bam nuttall

REPORT AND ACCOUNTS

2018

bamnuttall.co.uk

CONTENTS

Registered Office
St James House
Knoll Road
Camberley
Surrey
GU15 3XW

STRATEGIC REPORT

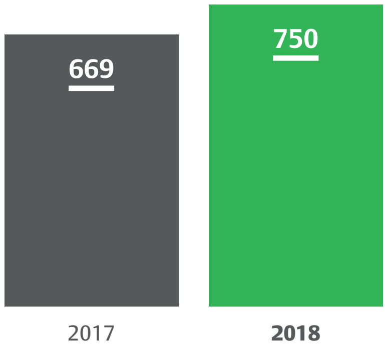
The principal activity of BAM Nuttall Limited (the 'Company') is that of civil engineering, carried out through operating divisions, together with contracting and other related activities.

The Company is a subsidiary of Koninklijke BAM Groep n.v. (Royal BAM Group), which is based in the Netherlands.

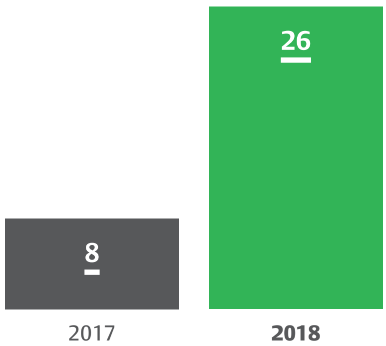
BUSINESS REVIEW

A summary of the Company's key performance indicators is as follows:

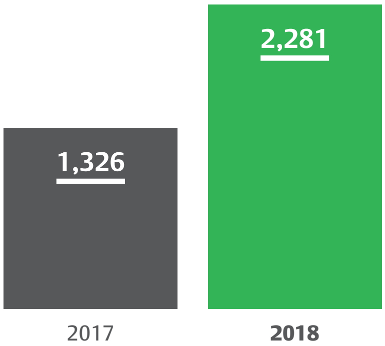
COMPANY TURNOVER (£M)



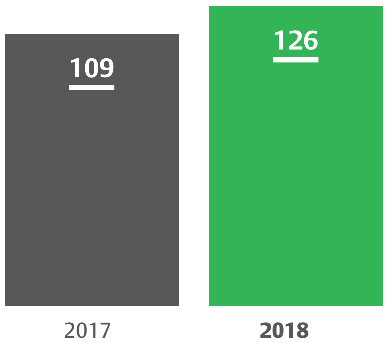
PROFIT / LOSS BEFORE TAXATION (£M)



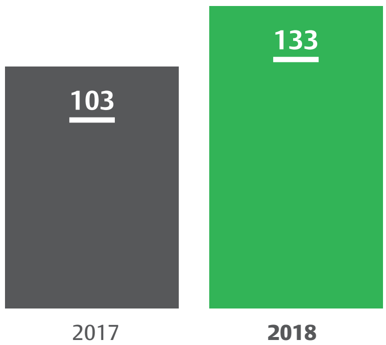
YEAR-END CONSTRUCTION WORK IN HAND (£M)



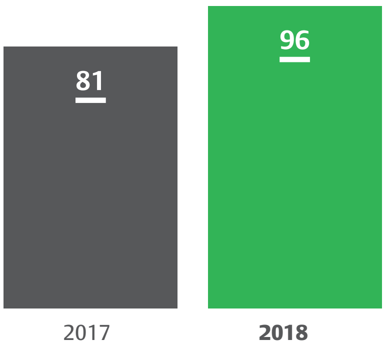
CASH AND CASH EQUIVALENTS (£M)



SHAREHOLDER'S FUNDS AT YEAR END (£M)



WORKING CAPITAL (£M)



This year our Company has performed well having achieved Group expectations in terms of profitability and turnover. We generated a profit before tax of £26.3m (2017: £7.8m restated) on a turnover of £750m (2017: £669m restated) producing a margin of 3% (2017: 1%).

The direct impact of Brexit on the business is not of significant concern to the directors. Our customer base substantially consists of public sector bodies or regulated sector workload. The infrastructure works that are being provided for these customers are essential for the functioning of our country and society, and are very unlikely to be affected by politics or spending resulting from Brexit. The two stage nature of the majority of our contracts allows us to assess the impact on the labour market and supply chain as close to delivery as possible, and to agree targets with our customers that incorporate these. Our rigorous approach to customer selection means that when engaging with private sector customers to date, we have not been affected by clients changing investment decisions as a result of Brexit. However, we still want to see an outcome that does not adversely affect access to the necessary skills or suppliers that will enable our market to develop and modernise at the maximum possible rate.

2018 has seen continued significant improvement in our safety performance. We are particularly pleased with the reduction in the severity of accidents with a 50% reduction in the total number of days lost as a result of incidents on our projects. We have seen further support of our campaign for the elimination of forward tipping dumpers from manufacturers and our peer group. We will continue to promote this approach. We have implemented our programme to eliminate the use of HAVS associated equipment in 2018. This has had a significant positive impact and we are delighted to see others adopting this policy.

We will continue our extensive programme of mental health, first aid training and other steps aimed at improving the wellbeing of our people. The uptake of our 2 wellbeing days per year for all employees has increased again. We reported our first gender pay gap figures in 2018. The construction industry was expected to see challenging results, and we were not alone in this. However, we are in the best performing quartile and we are certain that the measures that we have been implementing for several years will have a real impact in the medium and long term.

STRATEGIC REPORT (CONT)

The revised management structure that we implemented in 2017 has continued to have a marked impact with a considerable number of significant framework and other contract awards. Our five year order book stands at a record level. Our strategy of targeting customers who have objectives that align with ours is leading to more repeat business and more predictable performance.

Awards received in 2018 include two significant frameworks for Highways England Routes to Market, two major Network Rail frameworks in CP6 – London North East and Southern. In addition to these major bridges from Norfolk and Suffolk, and a substantial transport improvement project for Leeds. Our SSE framework in Scotland has delivered significant projects. We are also leveraging more collaboration and knowledge from other BAM Group companies, many of whom operate in markets that are more receptive to innovation than the risk averse constraint that many UK contracts initially adopt. Efficiency of several of our support functions has been improved by measures to collaborate across Group operating companies.

Notable projects that completed whilst work has continued on significant infrastructure projects including Hinckley Power Station, Trans-Pennine Update, Highlands Enhancement Programme and Thames Tideway Tunnel. We also commenced significant works on our British Antarctic Survey framework.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks inherent in our business are of a financial and legislative nature. The Company operates within the limits presented by its ultimate parent company, Royal BAM Group n.v.

The Company's exposure to and management of financial risk in relation to price risk, credit risk, liquidity and cash flow is detailed below:

PRICE RISK

This risk relates to our ability to properly evaluate the cost of projects at tender stage, the control and recording of these costs during construction and our ability to recover these costs under the prescribed payment terms of our contracts. Other financial risks relate to the financial standing of our customers and supply chain in terms of their ability to discharge their contracted obligations to us. Management of these financial risks is an integral part of the Company's formalised control processes and business procedures, including the preparation of monthly project cost reports and a detailed quarterly review of current projects by the Company's Board of Directors.

CREDIT RISK

The Company's policy is to trade only with recognised, creditworthy third parties. It is the policy of the Company that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, both at operating unit and company level, with the objective of minimising the Company's exposure to bad debts.

LIQUIDITY AND CASH FLOW RISK

These risks are actively managed through the preparation and monitoring of a detailed twelve month rolling cash flow forecast and over a longer timescale by the preparation of a Medium Term Plan.

LEGISLATIVE RISK

These relate primarily to health, safety and environmental issues. Each of these issues receives significant focus at all levels within the Company and mandatory policies and procedures have been implemented in order to mitigate and control these risks.

No significant uncovered risks were identified up to the date of these financial statements being issued.

For and on behalf of the Board

Stephen Fox CBE
Chief Executive

March 2019

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018.

DIRECTORS OF THE COMPANY

The directors who served during the year ended 31 December 2018 and up to the date of this report are as follows:

S C Fox CBE
G M Renshaw

Neither of the directors have any personal or beneficial interest in the shares of the Company. For information on director's interests in the shares of The Royal BAM Group please refer to note 5 of the financial statements.

RESULTS AND DIVIDENDS

The results of the Company are set out on page 12. The directors declared and paid a dividend of £6,000,000 during the year (2017 - £5,500,000).

FUTURE DEVELOPMENTS

The Company intends to continue civil engineering activities, principally in the UK, but will also explore international opportunities.

GOING CONCERN

The Company's business activities are described in the Strategic Report on pages 2 - 4.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and markets. As a consequence the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

SUSTAINABILITY

In line with our commitment to de-carbonising the construction economy, 2018 saw our project teams focus on reducing liquid fuel usage – responsible for 65% of our carbon emissions – and further reducing the impact of construction and office waste.

Our CO2 intensity in 2018 was influenced by the significant earthworks activity at our Hinkley Point C Enabling Works project, but still showed a small year-on-year reduction and an 8.6% improvement on the 2018 target. The Hinkley project developed a range of solar/wind hybrid units to provide local-scale renewable power to remote locations, a compelling example of our teams actively addressing the climate challenge and improving established practice.

Our construction and office waste intensity reduced by 7% year-on-year, due to a focus on controlling temporary works concrete waste, operational efficiency, supplier take back of packaging materials and an increase in offsite manufacture.

Where waste generation is unavoidable, we actively seek to divert it from landfill by increasing reuse and recycling of materials. Dredged silt from our Hull River Defences Project was processed by a specialist partner to produce building blocks. As well as reusing the material, the cost of disposal reduced considerably. BAM Nuttall's performance in 2018 has contributed to BAM Group retaining a Climate A listing on the CDP Leadership Index.

RESEARCH AND DEVELOPMENT

The Company continued investing in research and development during 2018, progressing initiatives in digital construction, materials technology and machine learning to improve productivity and reduce risk in our project delivery. We ran regular innovation events during the year to engage our supply chain partners and customers in the ethos of innovation.

Customer interest is in this area is developing quickly and 2018 saw BAM Nuttall participate in the Heathrow Expansion Programme 'Innovation Partners' initiative. Our submissions leveraged group knowledge and experience from our internal Business Innovation Committee, identifying elements of our innovation investment programme that align with the Heathrow aspiration and delivery timescale.

Our sponsorship of the Royal Academy of Engineering Research Chair in Biomineral Technologies for Ground Engineering entered its second year with Professor Rebecca Lunn of the University of Strathclyde. The bio-calcification research – transforming soils into rock through bacterial action – received new funding from the Construction Scotland Innovation Centre to facilitate early field trials, a precursor to industrial implementation.

We continued to engage with UK Research & Innovation (UKRI), with the Innovate UK-funded project on detectable cementitious grouting concluding at the end of the year. BAM Nuttall participated in several calls for funding, including a joint application with partners Iotic Labs and Cranfield University to develop our 'Learning Camera' project. The Learning Camera is a flexible, scalable machine learning technology to automate repetitive tasks, reducing the time our people spend in hazardous environments, reducing recurring costs and increasing resilience for extreme conditions.

Digital construction and information management is now routine on our projects, supported by a central team of specialist advisors and a group-wide network of practitioners. Visualisation technology is being used to communicate construction planning, improving operational understanding and further reducing construction errors. On the Rothera Wharf Replacement project for British Antarctic Survey, digital modelling and VR simulation allowed our teams to practice and perfect construction activities in advance of travelling to Antarctica for the 2018 season.

EMPLOYEES

Supporting the delivery of our strategy 'Building the present, creating the future', investment in our people is helping us achieve our purpose and plans, and achieve our goals. We continued embedding our new BAM values – Predictable Performance, Open Collaboration, Proactive Ownership, Scalable Learning – aligning the way our business operates and how our people and teams work together.

In 2018 we launched the 'Your Safety Is My Safety' campaign across all BAM operating companies, creating a single approach for tackling risk and improving occupational safety. Awareness campaigns such as the industry-wide 'Stop. Make a Change', and our own 'BAM Safety Day' help reinforce our commitment to safety and the understanding that wherever our people work, in whatever role, they have a part to play.

Safety performance across BAM Nuttall and Royal BAM Group improved again in 2018, with fewer incidents and lower levels of harm, taking us another step closer to eliminating life changing injuries in our industry. Employees across the BAM Nuttall business – from Scotland to Sierra Leone – now share safety best practice and learnings more effectively, benefitting policies, processes and guidance in our management system. Our focus is on maintaining and improving further, ensuring our people go home safe, every day.

DIRECTORS' REPORT (CONT)

Divisional leaders continue to embed people-focused actions into their annual Operating Plans, encompassing local safety priorities, targeted recruitment and apprenticeship campaigns, skills development. During 2018, succession planning was extended into second and third tiers of the divisional

management structure, further improving operational resilience, and helping to identify and progress emerging talent. Leadership and management development programmes targeted our high potential pool, providing challenging targets and additional support in their careers. Our performance development review process evolved to include a 'potential' tool, further supporting regular conversations between line managers and individuals, and continuing to help our people align their own efforts, expertise and contributions to our annual plans and targets. By attending our B-Connected Roadshows held throughout the UK, teams saw leaders share these plans and priorities first-hand.

In 2018, 200 people were enrolled in nine core professional qualification programmes, predominantly with the Institution of Civil Engineers (ICE) and Chartered Institution of Civil Engineering Surveyors (ICES), and 95 people were awarded a professional qualification. Over 50% of people in technical roles are now professionally qualified, helping us differentiate our capability in a competitive market. We enrolled a further 32 year one students into our apprenticeship scheme, bringing the active total of professional apprentices under agreement to 120. Our scheme also achieved third place in the 2018 'Rate my Apprenticeship' national ranking.

Our People Development team delivered, coordinated and recorded over 12,000 training days, averaging 4 days per person, and processed over 1000 competency cards, supporting the administration of 11,000 cardholders across 27 different card schemes. People in our business achieved 8,324 nationally recognised qualifications, including 2,696 supply chain employees, maximising use of available government funding. Across our business 85% of people in operational roles hold an average of two vocational qualifications, recognising the commitment of our employees to skills achievement.

We continue to lead to skills agenda in the industry, maintaining our presence on the Board of the Construction Skills Certification Scheme (CSCS) and the Management Committee of the Construction Plant Competence Scheme (CPCS), positively influencing these schemes for the benefit of 2 million industry card holders.

Our focus on mental health deepened during 2018, embedding core principles through our programme of mental health training for managers and e-learning for Mental Health at Work, helping our employees support their own and others' wellbeing. Our network of Mental Health and Wellbeing Champions across the business grew in the year, allowing us to support the 'Mind' charity's awareness campaign 'Time to Talk' and to repeat our involvement in the Mind Workplace Wellbeing Index. The results of these initiatives help inform our efforts to develop improved processes, guidance and support in this area.

We repeated our Culture Survey in October 2018, reaching every part of the business through an online and on-site questionnaire and focus groups, gathering insights on how employees and suppliers relate to their work and our company. We learnt that our people feel we excel in safety, they have a positive connection with BAM Nuttall and our business is considered to have strong and caring leaders. These results are compared against industry benchmarks and previous surveys to identify strengths and areas for growth.

Responses relating to support for employees' physical and mental wellbeing were well above the industry benchmark. The introduction of two Wellbeing Days for our people – actively encouraging employees to spend time on activities that support their own wellbeing – has been a success, with over half of survey respondents taking at least one day in 2018. This follows the continued success of Volunteering Days, where our people are given time and opportunities to make a direct impact and difference to others.

The survey highlighted that internal communication with our geographical spread remains challenging and that employees continue to seek ever more information and insight. To this end, our policies, processes and ways of working aim to involve everyone in our business, providing safe and secure environments where people can excel without fear of prejudice, harassment and bullying.

BAM Nuttall is committed to inclusion, equality and fairness. We use the Women in Science and Engineering (WISE) 'Ten Steps' framework to increase successful recruitment, retention and progression of women, and deliver better results and company performance. We want to improve the experiences of women working in and alongside our business, making sure more is done to help women achieve their potential and make the maximum contribution to the construction and infrastructure sector.

Our 2017 Gender Pay Gap report identified a lack of women at all levels of our business and in senior roles particularly. In 2018, our Gender Pay Gap reduced as our action plan took effect. We continue to develop plans to increase the proportion and numbers of women in our business, identifying agile working and job design as key elements of this strategy.

Diversity initiatives extend beyond gender and are brought to life in the business through our team of Diversity Champions and people networks, including Women@BAM, Differability and LGBT+ Allies. These groups are encouraged to challenge, raise awareness, educate and celebrate progress, and are instrumental in creating grassroots support for inclusion amongst our people. 2018 saw the business get involved in many initiatives, amongst them disability month, further unconscious bias training, basic sign language instruction and partnering with employment agencies who introduce businesses to disabled candidates. We joined sister businesses BAM Construct and BAM PPP to support PRIDE events in London and Manchester, creating a joint social media and publicity campaign, and winning a Building Equality award in recognition of the impact made.

DIRECTORS' REPORT (CONT)

EVENTS SINCE THE BALANCE SHEET DATE

There were no material adjusting events up to the date that the financial statements were formally approved by the directors.

DIRECTORS LIABILITIES

The ultimate parent company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

POLITICAL DONATIONS

No political donations were made during the year (2017 - £nil).

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 the 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

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

S C Fox CBE
Chief Executive

Date: March 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, and applicable law), including FRS101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 AUDITORS' REPORT

OPINION

We have audited the financial statements of BAM Nuttall Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, 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 (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework".

In our opinion the financial statements:

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

OTHER INFORMATION

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

- adequate accounting records have not been kept by the parent company, 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 8, 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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

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

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

Date: March 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	*2018* *£000*	*2017* *£000*
Revenue	***3***	749,866	668,828
Costs and expenses		(725,044)	(662,091)
Operating profit/(loss)	4	24,822	6,737
Profit on disposal of fixed assets		632	457
Net finance income	7	804	589
Profit before tax		26,258	7,783
Income tax charge	8	(1,459)	(7)
Profit for the year		24,799	7,776
Other comprehensive income:			
Actuarial gains on defined benefit pension plans	17	13,313	14,082
Income tax relating to components of other comprehensive income	8	(2,263)	(2,394)
Other comprehensive income for the year, net of tax		11,050	11,688
Total comprehensive income for the year		35,849	19,464

All amounts relate to continuing operations

BALANCE SHEET

AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Fixed Assets			
Intangible assets	9	-	238
Tangible assets	10	10,247	8,404
Investments	11	1	1
Defined benefit pension plan asset	17	36,866	19,568
Deferred tax asset	8	1,427	2,892
		48,541	31,103
Current assets			
Stocks	12	1,878	1,832
Debtors due in less than one year	13	194,927	172,286
Debtors due in more than one year		4,947	2,417
Cash at bank and in hand		126,363	108,841
		328,115	285,376
Current liabilities			
Trade and other payables	14	(201,429)	(161,368)
Amounts due to customers under construction contracts (contract liability)		(31,141)	(43,096)
		(232,570)	(204,464)
Net current assets		95,545	80,912
Total assets less current liabilities		144,086	112,015
Creditors: amounts falling due after one year			
Obligations under hire purchase contracts	15	(1,743)	(1,309)
Deferred tax liability	8	(6,267)	(3,384)
Provisions for liabilities	18	(3,144)	(4,239)
		(11,154)	(8,932)
		132,932	103,083
Capital and reserves			
Called up share capital	16	27,000	27,000
Profit and loss account		105,932	76,083
Equity shareholders' funds		132,932	103,083

These financial statements were authorised for issue in accordance with a resolution of the board of directors of BAM Nuttall Limited, registered number 305189.

S C Fox CBE
Chief Executive

Date: March 2019

STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2018

	Share Capital £000	*Retained Earnings £000*	*Total Equity £000*
As at 1 January 2017 (restated*)	***27,000***	***62,119***	***89,119***
Profit for the year (restated*)	-	7,776	7,776
Other comprehensive income	-	11,688	11,688
Total comprehensive income for the year	**-**	***19,464***	***19,464***
Equity dividends paid	-	(5,500)	(5,500)
At 31 December 2017 (restated*)	***27,000***	***76,083***	***103,083***
Profit for the year	-	24,799	24,799
Other comprehensive income	-	11,050	11,050
Total comprehensive income for the year	**-**	***35,849***	***35,849***
Equity dividends paid	-	(6,000)	(6,000)
At 31 December 2018	***27,000***	***105,932***	***132,932***

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

1. AUTHORISATION OF THE FINANCIAL STATEMENTS AND THE STATEMENT OF COMPLIANCE WITH FRS101

The financial statements of BAM Nuttall Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on XX April 2019 and the balance sheet was signed on the board's behalf by S Fox CBE. BAM Nuttall Ltd is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Royal BAM Group n.v.

The results of BAM Nuttall Limited are included in the consolidated financial statements of Royal BAM Group n.v. which are available from St James House, Knoll Road, Camberley, Surrey, GU15 3XW.

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

On account of the Company being consolidated by Royal BAM n.v, whose financial statements are prepared in accordance with international financial reporting standards (IFRS), 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), 39 (c) and 134-136 of IAS 1 Presentation of Financial Statements;

(h) The requirements of IAS 7 Statement of Cash Flows;

(i) The requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(j) 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 134 (d) to 134 (f) and 135 (c) to 135 (e) of IAS 36 Impairment of Assets;

(l) The requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting estimates and errors; and

(m) 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 Revenue from Contracts with Customers.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONT)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The Company has adopted this standard at the date of initial application. See note 2 Revenue recognition for the relevant accounting policies.

The Company used the retrospective method for implementation, which means that the financial statements of 2018 contain restated comparative figures for 2017 following the adoption of IFRS 15

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

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

Significant inefficiencies

The Company does not recognise revenue for costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the price of the contract since these costs do not contribute to any benefits for the customer. This includes costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the performance obligation. Identification of inefficiencies leads to an adjustment in revenue and, in case of loss making projects, a reclassification between project result and provisions for onerous contracts. No result impact has been identified during the Company's conversion to IFRS 15.

Reclassification of onerous contracts

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

Input measures for revenue recognition

Based on IFRS 15, only one measurement method for recognising revenue over time may be used for similar contracts with similar circumstances by the Company: either input based or output based and applied consistently. Under the previous standard both methods were applied. Bam Nuttall use the input method, meaning the revenue is based on the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation.

Practical expedients

For consistency reasons, a few practical expedients have been applied during the conversion of the Company to IFRS 15. This may have resulted in a slightly higher transition impact than if practical expedients would have been applied, for example because the Company has not used hindsight for the valuation of variable considerations. The Company has assessed the valuation with the knowledge available at the reporting date with the application of the highly probable threshold, meaning the variable considerations have been valued at a later moment in time when the highly probable threshold has been reached.

The following table summarises the impact of adopting IFRS 15 on the Company's balance sheet as at 1 January 2017 for each of the line items affected. Line items that were not affected by the changes have not been separately shown. The tables show adjustments of revenue from variable considerations, the impact of recognising bid fees during the construction phase, a reclassification for onerous contracts to provisions and other impacts. The amounts are shown in £ thousands.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONT)

Impact on the balance sheet:

Balance sheet (extract)	*1 January 2017*	*Variable consideration*	*Provisions*	*Restated 1 January 2017*
Deferred tax asset	2,750	1,371	-	4,121
Amounts due from customers for contract work (contract asset)	55,533	(8,063)	170	47,640
Other assets	229,661	-	-	229,661
Total assets	287,944	(6,692)	170	281,422
Equity	95,811	(6,692)	-	89,119
Amounts due to customers under contracts (contract liability)	38,892	-	(1,967)	36,925
Provisions	2,660	-	2,137	4,797
Other liabilities	150,581	-	-	150,581
Total equity and liabilities	287,944	(6,692)	170	281,422

The following tables summarise the impact of adopting IFRS 15 on the balance sheet as at 31 December 2017 and its consolidated income statement for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been separately shown. The tables show adjustments of revenue from variable considerations, the impact of recognising bid fees during the construction phase, a reclassification for onerous contracts to provisions and other impacts. The amounts are shown in £ thousands.

Balance sheet (extract)	*31 December 2017*	*Variable consideration*	*Provisions*	*Restated 31 December 2017*
Deferred tax asset	1,521	1,371	-	2,892
Amounts due from customers for contract work (contract asset)	78,600	(13,063)	3,074	68,611
Income tax receivable	2,795	962	-	3,757
Other assets	241,219	-	-	241,219
Total assets	324,135	(10,730)	3,074	316,479
Equity	113,813	(10,730)	-	103,083
Amounts due to customers under contracts (contract liability)	43,100	-	(4)	43,096
Provisions	1,161	-	3,078	4,239
Other liabilities	166,061	-	-	166,061
Total equity and liabilities	324,135	(10,730)	3,074	316,479

AT 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONT)

Impact on the income statement 2017:

	Full year 2017	*Variable consideration*	*Provisions*	*Restated Full year 2017*
Revenue	673,828	(5,000)	-	668,828
Costs and expenses	(662,091)	-	-	(662,091)
Operating profit	11,737	(5,000)	-	6,737
Profit on disposal of fixed assets	457	-	-	457
Net finance income	589	-	-	589
Profit before tax	12,783	(5,000)	-	7,783
Income tax charge	(969)	962	-	(7)
Profit for the year	11,814	(4,038)	-	7,776
Other comprehensive income for the year, net of tax	11,688	-	-	11,688
Total comprehensive income for the year	23,502	(4,038)	-	19,464

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions concerning the future. Estimates will, by definition, seldom be identical to the actual results. Estimates and assumptions are based on historical experience and other factors, including expectations of future events that may be reasonably occur based on the current situation. Estimates are continuously evaluated. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are disclosed in the notes to the financial statements.

a) Revenue recognition – contract revenue and costs

When the outcome of a contract can be estimated reliably, the contract revenue is highly probably 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 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 judgement (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 contracts. However, historical experience has also shown that estimates are, on the whole, sufficiently reliable. See "Principal accounting polices-Construction contracts" note for further explanation regarding the recognition of revenue for contracts.

b) 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 probably that no significant reversal in the cumulative revenue recognised regarding to the claim, will occur. The company 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 judgment 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 "Principal accounting polices- Construction contracts" note for further explanation regarding the recognition of variable consideration.

c) 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 8.

d) Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial variation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligations highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. An indication of the effect of changes in assumptions, such as the discount rate used and member life expectancy is disclosed in note 17.

e) Operating lease commitments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES

Intangible assets

Non-integrated software is stated at cost less accumulated amortisation and impairment losses. Amortisation on non-integrated software is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 3 years. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

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 of the investment is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. An impairment loss is recognised 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.

Tangible fixed assets

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the items.

Land is not depreciated. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Plant and machinery	over 3 to 10 years
Fixtures, fittings, tools and equipment	over 2 to 10 years
Freehold premises	over 25 to 50 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the income statement.

Research and development

All research and development costs are charged to the income statement as incurred.

Stocks

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. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Trade and other receivables

Trade receivables and other debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Trade and other receivables, other than those measured in accordance to IFRS 15, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any expected credit loss.

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

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 Company has with its customer and to recognise revenue on the level of the performance obligations, reflecting the consideration that the Company 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 Company to allocate the transaction price to each performance obligation.
- Step 5 'Recognise revenue': the Company recognises revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

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 Company 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.

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 Company 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 Company uses three methods to account for a contract modification:

(a) as a separate contract when the modification promises distinct goods (according to IFRS 15.27) or services and the price reflects the stand alone selling price;

(b) as a cumulative catch-up adjustment when the modification does not add distinct goods or services and is part of the same performance obligation. For the Company, as common within the construction sector, modifications mainly relate to variation orders which do not result in additional distinct goods and services and have to be accounted for as cumulative catch-up adjustment. This is the most common method within the Company given the nature of the modifications;

(c) or as a prospective adjustment when the considerations from the distinct goods or services do not reflect their standalone selling prices.

Step 2 'Identify the performance obligations'
The purpose of this step is to identify all promised goods or services that are included in the contract. Examples of performance obligations are the construction of a highway, railway network the delivery of infrastructure works and so on.

At contract inception, the Company 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 Company's customary business practices, published policies or specific statements.

Design and construct contracts in the context of the Company 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

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 "Judgements and key sources of estimation uncertainty – Revenue Recognition" note for the related criteria.

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

When determining the transaction price, the 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 Company 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 Company 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

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 Company 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 company 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 fulfilment 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 Company'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 Company 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.

Step 5 'Recognise revenue'
If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate the Company's fulfilment of the contract, the Company assesses whether it obtains control of those contributed goods or services. If so, the Company 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 Company 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 Company recognises capitalised contract cost from the costs incurred to fulfil a contract (for example set-up or mobilisation costs) only if those costs meet all of the following criteria:

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

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

Costs of inefficiencies
The Company does not recognise revenue for costs incurred that are attributable to significant inefficiencies in the Company'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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

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 sing the effective interest method.

Pension costs

The company operates three defined contribution schemes, contributions into which are recognised in the income statement in the period in which they become payable.

The company does not have any active defined benefit pension schemes.

Regular valuations are prepared by independent, professionally qualified actuaries. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit actuarial method, which attributes entitlement to benefits to the current period (to determine current service cost). Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested.

The interest element of the defined benefit cost represents the change in present value of scheme obligations relating from the passage of time, and is determined by applying the discount rate to the opening present value of benefit obligation taking into account material changes in the obligation during the year. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds (AA) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest costs is recognised in the income statement as other finance income or expense.

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

The defined benefit pension asset in the balance sheet comprises the fair value of plan assets, less the present value of the defined benefit obligation, less any past service cost not yet recognised and less the fair value of the plan assets out of which the obligations are to be settled directly.

Leasing commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the lease or hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Revenue recognition

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 contacts see note 2 revenue recognition.

Joint arrangements

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

The company participates in contracts which are carried out in joint operations without the establishment of a legal entity. These arrangements are subject to joint control requiring unanimous consent for strategic, financial and operating decisions. The company proportionately accounts for its share of the income, expenditure assets and liabilities under each relevant heading in the financial statements.

The company also participates in contracts which are carried out in joint ventures with the establishment of legal entities. These joint venture entities are subject to joint control requiring unanimous consent for strategic, financial and operating decisions of the entities. Investments in joint ventures are accounted for at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

Taxation

(a) Current tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income respectively directly in equity.

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

(a) Deferred tax

Full provision has been made for deferred taxation in respect of timing differences that have originated but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except that:

- Provision is made for tax on gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is not made for the remittance of a subsidiary, associate or joint venture's earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, 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 enforcement 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.

Foreign currency translation

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

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.

Provision 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.

Financial instruments

Financial Assets – Classification
Management determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired or issued. In principle, the financial assets are held in a business model whose objective is to collect contractual cash flows over the lifetime of the instrument. The 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 as other financial assets at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

Financial instruments (cont)

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 is also applicable for net changes in fair value after initial recognition. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are initially measured at the transaction price determined under IFRS 15. (See note 2.4 for revenue recognition).

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

- The debt instruments is held with the objective to hold financial assets in order 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 of 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 company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises loss allowance based on lifetime ECLs at each reporting date. The company 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.

Financial Liabilities

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

Subsequent measurement
The measurement of financial liabilities is as follows:-

De-recognition of financial liabilities
A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

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

AT 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT)

PRINCIPAL ACCOUNTING POLICES (CONT)

Prior year adjustment

In the prior year, directors' remuneration disclosures excluded in error the amounts receivable by directors of the company in connection to the long-term incentive plan operated by the Royal BAM Group. These amounts related to qualifying services performed by the directors in connection to BAM Nuttall Limited.

The long-term incentive plan is equity settled by Royal BAM Group and hence a prior year adjustment has been recognised to correctly account for the amounts receivable by the directors of BAM Nuttall Limited as an equity-settled share-based payment transaction, and recognise a corresponding increase in equity as a contribution from the parent.

The amounts received by the directors under the long-term incentive plan for periods prior to 1 January 2017 was £31k.

The directors' remuneration note (Note 5) has been updated to correctly disclose the amounts for the current and prior year periods.

3. TURNOVER

Turnover is attributable to one activity, civil engineering and related operations.

An analysis of turnover by geographical market is given below:

	2018	***2017***
	£000	***£000***
Geographical area:		
United Kingdom	733,802	657,975
Europe	2,257	3,342
Outside Europe	13,807	7,511
	749,866	***668,828***

4. OPERATING PROFIT

This is stated after charging/(crediting):	***2018***	***2017***
	£000	***£000***
Hire of plant and machinery	39,285	37,913
Operating lease rentals	2,896	2,581
Foreign currency exchange differences	(36)	(730)
Depreciation – owned assets (note 10)	2,379	1,921
Amortisation – non-integrated software (note 9)	238	423
Auditors' remuneration - audit of the financial statements	325	266
- other services	28	12

5. DIRECTORS' REMUNERATION

	2018	***2017***
	£000	***£000***
Remuneration as executives	795	1,127
Company contributions to defined contribution scheme	-	49
Total emoluments	795	1,176

5. DIRECTORS' REMUNERATION (CONT)

In 2018 no directors received employer contributions to a defined contribution scheme. (2017 – two).

The amounts in respect of the highest paid director are as follows:	2018 £000	2017 £000
Emoluments	***466***	***422***

	2018 £000	2017 £000
Amounts receivable under long term incentive plans (see note 20)	14	41
Number of directors who received shares in respect of qualifying services	1	1

The highest paid director in 2018 and 2017 received shares under the ultimate group undertaking's long term incentive scheme.

6. STAFF COSTS

In 2018 no directors received employer contributions to a defined contribution scheme. (2017 – two).

	2018 £000	2017 £000
Wages and salaries	147,473	136,370
Social security costs	15,901	14,648
Other pension costs	12,299	10,871
	175,673	***161,889***

Included in other pension costs is a defined contribution cost of £12,299k (2017 - £10,871k).

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

	2018 £000	2017 £000
Wages and salaries	1,080	1,103
Monthly paid staff	1,824	1,740
	2,904	***2,843***

7. NET FINANCE INCOME

	2018 £000	2017 £000
Interest receivable from parent undertaking	126	265
Bank interest receivable	85	56
Other finance income	69	208
Finance income pension (Note 17)	582	83
	862	**612**
Finance lease expense	58	23
Net finance income	**804**	**589**

8. TAX

(a) Tax charged in the income statement

	2018 £000	2017 £000
Current income tax:		
UK corporation tax	2,261	788
Prior year adjustment	(3,300)	(1,855)
Total current income tax	(1,039)	(1,067)
Deferred taxation:		
Origination and reversal of temporary timing differences	2,612	603
Rate change	-	-
Prior year adjustment	(114)	471
Total deferred tax	2,498	1,074
Tax expense in the income statement	***1,459***	***7***

(b) Tax relating to items charged or credited to the other comprehensive income

	2018 £000	2017 £000
Current tax:		
Current tax credit on pension scheme	-	-
Deferred taxation:		
Actuarial (losses)/gains on defined benefit pension plans	2,263	2,394
Tax (credit)/expense in statement of other comprehensive income	***2,263***	***2,394***

8. TAX (CONTINUED)

(c) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than (2017 – lower than) the rate of corporation tax in the UK of 19.00% (2017 – 19.25%). The differences are reconciled below:

	2018	***2017***
	£000	***£000***
Accounting profit before income tax	26,258	7,783
Tax calculated at UK standard rate of corporation tax of 20.00% (2015 – 20.25%)	4,989	1,498
Expenses not deductible for tax purposes	112	28
Depreciation in excess of capital allowances	34	36
Prior year adjustment	(3,414)	(1,384)
Rate change	(262)	(171)
Total tax expense reported in the income statement	***1,459***	***7***

(d) Deferred tax

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

	2018	***2017***
	£000	***£000***
Deferred tax liability		
Other temporary differences	-	(57)
Pension and post-employment benefits	(6,267)	(3,327)
	(6,267)	***(3,384)***
Deferred tax asset		
Pension and post-employment benefits	-	-
Accelerated capital allowances	929	1,184
Tax credit and loss carried forward	-	-
Other temporary differences	498	1,708
	1,427	***2,892***
Disclosed on the balance sheet		
Deferred tax asset	1,427	2,892
Deferred tax liability	(6,267)	(3,384)
	(4,840)	***(492)***

A deferred tax asset in respect of depreciation in advance of capital allowance relief and losses has been recognised in the balance sheet on the grounds that there will be suitable taxable profits within the company. Based upon all available evidence management believe this will allow for the future reversal of the underlying timing difference.

(f) Factors that may affect future tax charges

On the 8 July 2015 the Chancellor of the Exchequer announced that the rate of Corporation Tax will reduce from 20% to 18% by 2020, with a 1% interim reduction in 2017. On the 16 March 2016 the Chancellor of the Exchequer announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%. The measurement of deferred tax assets as at December 2017 was at 17%, based on the anticipated crystallisation of the asset.

9. INTANGIBLE FIXED ASSETS

	Non-Integrated Software £000
Cost:	
At 31 December 2017	2,190
Additions	-
At 31 December 2018	2,190
Amortisation:	
At 31 December 2017	1,952
Charged during the year	238
At 31 December 2018	2,190
Net book value:	
At 31 December 2018	-
At 31 December 2017	238

10. TANGIBLE FIXED ASSETS

	Freehold offices £000	*Plant and machinery £000*	*Fixtures, fittings, tools and equipment £000*	*Total £000*
Cost:				
At 31 December 2017	5,867	26,250	12,589	44,706
Additions	707	2,808	778	4,293
Disposals	-	(2,966)	(9)	(2,975)
At 31 December 2018	6,574	26,092	13,358	46,024
Depreciation:				
At 31 December 2017	2,660	22,550	11,092	36,302
Provided during the year	175	1,593	611	2,379
Disposals	-	(2,904)	-	(2,904)
At 31 December 2018	2,835	21,239	11,703	35,777
Net book value:				
At 31 December 2018	3,739	4,853	1,655	10,247
At 31 December 2017	3,207	3,700	1,497	8,404

Assets with a gross value of £4,288k (2017: £2,283k) and related accumulated depreciation of £1,237k (2017: £282k) are held under hire purchase contracts, (see Note 15).

11. INVESTMENTS – NON-CURRENT

	2018 *£000*	*2017* *£000*
Investment in Subsidiaries	-	-
Investments in Joint Ventures	1	1
	1	***1***

The company's subsidiary undertakings at 31 December 2018 were:

Name of undertaking	***Country of registration***	***Holding of ordinary shares %***	***Nature of business***
BAM Nuttall Demolition Limited	England	100	Dormant
Allbrook Contract Hire Limited	England	100	Contract hire
Broadland Environmental Services Limited	England	90	Civil Engineering
BAM Rail M & E Limited	England	100	Dormant

The registered address for all these undertakings is St James House, Knoll Road, Camberley, Surrey, GU15 3XW.

The company's Joint Venture undertakings at 31 December 2018 were:

Name of undertaking	***Country of registration***	***Holding of ordinary shares %***	***Nature of business***
BAM Offshore Wind B.V.	Netherlands	50	Civil Engineering
BMM JV Limited	England	50	Civil Engineering

BAM Offshore Wind B.V. was incorporated as a limited Company in the UK in 2017 as a Joint arrangement between the Company and BAM Infra B.V. (Joint Venturers). Whereby, the Joint Venturers have joint control of the arrangement and rights to the net assets of the arrangement. The Company accounts for the Joint arrangement using cost method.

BMM JV Limited was incorporated as a limited Company in the UK in 2013 as a Joint arrangement between the Company and Mott McDonald (Joint Operators). Whereby, the Joint Operators have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Company proportionately accounts for its share of the income, expenditure, assets and liabilities under each relevant heading in the financial statements.

12. STOCKS

	2018 *£000*	*2017* *£000*
Raw materials and consumables	1,878	1,832

AT 31 DECEMBER 2018

13. DEBTORS

	2018 *£000*	*2017* *£000*
Amounts due from customers for contract work (contract asset)	123,279	68,611
Accrued income	1,600	20,800
Trade debtors	48,999	45,755
Amounts owed by parent and fellow group undertakings	18,421	28,908
Income tax receivable	727	3,757
Other debtors	1,901	4,455
	194,927	172,286

Amounts owed by parent and fellow group undertakings include £9,630k on deposit with Royal BAM Group (2017 - £17,187k) which is settled on demand.

14. TRADE AND OTHER PAYABLES

	2018 *£000*	*2017* *£000*
Amounts owed to subsidiary undertakings	2,054	3,053
Trade creditors	27,471	29,543
Accruals and deferred income	144,915	110,540
Other taxes and social security costs	17,859	12,953
Obligations under hire purchase contracts	740	456
Other creditors	8,390	4,824
	201,429	161,368

Amounts owed to parent and fellow group undertakings have no specific terms of settlement and are therefore considered current.

15. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Future minimum lease payments under hire purchase contracts are as follows:

	Plant and machinery 2018 £000	*Plant and machinery 2017 £000*
Future minimum lease payments due:		
within one year	795	491
within two to five years	2,201	1,572
Later than 5 years	-	114
	2,996	2,177
Less finance charges allocated to future periods	(513)	(412)
Present value of minimum lease payments	2,483	1,765

The present value of minimum lease payments is analysed as follows:

within one year	740	456
within two to five years	1,743	1,252
Later than 5 years	-	57
	2,483	1,765

The average duration of hire purchase contracts is 4.3 years (2017: 4.2 years).
The lease arrangements impose no restrictions on the Company.

Operating lease agreements where the Company is lessee
Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2018 £000	*Land and buildings 2017 £000*	*Plant and machinery 2018 £000*	*Plant and machinery 2017 £000*
within one year	871	103	1,794	1,608
within two to five years	317	1,702	2,121	2,042
In over five years	-	-	-	-
	1,188	1,805	3,915	3,650

The average duration of operating lease arrangements is 2.4 years (2017: 2.8 years).
The lease arrangements impose no restrictions on the Company.

16. SHARE CAPITAL

There are no changes to share capital during the year.

	Authorised 2018 & 2017 £000	*Allotted called up & fully paid 2018 & 2017 £000*
150,000 3.85% redeemable cumulative preference shares of £1 each	150	-
27,000,000 ordinary shares of £1 each	27,000	27,000
	27,150	27,000

17. PENSIONS

(a) Staff pension scheme

The BAM Nuttall Limited contributory defined benefit pension scheme was closed to future accrual with effect from 31 October 2010, for members at this date, the link between past service to final salary ceased 31 December 2017 for the calculation of benefits.

The valuation used for FRS 101 disclosures has been based on the most recent triennial actuarial valuation, 31 December 2017, and updated to take account of the requirements of FRS 101 in order to assess the liabilities of the scheme. Scheme assets are stated at their market values at the respective balance sheet dates. The Company recognises a net defined benefit asset because it is entitled to a return of surplus at the end of the plans' lifes.

Following the recent High Court judgement in the Lloyds case, overall pension benefits in the United Kingdom are equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"). This equalization affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. Under IAS 19/FRS 101, the additional liability is immediately recognized in 2018 as a plan amendment. The additional liability for the Company amounts to £2.236 million.

	2018	*2017*
Main assumptions:		
Rate of salary increases	n/a	n/a
Rate of increase in pensions in payment (LPI)	3.15%	3.20%
Discount rate	2.90%	2.60%
Inflation assumption	2.35%	2.30%
Post-retirement mortality (in years):		
Current pensioners at 65 - male	22.7	23.5
Current pensioners at 65 - female	24.3	25.3
Future pensioners at 65 - male	24.9	26.4
Future pensioners at 65 - female	26.6	28.2

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	*Change in assumption*	*Impact on scheme liabilities*
Discount rate	+/- 0.5%	- 8.4%/+ 10.9%
Post retirement mortality	+/- 1 year	- 3.1%/+ 4.4%

17. PENSIONS (CONT)

The assets and liabilities of the scheme at 31 December are:

	2018 £000	***2017 £000***
Scheme assets at fair value		
Equities	42,273	69,498
Bonds	299,755	273,290
Cash	2,121	12,667
Real Estate	12,798	13,125
Other	26,055	44,210
Fair value of scheme assets	383,002	412,790
Present value of scheme liabilities	(349,820)	(396,546)
Defined benefit pension plan surplus	***33,182***	***16,244***

An analysis of the defined benefit cost for the year ended 31 December is as follows:

	2018 £000	***2017 £000***
Recognised in the Income Statement		
Administration cost	610	531
Recognised in arriving at operating profit	**610**	**531**
Net interest on defined benefit asset	**(492)**	**8**
Taken to the Statement of Comprehensive Income		
Return on plan assets (excluding amounts included in net interest expense)	(23,517)	17,740
Actuarial changes arising from changes in demographic assumptions	24,212	-
Actuarial changes arising from changes in financial assumptions	21,977	(3,440)
Actuarial changes arising from experience adjustments	(9,380)	-
Recognised in the Statement of Comprehensive Income	***13,292***	***14,300***

17. PENSIONS (CONT)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2018 £000	2017 £000
Defined benefit obligation at end of prior year	***396,546***	***405,624***
Interest on benefit obligation	10,022	10,639
Benefits paid	(22,175)	(23,157)
Actuarial gains and losses	(34,573)	3,440
Defined benefit obligation at end of year	***349,820***	***396,546***

Changes in the fair value of the plan assets are analysed as follows:

	2018 £000	2017 £000
Fair value of plan assets at end of prior year	***412,790***	***402,107***
Current Service Cost	(610)	(531)
Interest income in plan assets	10,514	10,632
Contributions by employer	6,000	6,000
Contributions by employee	-	-
Benefits paid	(22,175)	(23,157)
Actuarial gains and losses	(23,517)	17.739
Fair value of plan assets at end of year	***383,002***	***412,790***

During the year the company made a special contribution totalling £6,000,000 (2017: £6,000,000). No ordinary contributions were made (2017: £nil).

	Contributions in the year 2018 £m	Contributions in the year 2017 £m	Amounts outstanding 2018 £m	Amounts outstanding 2017 £m
Ordinary contribution	-	-	-	-
Special contribution	6.0	6.0	-	-

The company's best estimate of contributions to be paid in 2019, consisting of a special contribution, is £3,000,000.

17. PENSIONS (CONT)

(b) Citrus scheme

BAM Nuttall Limited has an obligation to a multi-employer defined benefit scheme, in respect of deferred members only, who were employed under local authority contracts.

The Company contributes to the scheme at various levels which are determined by independent qualified actuaries on the basis of triennial valuations using the projected unit credit funding method. The calculations have been based on preliminary results arising from the formal valuation as at 31 March 2017.

The valuation used for FRS 101 disclosures has been based on the most recent actuarial valuation and updated to take account of the requirements of FRS 101 in order to assess the liabilities of the scheme at 31 December 2018. Scheme assets are stated at their market value at respective balance sheet dates. The Company recognises a net defined benefit asset because it is entitled to a return of surplus at the end of the plans' lifes.

	2018	*2017*
Main assumptions:		
Rate of salary increases	n/a	n/a
Rate of increase in pensions in payment (LPI)	2.45%	2.30%
Discount rate	3.10%	2.60%
Inflation assumption	2.45%	2.30%
Post-retirement mortality (in years):		
Current pensioners at 65 - male	21.5	21.4
Future pensioners at 65 - male	23.5	24.1

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	- 0.5%	+ 8.0%
Inflation assumption	+ 0.5%	+ 6.6%
Post retirement mortality	+ 1 year	+ 4.0%

AT 31 DECEMBER 2018

17. PENSIONS (CONT)

The assets and liabilities of the scheme at 31 December are:

	2018 £000	***2017 £000***
Scheme assets at fair value		
Equities	858	1,216
Corporate Bonds	-	-
Liability Driven Investment Funds	3,982	3,910
Hedge Funds	-	-
Diversified Growth Funds	1,533	2,287
Multi Asset Credit Funds	4,406	4,612
Cash	2,585	1,669
Fair value of scheme assets	13,364	13,694
Present value of scheme liabilities	(9,680)	(10,370)
Defined benefit pension plan surplus	3,684	3,324

An analysis of the defined benefit cost for the year ended 31 December is as follows:

	2018 £000	***2017 £000***
Recognised in the Income Statement		
Administration cost	66	58
Recognised in arriving at operating profit	**66**	**58**
Net interest on defined benefit asset	**(89)**	**(90)**
Taken to the Statement of comprehensive Income		
Return on plan assets (excluding amounts included in net interest expense)	(536)	305
Actuarial changes arising from changes in demographic assumptions	-	-
Actuarial changes arising from changes in financial assumptions	555	187
Actuarial changes arising from experience adjustments	2	(710)
Recognised in the Statement of Comprehensive Income	***21***	***(218)***

17. PENSIONS (CONT)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2018 £000	2017 £000
Defined benefit obligation at end of prior year	***10,370***	***10,005***
Interest on benefit obligation	265	264
Administration costs	67	57
Benefits paid	(465)	(480)
Actuarial gains and losses	(555)	(187)
Experience (inflation)	(2)	711
Defined benefit obligation at end of year	***9,680***	***10,370***

Changes in the fair value of the plan assets are analysed as follows:

	2018 £000	2017 £000
Fair value of plan assets at end of prior year	***13,695***	***13,239***
Interest income in plan assets	353	354
Contributions by employer	317	277
Contributions by employee	-	-
Benefits paid	(465)	(480)
Actuarial gains and losses	(536)	305
Fair value of plan assets at end of year	***13,364***	***13,695***

Regular contributions made by the company during the year amounted to £nil (2017: £nil). In addition, the company made a special contribution of £277,000 (2017: £277,000).

The company expects to make contributions of £277,000 in 2019, of which £277,000 will be special contributions.

(c) Contributory pension schemes

The company has made arrangements for employees to participate in four separate defined contributory schemes, the aggregate employer contribution paid to schemes amounted to £12,299,000 (2017 - £10,871,000).

18. PROVISION FOR LIABILITIES

	Claims against company	*Onerous contacts*	*2018*	*2017*
	£000	*£000*	*£000*	*£000*
Opening balance at 1 January	1,161	3,078	***4,239***	4,797
Created during the year	-	-	**-**	941
Utilised during the year	-	(1,095)	***(1,095)***	(558)
Closing balance at 31 December	1,161	1,983	***3,144***	4,239

The provision relates to expected settlement amounts on claims against the Company and onerous contracts. The onerous contract provision does not include any provisions for future project losses. The timing of the outflows are uncertain.

19. CONTINGENT LIABILITIES

(a) The company has contingent liabilities in respect of performance bonds and supplier guarantees given in the normal course of business.

(b) Royal BAM Group n.v. has a revolving credit facility, to which BAM Nuttall Limited and other Group entities, is a guarantor. The revolving credit facility is $400m (2017 $400m), with a maturity date of March 2023. The utilisation of this facility as at 31 December 2018 was £nil (2017: £nil). The directors are satisfied that Royal BAM Group n.v. is currently able to fulfil all its obligations under these agreements without recourse to any of the guarantors.

The company, along with other group companies, has provided guarantees against these loans advanced to Royal BAM Group n.v. 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.

(c) The company is party to various claims arising in the ordinary course of business. Provision has been made within the financial statements where necessary. The directors are of the view that other claims have no significant impact on the result of the group and company.

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

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

20. SHARE BASED PAYMENTS

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

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

21. PARENT UNDERTAKINGS AND CONTROLLING PARTY

The company's immediate parent undertaking is BAM Group (UK) Limited, a company incorporated in England and Wales.

The smallest and largest group of undertakings of which the company is a member and for which group financial statements are prepared is Royal BAM Group n.v., a company incorporated in The Netherlands. A copy of the group financial statements is available from the Company Secretary, BAM Group (UK) Limited, St James House, Knoll Road, Camberley, Surrey, GU15 3XW.

At the balance sheet date the ultimate parent undertaking and controlling party was Royal BAM Group n.v.

22. EVENTS AFTER THE REPORTING PERIOD

No material events after the reporting period have occurred.