The BAM Group

BAM Construction Limited ('BAM Construction') 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](http://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.

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 Construction.

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. 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 Construction.

### Corporate Governance within BAM Construction

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

In the opinion of the directors of BAM Construction, given that BAM Construction 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 Construction, its shareholders and wider stakeholders.

### Application of the Dutch Code by BAM Construction

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

# Strategic report (continued)

In addition to following the group standards, policies and procedures of Royal BAM Group as described above, BAM Construction 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



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.



## 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

This section will either be expanded into a list in similar format to applications above or will refer to an attached table.

The Dutch Code contains principles and provisions that are concerned with a listed parent company only. They relate for instance to the role of the management board and the supervisory board (which are not relevant to BAM Construction which, as a UK company, has a unitary board structure), director remuneration, the company's shareholders and general meetings of shareholders, and to such matters relating to the parent company's external auditor and investor relations. Given the nature of BAM Construction, as a wholly owned subsidiary of Royal BAM with no external shareholders, these elements of the Dutch Code are not applicable and so are not applied by BAM Construction.

These 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:

*Douglas Walker Keillor*

DA07E80A008B4CF...

**Doug Keillor**

Executive Director  
BAM Construction Limited  
18 December 2020

# Director's report

---

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

The loss for the Company for the year ended 31 December 2019 is set out in the Statement of Comprehensive Income on page 22.

During the year the directors declared and settled a dividend of £nil (2018: £nil).

### Principal activities

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

### Future developments

Revenue was stable in the company in 2019 and the directors continue to monitor opportunities for pursuing profitable construction development contracts. This includes working with other Group companies to leverage construction opportunities that may exist with their customers.

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

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.

### Directors

The following served as directors during the year ended 31 December 2019 and subsequent to that date:

- T Chell
- B Dickson
- D Ellis
- I Fleming
- A Harding
- D Keillor
- J Phillips
- R Stiles
- J W R Wimpenny

### Secretary

F Wardhaugh

### Qualifying third party indemnity provision for directors

The company's ultimate parent undertaking, Royal BAM Group n.v., maintains liability and indemnity insurance for its directors and officers against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

This provision has been in place throughout the year, and remains in place as at the date of approving this Directors' report.

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

### Subsequent events

BAM Construction has deemed the need to re-pile the Faculty of Social Sciences building for the University of Sheffield an adjusting post balance sheet event. 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 the United Kingdom has given notice under Article 50 of the Treaty on European Union of its intention to withdraw from the European Union and that discussions on the terms of a withdrawal agreement (if any) have not yet concluded. The directors are currently unable to estimate what the impacts are, if any, on the company's prospects for its business generally. These uncertainties are not reflected in the Statement of financial position as at 31 December 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 14 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 if they consider they have a disability; this information is not shared with colleagues who recruit and assess applicants' aptitudes and suitability for a given role.

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

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

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

## Employee involvement

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

## Consideration of going concern

The 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 £88.6m and net assets of £73.1m. The Company meets its day to day working capital requirements through the cash held at year end, and through the inter-company pooling arrangement, for which the Company 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 16 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.

## Director's report (continued)

---

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

### Disclosure of information to the auditors

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

### Auditors

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

Signed on behalf of the board, on 18 December 2020.

DocuSigned by:

*Douglas Walker Keillor*

DA07E80A008B4CF...

### Doug Keillor

Executive Director  
BAM Construction Limited  
18 December 2020



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

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

---

## Opinion

We have audited the financial statements of BAM Construction Ltd for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

## Basis for opinion

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

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

## Emphasis of matter – effects of COVID-19

We draw attention to note 22 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 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.

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

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

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

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

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

## Responsibilities of directors

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

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

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

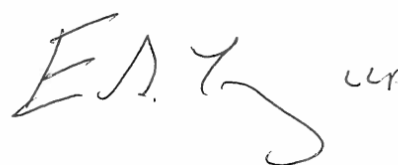
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 Construction Ltd web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Statement of comprehensive income

For the year ended 31 December	Notes	2019 £m	2018 £m
<b>Continuing operations</b>			
Revenue	3	867.8	891.6
Cost of sales		(837.8)	(837.4)
Gross profit		30.0	54.2
Administration and other expenses		(32.3)	(35.4)
Finance (expense)		(0.2)	-
Finance income		0.1	0.2
Operating (loss) / profit	4	(2.4)	19.0
(Loss) / profit on ordinary activities before taxation		(2.4)	19.0
Tax / (tax expense)	7	0.2	(3.7)
<b>(Loss) / profit on ordinary activities after taxation</b>		<b>(2.2)</b>	<b>15.3</b>
<b>Total comprehensive (loss) / income for the year</b>		<b>(2.2)</b>	<b>15.3</b>

**Registered number**  
2379469



# Statement of financial position

At 31 December	Notes	2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Plant and equipment	9	3.6	3.5
Right-of-use assets	10	3.8	–
Investments in subsidiary	11	0.4	0.4
Retentions		15.2	12.6
Deferred tax assets	7	0.2	0.1
<b>Total non-current assets</b>		<b>23.2</b>	<b>16.6</b>
<b>Current assets</b>			
Inventory and work-in-progress		0.2	0.2
Trade and other receivables	12	65.0	77.1
Amounts due from group undertakings	12	266.7	210.9
Amounts due from customers for contract work (contract asset)	12	30.8	35.7
Prepayments	12	0.6	0.7
Cash and cash equivalents		36.9	36.2
Income tax receivable		0.3	–
<b>Total current assets</b>		<b>400.5</b>	<b>360.8</b>
<b>Total assets</b>		<b>423.7</b>	<b>377.4</b>

# Statement of financial position (continued)

At 31 December	Notes	2019 £m	2018 £m
<b>Current liabilities</b>			
Trade and other payables	13	262.4	252.6
Amount due to ultimate parent		0.3	1.5
Amounts due to customers under construction contracts (contract liability)		44.2	37.4
Amounts due to subsidiary undertaking		0.2	0.5
Income tax payable		–	1.5
Other liabilities		1.7	0.7
Lease liabilities	15	3.1	–
<b>Total current liabilities</b>		<b>311.9</b>	<b>294.2</b>
<b>Non-current liabilities</b>			
Lease liabilities	15	0.8	–
Provisions	16	28.0	1.0
Trade and other payables	13	9.9	6.9
<b>Total non-current liabilities</b>		<b>38.7</b>	<b>7.9</b>
<b>Total liabilities</b>		<b>350.6</b>	<b>302.1</b>
<b>Equity</b>			
Share capital	17	24.0	24.0
Retained earnings	18	49.1	51.3
<b>Total equity</b>		<b>73.1</b>	<b>75.3</b>
<b>Total equity and liabilities</b>		<b>423.7</b>	<b>377.4</b>

The financial statements were approved by the Board of Directors on 18 December 2020 and signed on its behalf by:

DocuSigned by:  
  
 DA07E80A008B4CF...

**Doug Keillor**  
 Executive Director  
 BAM Construction Limited

**Registered number**  
 2379469

## Statement of changes in equity

	Share capital (Note 17) £m	Retained earnings (Note 18) £m	Total £m
<b>For the year ended 31 December 2019</b>			
<b>Balance at 1 January 2018</b>	24.0	36.0	<b>60.0</b>
Profit for the year		15.3	<b>15.3</b>
<b>Balance at 31 December 2018</b>	24.0	51.3	<b>75.3</b>
Loss for the year		(2.2)	<b>(2.2)</b>
<b>Balance at 31 December 2019</b>	24.0	49.1	<b>73.1</b>

# Notes to the financial statements

---

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

The financial statements of BAM Construction Limited (the 'Company') for the year ended 31 December 2019 were authorised for issue by the board of directors on 18 December 2020 and the Statement of financial position was signed on the board's behalf by Doug Keillor. BAM Construction Limited, a private company limited by shares, is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable UK accounting standards and legislation.

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

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

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

### 1.1 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 £88.6m and net assets of £73.1m. The Company meets its day to day working capital requirements through the cash held at year end, and through the inter-company pooling arrangement, for which the Company 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 16 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 Company. 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 Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.



# Notes to the financial statements (continued)

## 2. Accounting policies

### 2.1 Basis of preparation

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the years ended 31 December 2018 and 2019.

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

- a) The requirements of paragraphs 45 (b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- b) The requirements of paragraphs 62, B64 (d), B64 (e), B64 (g), B64 (h), B64 (j) to B64 (m), B64 (n)(ii), B64 (o)(ii), B64 (p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- c) The requirements of paragraph 33 (c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- d) The requirements of IFRS 7 Financial Instruments: Disclosures;
- e) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- f) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - i) paragraph 79 (a)(iv) of IAS 1;
  - ii) paragraph 73 (e) of IAS 16 Property, Plant and Equipment; and
  - iii) paragraph 118 (e) of IAS 38 Intangible Assets.
- g) The requirements of paragraphs 10 (d), 10 (f), 16, 38(a) to 38(d), 40(a) to 40(d), III and 134-136 of IAS 1 Presentation of Financial Statements;
- h) The requirements of IAS 7 Statement of Cash Flows;
- i) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- j) The requirements of paragraphs 17 and 18(a) of IAS 24 Related Party Disclosures and the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- k) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134 (d) to 134 (f) and 135 (c) to 135 (e) of IAS 36 Impairment of Assets; and
- l) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15.
- m) The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 leases

#### *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 company.

#### *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.

The company 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 company 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 company; otherwise it was classified as an operating lease.

# Notes to the financial statements (continued)

## 2. Accounting policies (continued)

### 2.2 Changes in accounting policy and disclosures

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 company applied a single recognition and measurement approach for all leases for which the company 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 company.

For leases previously recorded as financial lease, the company did not change the carrying amounts of recognised assets and liabilities as of initial application date. The company 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 company'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 company 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 company as included in the standard. The company:

- 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 company as included in the standard.

The company:

- 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;
- used a single discount rate to a portfolio of leases with reasonably similar characteristics. The company determined incremental borrowing rates that are currency specific and vary with the length of the contract. The company has used a more high-level method to determine the incremental borrowing rate. The company 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 company 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.

# Notes to the financial statements (continued)

## 2. Accounting policies (continued)

### 2.2 Changes in accounting policy and disclosures (continued)

#### New accounting principles

The new accounting principles regarding the recognition of a right-of-use asset have been included in paragraph 2.4 Right-of-use assets and the accounting principles regarding the lease liabilities in 2.4 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	3.0
Discounted using the incremental borrowing rate of at the date of initial application	(0.1)
Add: Additional lease contracts identified	5.5
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	–
Add/(Less): adjustments as a result of different treatment of extension and termination options	–
<b>Lease liability recognised as per 1 January 2019</b>	<b>8.4</b>

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 £8.4 million were recognised and presented separately in the statement of financial position.
- lease liabilities of £8.4 million were recognised.

In relation to the leases under IFRS 16, the company in 2019 has recognized depreciation (£7.2 million) and interest costs (£0.2 million), instead of operating lease expense. Therefore also performance measures like EBIDTA are affected.

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

#### 'Annual Improvements to IFRSs - 2015-2017 Cycle'

The company 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 company 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 company.

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

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.3 Judgements and key sources of estimation uncertainty

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

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

#### *a) Determining the lease term*

The company 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 company has several lease contracts that include extension and termination options. The company 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 company 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 company 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.

#### *b) Revenue recognition*

##### *Contract revenue and costs*

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

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



## 2. Accounting policies (continued)

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

#### c) Claims receivable

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

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

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

#### d) Taxation

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

### 2.4 Significant accounting policies

#### a) Foreign currency translation

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

##### *Transactions and balances*

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

#### b) Investments in subsidiaries

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

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### c) Tangible fixed assets

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

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

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

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

#### d) Provisions for liabilities

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

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

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

#### e) Financial Instruments

##### *Classification*

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

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

##### *Recognition and measurement*

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

## 2. Accounting policies (continued)

### 2.4 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 company measures debt instruments at amortised cost if both of the following conditions are met:

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

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

#### *Offsetting financial instruments*

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

#### *Impairment of financial assets*

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

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

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

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

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

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

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

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### 2) Financial liabilities

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

#### *Subsequent measurement*

The measurement of financial liabilities is as follows:

#### *De-recognition of financial liabilities*

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

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

#### *f) Stocks and work-in-progress*

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

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

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

#### *g) Trade and other receivables*

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

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

#### *h) 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.



## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### i) Cash at bank and in hand

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

#### j) Income taxes

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

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

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

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

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

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

#### k) Revenue recognition

##### Construction contracts

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

The following 5 steps are identified within IFRS 15:

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

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### Step 1 'Identify the contract with the customer'

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

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

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

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

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

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

## 2. Accounting policies (continued)

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

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

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

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

#### *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.

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### Step 3 'Determine the transaction price'

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

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

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

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

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

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

For considering the effects of constraining estimates of variable considerations, the company makes a distinction between claims and variation orders. Variation orders are changes that are clearly instructed by the client creating enforceable rights to payment but for which the price change is not yet determined. Claims however relate to events for which the company considers to have enforceable rights to a compensation from the client but these are not yet approved by the client.

The uncertainty relating to claims is usually higher, because of the absence of an instruction of the client for a change. As a result the risk of a significant reversal of revenue relating to claims is considered to be higher and it might be more difficult to prove that a claim amount meets the IFRS 15 'highly probable' criterion. Please refer to note 2.3 for the related criteria.



# Notes to the financial statements (continued)

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

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

#### *Step 4 'Allocate the transaction price'*

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

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

To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the company determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

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

# Notes to the financial statements (continued)

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### Step 5 'Recognise revenue'

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

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

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

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

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

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

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

#### *Uninstalled materials*

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

#### *Capitalised cost*

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

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

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

# Notes to the financial statements (continued)

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

#### *Costs of inefficiencies*

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

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

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

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

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

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.

#### *Right-of-use assets*

The company 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 company 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:

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

The company 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.

# Notes to the financial statements (continued)

---

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

The company 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 company has renewal/extension options. The company 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 company 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 company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. See note 10.

For further details regarding the transition method applied, see paragraph 2.2.

#### *Lease liabilities*

At the commencement date of the lease, the company 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 company and payments of penalties for terminating a lease, if the lease term reflects the company 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 company 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 company has applied judgement to determine the lease term, which significantly affects the amount of right-of-use assets and lease liabilities recognised. See note 10 Right-of-use assets and note 15 Lease liabilities.

For further details regarding the transition method applied, see paragraph 2.2.

#### *Government grants*

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

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



# Notes to the financial statements (continued)

## 3. Revenue

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

	2019 £m	2018 £m
Construction contracts revenue	867.5	891.2
Rental income	0.3	0.4
Revenue from continuing operations	867.8	891.6

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

	2019 £m	2018 £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. 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 £m	2018 £m
Up to 1 year	590.9	744.4
2 to 5 years	90.7	299.3
	681.6	1,043.7
Over 5 years	0	0
Total	681.6	1,043.7

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

## Notes to the financial statements (continued)

### 4. Operating loss

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

The operating loss is stated after charging depreciation of £8.2m (2018: £0.9m) and operating lease rentals for plant and machinery of £0.3m (2018: £0.4m).

### 5. Auditor's remuneration

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

### 6. Staff costs and directors' remuneration

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

During the year 2019 James Wimpenny and Doug Keillor directors of the company, were also directors of the immediate parent, BAM Construct UK Limited. The directors received total remuneration for the year of £716,000 (2018: £968,000), all of which was paid by the immediate parent. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies.

The directors of the company received remuneration from BAM Construct UK Limited as employees of that company. Directors' emoluments are subsumed within management charges of £23.3m levied by BAM Construct UK Limited on the company (see Note 4), but the amount is not separately identified within this recharge.

### 7. Income tax

#### a) Tax receivable / charged in the income statement

	2019 £m	2018 £m
<b>Current income tax</b>		
Current income tax (receivable) / charge	(0.4)	1.5
Prior year adjustment	0.2	0.1
Current tax (receivable) / charge	(0.2)	1.6
<b>Deferred tax</b>		
Prior year adjustment	–	2.1
Total deferred tax	–	2.1
Income tax reported in the profit or loss	(0.2)	3.7

# Notes to the financial statements (continued)

## 7. Income tax (continued)

### b) Reconciliation of the total tax charge

The tax rate charged on profits on ordinary activities for 2019 is higher than (2018: higher) the statutory corporation tax rate enacted in the UK. The statutory corporation tax rate was 19% (2018: 19%). The differences are reconciled below:

	2019 £m	2018 £m
<b>(Loss) / profit on ordinary activities before tax</b>	<b>(2.4)</b>	19.0
(Loss) / profit on ordinary activities multiplied by UK Corporation tax rate of 19% (2018 :19%)	<b>(0.4)</b>	3.6
Expenses not deductible for corporation tax purposes	–	–
Prior year adjustment	<b>0.2</b>	0.1
<b>Total current tax (receivable) / charge</b>	<b>(0.2)</b>	3.7

### 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. Prime Minister Johnson made a pre-general election pledge to reverse this in November 2019, but this change is not yet enacted into law, hence the deferred tax rate of 17% remains applicable. Any deferred tax expected to reverse in these years have been re-measured using these rates as appropriate.

### d) Deferred tax

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

	2019 £m	2018 £m
<b>Deferred tax asset</b>		
Balance at 1 January	<b>0.1</b>	1.4
Tax expense recognised in the profit and loss	<b>0.1</b>	(0.1)
Prior year adjustment	–	(1.2)
<b>Balance at 31 December</b>	<b>0.2</b>	0.1

There are no unprovided deferred tax liabilities.

Deferred tax provided in the financial statements is as follows:

	2019 £m	2018 £m
<b>Deferred tax asset</b>		
Accelerated capital allowances	<b>0.2</b>	0.1
Prior year adjustment	–	–
Other timing differences	–	–
<b>Deferred tax asset</b>	<b>0.2</b>	0.1

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

## Notes to the financial statements (continued)

### 8. Dividends paid and proposed

Dividends declared and paid during the year amounted to £nil (2018: £nil).

### 9. Plant and equipment

	Plant and Equipment £m
<b>Cost</b>	
Balance at 1 January 2019	11.8
Additions	1.1
Disposals	(0.7)
<b>Balance at 31 December 2019</b>	<b>12.2</b>
<b>Depreciation</b>	
Balance at 1 January 2019	8.3
Charge for the year	1.0
Eliminated on disposals	(0.7)
<b>Balance at 31 December 2019</b>	<b>8.6</b>
<b>Net book value</b>	
At 31 December 2018	3.5
At 31 December 2019	3.6

Plant and equipment include assets with a net book value of £0.2m (2018: £0.2m) which are hired out to other group undertakings and to third parties under operating lease arrangements. These assets are depreciated over the expected useful lives at rates between 8.33% and 50% per annum. These assets have accumulated depreciation of £0.4m (2018: £0.5m).

### 10. Right-of-use assets

	Equipment and installation £m	IT equipment £m	Cars £m	Other £m	Total £m
<b>As at 1 January 2019</b>	<b>5.6</b>	<b>0.4</b>	<b>2.2</b>	<b>0.2</b>	<b>8.4</b>
Additions	2.8	–	0.4	0.1	3.3
Disposals	(0.6)	–	(0.1)	–	(0.7)
Depreciation charges	(5.9)	(0.2)	(1.0)	(0.1)	(7.2)
	(3.7)	(0.2)	(0.7)	–	(4.6)
<b>As at 31 December 2019</b>	<b>1.9</b>	<b>0.2</b>	<b>1.5</b>	<b>0.2</b>	<b>3.8</b>

Amount included as per 1 January 2019 concern the former operational leases. See paragraph 2.2.

See note 15 Lease liabilities for the corresponding lease liabilities.

# Notes to the financial statements (continued)

## 11. Investments – non-current

	Investment in subsidiary £m
<b>Cost</b>	
Balance at 1 January 2019	0.4
Additions	–
Impairments	–
<b>Balance at 31 December 2019</b>	<b>0.4</b>
<b>Carrying value</b>	
At 31 December 2018	0.4
At 31 December 2019	0.4

BAM Design Ltd is a wholly owned direct subsidiary undertaking of the company.

## 12. Trade and other receivables, prepayments and accrued income

	2019 £m	2018 £m
<b>Current</b>		
Trade and other receivables	65.0	77.1
Amounts due from parent undertaking	265.2	209.8
Amounts due from fellow subsidiary undertaking	1.5	1.1
Amounts due from customers for contract work (contract asset)	30.8	35.7
Prepayments	0.6	0.7
	<b>363.1</b>	<b>324.4</b>
<b>Non-current</b>		
Retentions	15.2	12.6
	<b>15.2</b>	<b>12.6</b>

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

Trade and other receivables (current assets) includes retentions of £25.2m (2018: £27.9m).

Trade receivables are stated after provisions for impairment of £nil (2018: £nil). The significant change in contract assets is due to normal activity in the construction business. Other changes as mentioned in IFRS 15 (paragraph 118) are not relevant.



## Notes to the financial statements (continued)

### 13. Trade and other payables

	2019 £m	2018 £m
<b>Current</b>		
Trade payables	63.8	69.0
Accruals	–	1.5
Accrued costs completed projects	40.1	54.4
Accrued costs work in progress	158.5	127.7
	262.4	252.6
<b>Non-current</b>		
Retentions	9.9	6.9
	9.9	6.9

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

### 14. Financial risk management

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

#### a) Credit risk

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

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

#### b) Liquidity risk

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

#### c) Price and value risk

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

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

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

# Notes to the financial statements (continued)

## 15. Lease liabilities

The company leases various 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 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 10 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
<b>As at 1 January 2019</b>	<b>8.4</b>
Additions	1.9
Accretion of interest	0.2
Payments	(6.6)
<b>As at 31 December 2019</b>	<b>3.9</b>
Current	3.1
Non-current	0.8
<b>As at 31 December 2019</b>	<b>3.9</b>

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	3.1
1 to 5 years	1.1
Over 5 years	–
	<b>4.2</b>

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 company 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 company's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see note 2.3).

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

## Notes to the financial statements (continued)

### 15. Lease liabilities (continued)

#### Expenses

The following are the amounts recognised in profit or loss:

	Note 10	2019 £m
Depreciation expense of right-of-use assets		7.2
Interest expense on lease liabilities		0.2
Rent expenses - short term leases		-
Rent expenses - leases of low value		-
Rent expenses – variable lease payments		-
<b>Total</b>		<b>7.4</b>

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

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

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

# Notes to the financial statements (continued)

## 16. Provisions and contingent liabilities

	IFRS 16 provision for restoration	Onerous contract	Total
Balance at 1 January	0	1.0	1.0
Arising in the year	0.3	26.7	27.0
Balance at 31 December	0.3	27.7	28.0
Non-current	0.3	27.7	28.0

The company, along with other group entities, is party to a guarantee in respect of any individual company's overdraft balance within the cash pooling facility with NatWest Bank Plc. At 31 December 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 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 company is party to various litigation actions arising in the ordinary course of business. Provision has been made where there is a probable cost involved in settling the action. The directors are of the view that other claims will have no significant impact on the results of the Company.

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

1. The principal sum of the subordinated term loan amounts to €125m (2018: €125m).
2. During the year the Royal BAM Group n.v. renegotiated a revolving credit facility, to which BAM Construct UK Ltd and other Group entities, is a guarantee. The revolving credit facility, was retained as €400m (2018: €400m), with a maturity date of March 2023. The directors are satisfied that Royal BAM Group n.v. is currently able to fulfil all its obligations under these agreements without recourse to any of the guarantors.

The directors are satisfied that Royal BAM Group n.v. is currently able to fulfil all its obligations under these agreements without recourse to any of the guarantors.

The company has agreed to provide financial support to ensure the continued operation of certain subsidiaries, which is not expected to give rise to any material loss that has not already been provided for in the accounts.

## Notes to the financial statements (continued)

### 17. Authorised and issued share capital

	Number	2019 £m	Number	2018 £m
Share capital				
Authorised: ordinary shares of £1 each	24,000,100	24.0	24,000,100	24.0
Issued: ordinary shares of £1 each	24,000,002	24.0	24,000,002	24.0

### 18. Retained earnings

	Retained earnings £m	Total Equity £m
At 1 January 2018	36.0	36.0
Profit for the year	15.3	15.3
At 1 January 2019	51.3	51.3
Loss / profit for the year	(2.2)	(2.2)
At 31 December 2019	49.1	49.1

### 19. Other related party transactions

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



# Notes to the financial statements (continued)

## 20. Group structure

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

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

## 21. Ultimate group undertaking

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

The ultimate parent undertaking and controlling party is Royal BAM Group n.v., a company incorporated in The Netherlands. The group accounts of the ultimate parent undertaking (the largest group of which the company is a member and for which group accounts are prepared) and of BAM Construct UK Limited (the smallest group) are available from Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire, HP2 4FL.

## 22. Subsequent events to the statement of financial position

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 Construction Ltd 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 Directors continue to consider the impact of COVID 19 and the impact on future operating performance of the Company 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

### **Registered number**

2379469

## **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





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.





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

Here you will find downloadable PDFs of:

BAM Construct UK Limited Report and Accounts

BAM Construction Limited Report and Accounts

BAM Properties Limited Report and Accounts

BAM FM Limited Report and Accounts

**Registered office**

Breakspear Park, Breakspear Way, Hemel Hempstead, Hertfordshire HP2 4FL

T: 01442 238 300 F: 01442 238 301

Registered number: 3311781