

VolkerHighways Limited

Strategic Report

for the year ended 31 December 2020

Principal activities

The principal activities of the Company are the provision of 24/7 highway maintenance services for local authorities, street lighting, surfacing, traffic management, SmartCity technology including fibre to the home network installation, as well as small civil engineering projects for both the public and private sectors.

On 31 December 2019 VolkerWessels Limited bought the entire share capital of VolkerHighways Limited from VolkerFitzpatrick Limited with no change to the ultimate UK holding company of VolkerWessels UK Ltd.

Business review

VolkerHighways Limited specialises in public and private sector highways and lighting term maintenance contracts, civil engineering and civil engineering/public realm projects. Specialist divisions provide surfacing, traffic management, street lighting and SmartCity technology services to both the highways and lighting term contracts as well as VolkerWessels UK Group companies and external private and public sector clients.

The financial highlights and key performance indicators of the Company are as follows:

Financial key performance indicators

	2020 £000	2019 £000
Revenue	135,982	118,582
Gross profit	8,976	7,092
Gross profit margin	6.6%	6.0%
Operating result	3,722	2,795
Operating result margin	2.7%	2.3%
Profit before tax	3,628	2,711
Profit before tax margin	2.7%	2.3%
Cash and cash equivalents	11,326	11,603
Net assets	11,398	11,179
Forward secured order book ¹	354,412	283,032

Non-financial key performance indicators

	2020	2019
Health and wellbeing		
Safety	Accident frequency rate (AFR) ² (Number of RIDDOR reportable accidents per 100,000 hours worked)	0.17 0.08
Natural environment		
Raw material	Waste diverted from landfill (percentage)	96% 99%
CO ₂ emissions (scope 1 and 2)	Carbon dioxide footprint in kilotons (tonnes/million revenue) ³	16.6 16.7
People and culture		
Employee engagement	Employee survey score across 4 key engagement metrics ⁴	n/a 71%

¹ Forward secured order book is calculated by taking the value of future secured work, where the relevant contract or letter of intent has been received, the terms are agreed and the contract has been executed or will in all certainty be executed by both parties.

² The RIDDOR reportable injuries (excluding dangerous occurrences) are used in the Accident Frequency Rate (AFR) calculation. The AFR is the most commonly used measure for benchmarking safety performance in the UK. Accident Frequency Rate (AFR) = (number of RIDDOR reportable injuries ÷ total work hours) x 100,000.

³ The data contained in the table above is 'non-normalised'; this means that we are reporting the total emissions within the reporting period. Normalised data reflects a like-for-like comparison on the data and emission sources between 2019 and 2020. On a normalised basis our carbon dioxide footprint for 2020 was 16.6 (2019: 16.5). The CO₂ emissions figure for 2019 has been restated to incorporate the most recent set of fully audited data.

⁴ We have not undertaken a new full employee engagement survey during 2020, therefore no score is available this year. We have however undertaken a number of pulse surveys focussed on the specific challenges being met by our employees during these unprecedented times of COVID-19, which are detailed further below in the Business Review section.

Context

This report was prepared following a time of unprecedented uncertainty due to the global COVID-19 pandemic which did have an impact on some parts of our business and therefore an effect on the financial performance for the year ended 31 December 2020. It is particularly important to explain how we have responded as a business to the challenges of delivering consistently throughout the pandemic.

Paramount to our operations are our people and their health and safety. First and foremost, throughout the pandemic we have complied with government guidelines, ensuring that the wide variety of tasks that are undertaken on a daily basis were modified as required to accord with the guidance as it evolved. In addition, the business has provided support to all its employees to ensure they can continue to work either on site or remotely, with those whose roles permit them to, working from home as and when appropriate. For colleagues in key operational roles, we have ensured that strict safety requirements, hygiene education, appropriate Personal Protective Equipment and social distancing measures have been implemented. We have also taken steps to protect our colleagues who are considered the most vulnerable across the business.

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Business review (continued)

We have also been working closely with customers and suppliers to ensure that service levels and payment practices continue on a 'business as usual' basis, wherever possible, and liaising with government and industry bodies to ensure that the industry perspective and needs are considered in policy decision making. Our teams remained fully operational throughout and we are grateful to the efforts of our whole workforce, as well as our supply chain partners and other stakeholders who support us.

Trading conditions in the UK remained challenging throughout 2020, not only due to the COVID-19 pandemic but also a continued lack of clarity to businesses about the UK's future relationship with the EU. In the absence of any certainty of direction for the UK for most of 2020, and with an increasingly complex political environment, investor confidence remained low and economic growth remained subdued. In response to this economic headwind the Government did however remain bullish in its forecasts for investment in infrastructure over the next few years. The Government's 2020 spending review announced the next phase of its infrastructure plan with £100 billion of capital expenditure in 2021 to kickstart growth and support jobs. It gave multi-year funding certainty for existing projects, such as school and hospital rebuilding and flagship transport schemes, and targeted additional investment in areas which will improve the UK's competitiveness in the long-term, backing new investments in cutting-edge research and clean energy sources of the future. Increased infrastructure investment was further supported by a new National Infrastructure Strategy, which set out the Government's plans to transform the UK's economic infrastructure. It is based around three central objectives: economic recovery, levelling up and unleashing the potential of the Union, and meeting the UK's net zero emissions target by 2050. These objectives will be supported by the creation of a new infrastructure bank to catalyse private investment in projects across the UK; as well as through a comprehensive set of reforms to the way infrastructure is delivered. This provides some comfort to the construction industry; however, the speed of decision making to bring specific project investment forward does not yet appear to be in line with these aspirations in all cases. Our local authority client budgets have remained challenged due to the conflicting demands of the local public purse. For further discussion on the risks with regard to the UK's relationship with the EU, managing through the pandemic and the political environment see the risk section of this strategic report.

At the onset of the pandemic, none of our operational sites were closed due to clients' or local requirements and work continued under a different health and safety regime, with the immediate adoption of COVID safe working practices, in line with Government and industry guidance, and our own additional measures. It is important to recognise the front line nature of our activities and we are pleased that Government actively showed its support for the sector and its emphasis on the importance of construction works and infrastructure build for the future of this country.

We would like to commend our teams, whether those who took furlough throughout the closures, those who worked hard on site to keep their operations going under extremely difficult circumstances, or those who moved seamlessly to working from home through successive lockdowns, whilst continuing to support our teams on site.

The pandemic has had a significant impact on the business and all our stakeholders this year in more ways than just financially. We estimate that whether through the additional costs of maintaining operations on site throughout the pandemic or delay costs, the net impact of the pandemic on our business has been approximately £0.1 million loss, due to additional costs of £0.4 million and associated recoveries of £0.2 million from contracts and £0.1 million from the Government furlough scheme.

Despite these prevailing conditions, overall, the Company has delivered a solid performance in 2020, continuing to work in partnership with its (mainly local government) clients to deliver on its highway maintenance contracts. VolkerHighways has delivered an increased level of volumes with revenues at £136.0 million (2019: £118.6 million) which is a consequence of successfully securing and successfully delivering a number of term maintenance contracts over the past few years as well as developing its fibre to the home capability further in 2020. Although VolkerHighways continued to experience challenging market conditions, with local authorities seeing funding cuts and tendering remaining intensely competitive, the Company has performed well, with a change in the gross profit margin from 6.0% to 6.6%, and delivering an improved operating result of £3.7 million (2019: £2.8 million). This is a direct result of historic loss making contracts, having been replaced with good quality and more profitable term maintenance contracts for other authorities as well as the move into the highspeed fibre market during 2020. There has also been a continued focus on operational efficiency which has been achieved through improved self-delivery, our integrated supply chain and maximising the efficiencies from our Strategic and Management Reporting capability.

The continued focus of the management team on cash management, reviewing WIP and debtor balances and ensuring timely invoicing has enabled positive operating cashflows of £5.3 million which after payment of the dividend of £2.5 million and repayment of lease liabilities and interest of £3.0 million, resulted in a decrease in cash and cash equivalents from £11.6 million at 31 December 2019 to £11.3 million at 31 December 2020 and an increase in Net Assets from £11.2 million at 31 December 2019 to £11.4 million at 31 December 2020.

An onerous contract provision was recorded in the 2017 financial statements for CVU's LoHAC contract. Negotiations with TfL were concluded in May 2018 and agreements reached on the final accounts. The contract has continued on a different basis from 2019 with significantly lower value, limited work with TfL and additional work with London boroughs. As a result of the conclusion of these negotiations and the elapse of time to complete this contract with a revised anticipated loss, the onerous contract provision was reduced to £0.4 million (2019: £1.0 million). Please see note 20 for more information.

In terms of non-financial performance indicators, whilst our Accident Frequency Rate increased to 0.17 in 2020, this was due to three reported injuries incurred by two direct employees and one subcontract employee, and our continued focus is, and must be, on continuing to educate our teams and our supply chain to ensure we minimise any incidents in the future. In that context we are pleased to be able to report improvement over the prior year across "safety behaviours" and "engagement" and maintenance as well as continuation of our excellent result in waste separation. Whilst we have not undertaken a new full employee engagement survey during 2020, we have undertaken a number of pulse surveys focussed on the specific challenges being met by our employees during these unprecedented times of COVID-19. Our employees have fully engaged with us and provided helpful feedback that we have been able to incorporate as we set up our new COVID-19 working practises and re-opened our offices. Understanding our levels of employee engagement provides an excellent insight from our employees and we continue to work on initiatives in this area as we understand how critical our people are to our success. CO2 emissions have improved slightly compared to 2019. For further discussion of non-financial performance indicators in our business please see the s172 statement section of this report.

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Section 172(1) statement (continued)

(d) The impact of the company's operations on the community and the environment (continued)

The three pillars of our responsible and sustainable business are set out below, along with the key areas of focus for each.

1. People - putting people at the heart of our approach

This pillar respects the fact that our workforce is fundamental to the delivery of our framework, and the need to empower our people to be the drivers of sustainable and responsible change. Our people are the foundation of our business, so their safety and wellbeing will remain our priority, as will our desire to ensure our workplace is an inclusive and inspiring place to be.

- **Safety and wellbeing** - The provision of a safe working environment which prevents incidents or injury to our workforce and anyone else affected by our work. Our workforce will be guided to maintaining good mental and physical wellbeing, free from ill-health.
- **Equality, Diversity and Inclusion** - We will ensure that VolkerWessels UK is thoroughly inclusive of people from all lifestyles and is enriched by a diversity of perspectives, cultures and backgrounds, characterised by fairness and equality of opportunity.
- **Empowering sustainable leaders** - Our people will be supported in their ambitions to enhance their own skills, knowledge and experience in order to embrace and instigate sustainable and responsible change and inspire others to follow.

2. Planet - protecting and enhancing our natural environment

Each of our projects is unique and, as such, the environmental risks and opportunities that they present are unique. Our ability to address these risks professionally, combined with creatively assessing the opportunities available to us to deliver no net loss or, better still, net positive solutions, will ensure we act responsibly and proactively.

- **Climate, energy and emissions** - Translating and taking positive action to reduce or, wherever possible, eliminate our adverse impacts on climate change.
- **Responsible management of the environment** - Environmental risks and opportunities will be managed professionally, responsibly and innovatively.
- **Circular economy** - A fully embedded approach to a circular economy which aims to design for sustainability, minimises waste and make the most of resources.

3. Purpose - being a trusted, forward thinking and respected business of choice by delivering long-term social value

Making responsible and forward-thinking choices about the way our projects are executed, and how they will deliver social value, will support our overall vision to be the contractor of choice and encourage us to be a good neighbour in the communities in which we work.

- **Education and Employability** - Raising awareness of the opportunities that exist within VolkerWessels UK and the wider construction industry.
- **Charity, volunteering and community engagement** - Establishing meaningful relationships with charitable bodies and local communities which provide mutually beneficial opportunities.
- **Sustainable supply chain and ethical procurement** - To operate in a fair and ethical manner and publicise our desire to work alongside a network of like minded supply chain partners.

We maintain clearly defined management systems, interfaces and responsibilities that are understood and accepted by all our people and those working with us. It is imperative we maintain a systematic approach to improving business performance in order to achieve our objectives. This includes managing and optimising our activities, to make our processes more effective, more efficient and more capable of adapting to an ever-changing business environment.

Relevant statistics - sustainability

- Planet MarkTM Certification achieved for continuous improvement in reducing carbon emissions from Planet First, an international sustainability certification organisation.
- An average score of 40.68 over 53 Considerate Constructors Scheme assessments³, compared to an industry average of 36.55.
- Between 2019 and 2020, using normalised scope 1 and scope 2 data, CO₂ emissions remained stable at 16.6tCO₂e/£m (2019: 16.5tCO₂e/£m) relative to the revenue metric.
- In absolute terms there was an increase of 250tCO₂e or 13% normalised rise in scope 1 and 2 emissions, however there was a 99% in reduction in gas for scope 1 and 2 due to a shift to REGO certified energy sources during 2020.
- VolkerWessels UK has been working alongside an energy broker to centralise the way gas, electricity and mains water is procured, managed and reported. During 2020 we have centralised the procurement of 24 energy contracts across the VolkerWessels UK group of businesses which has enabled us to procure 100% REGO approved green energy on these sites. These contracts are supported by green energy certificates to demonstrate our commitment.

¹ The Planet Mark is a certification programme that recognises commitment to continuous improvement in sustainability. The Programme helps to measure and reduce carbon emissions, energy and water consumption, travel, and the amount of waste members create. Holders of The Planet Mark Business Certification are required to measure and reduce their annual carbon emissions associated with business operations. Each year the new carbon footprint becomes the next year's baseline, thus driving continuous improvement and helping generate our outstanding results.

² Normalised data that reflects a like-for-like comparison on the data and emission sources between 2019 and 2020. This means we only use the data sources that are common between last year and the current year.

³ The CCS assessments are an industry standard. CCS is a not-for-profit, independent organisation founded to raise standards in the construction industry. Construction sites, companies and suppliers voluntarily register with the Scheme and agree to abide by the Code of Considerate Practice, designed to encourage best practice beyond statutory requirements. To establish compliance, and recognise performance beyond compliance, Scheme Monitors will visit offices, depots and individual projects or work areas, and will use the appropriate Checklist to confirm a score against each of the five Code headings – appearance, community, environment, safety and workforce.