



Integrated Report 2019



BAM plants 150,000 trees

Royal BAM Group nv made the sustainable choice to celebrate its 150th anniversary by planting 150,000 trees in 2019, to help preserve the planet for future generations. BAM employees volunteered at various locations to plant the trees, with support from school children in Belgium and Denmark.

CEO Rob van Wingerden: 'Future generations matter to us. We need to help preserve the planet for them. Forests are key to restraining climate change and restoring biodiversity. Trees provide clean air to breathe and so much more. BAM sees these trees as a symbolic gesture that underlines our commitment to become a sustainable company, initially focussing on becoming CO₂ neutral and circular. We still have a lot to do, but it is high on our agenda.'

In close collaboration with Trees for All (which supports tree planting projects around the world), sixteen projects were selected for BAM's tree-planting initiative.

Tree for Bunnik

Together with representatives of the municipality of Bunnik, BAM CEO Rob van Wingerden and CFO Frans den Houter planted a Japanese honey tree (*Styphnolobium japonicum*) on the occasion of BAM's 150th anniversary. The three-metre-high honey tree was planted at Bunnik rail station, opposite BAM's head office.





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20-02

BAM is subject to the structure regime as intended in Part 4, Book 2 of the Dutch Civil Code.
The Executive Board Report as intended in Part 9 of Book 2 of the Dutch Civil Code consists of chapters 1-5, 8.4, 9.1 and 9.7.

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Key figures

(x € million, unless otherwise stated)

Profit	2019	2018
Continuing operations		
Revenue	7,209	7,208
Adjusted result before tax	74.1	153.2
Result before tax	50.6	114.5
Net result attributable to the shareholders of the Company	11.8	23.8
Earnings per share (in €1)	0.04	0.09
Dividend per ordinary share (in €1)	0.02	0.14
Dividend payout (in %)	40	40
Number of shares as at 31 December (x 1,000)	273,296	273,296
Share closing price as at 31 December (in €1)	2.69	2.51
Equity attributable to the shareholders of the Company	628.4	729.0
Capital base	748.9	846.7
Total assets	4,540.2	4,578.0
Order book	12,659	12,692
Net investment in property, plant and equipment	67.7	72.2
Net additions right-of-use assets *	115.8	-
Depreciation charges property, plant and equipment	54.0	63.7
Depreciation charges right-of-use assets *	99.7	-
Amortisation charges intangible assets	5.9	6.1
Impairment charges	18.5	23.8
Cash flow before dividend	189.9	117.4
Ratios		
Adjusted result before tax as % of revenue	1.0	2.1
Net result attributable to the shareholders of the Company as % of revenue	0.2	0.3
Net result attributable to the shareholders of the Company as % of average equity	1.7	3.3
ROCE (in %)	3.4	7.5
Capital ratios		
Equity attributable to the shareholders of the Company as % of total assets	13.8	15.9
Capital base as % of total assets	16.5	18.5

* Due to the implementation of IFRS 16, leases are no longer classified as operational or financial lease, but are recognised as right-of-use assets.

See paragraph 9.5 Glossary for definitions.

Revenue

7,209

2018
7,208

Adjusted result before tax

74.1

2018
153.2

Net result

11.8

2018
23.8

Order book

12,659

2018
12,692

Ratios

Adjusted result (before tax as % of revenue)

1.0

2018
2.1

Net result (attributable to the shareholders of the Company as % of revenue)

0.2

2018
0.3

Capital base (as % of total assets)

16.5

2018
18.5

ROCE (in %)

3.4

2018
7.5

Trade working capital

(in % of rolling revenue)

(10.4)

2018
(8.8)

Shares

Earnings per share

0.04

2018
0.09

Dividend per ordinary share

0.02

2018
0.14

People

2019 2018

Human resources

Number of employees as at 31 December (in FTE)	19,517	20,194
Average number of employees (in FTE)	19,433	20,156
Training costs per employee (in €1)	819	703
Female/male employees (in %)	17/83	17/83

Safety

Incident frequency (IF BAM)	4.8	4.2
Safety behaviour audit (SBA) (in %)	73	72

Planet

2019 2018

Climate positive

CO ₂ emissions intensity (in tonnes per € million revenue)	23.5	26.8
CO ₂ emissions (in kilotonnes)	170	193
Energy consumption (in terajoules)	2,442	2,744

Resource positive

Construction and office waste intensity (in tonnes per € million revenue)	17.7	17.9
Construction and office waste (in kilotonnes)	128	129
Construction and office waste reused recycled (in %)	75	73
Certified sustainable timber (in %)	99	94

Safety

Incident frequency

(IF BAM)

4.8

2018 - 4.2
2017 - 4.6

Safety behaviour

audit (in %)

73

2018 - 72
2017 - 72

Human resources

Female/male employees

(in %)

17/83

2018 - 17/83
2017 - 16/84

Training costs per

employee (in €1)

819

2018 - 703
2017 - 614

Number of employees

(at 31 December, in FTE)

19,517

2018 - 20,194
2017 - 19,837

Resource positive

Construction and office waste intensity (in tonnes per € million revenue)

17.7

2018 - 17.9
2017 - 20.3

Construction and office waste (in kilotonnes)

128

2018 - 129
2017 - 134

Certified sustainable timber (FSC and PEFC) (in %)

99

2018 - 94
2017 - 98

Climate positive

CO₂ emissions intensity (in tonnes per € million revenue)

23.5

2018 - 26.8
2017 - 28.1

CO₂ emissions (in kilotonnes)

170

2018 - 193
2017 - 186

Energy consumption (in terajoules)

2,442

2018 - 2,744
2017 - 2,644

1

Message from the CEO

Thousands of trees planted

In 2019, BAM planted tens of thousands of trees in various locations in Europe, Bolivia and Uganda. Throughout this report you will find the stories of all these tree-planting projects.



“

Future generations matter to us. We need to help preserve the planet for them.’

Message from the CEO

In 2019, Royal BAM Group celebrated 150 years of enhancing people's lives. To mark this occasion we planted 150,000 trees - giving back to the communities in which we work.

Following the disappointing first half year result due to the project cost overruns announced in July, BAM's performance recovered in the second half of 2019 and the company realised its revised full year outlook. Trade working capital efficiency improved further during the year. The cash position remains strong. Steps are being taken to accelerate the execution of the strategic agenda in order to improve the future performance and predictability.

BAM's adjusted result before tax for the year 2019 was €74.1 million (2018: €153.2 million). The adjusted pre-tax margin was 1.0 per cent (2018: 2.1 per cent). The overall order book was €12,659 million at year-end 2019 (year-end 2018: €12,692 million).

From an operational perspective, there were strong contributions from Dutch and Irish Construction and Property and our activities in the United Kingdom. BAM PPP had another excellent year.

Although through the years our safety performance remains high, we continue to increase our efforts to make BAM, the industry and the environments we are working in safer. We strongly feel responsible for all people involved in or affected by the activities of the Group.

During the year, the Dutch construction industry was impacted by legislation to limit the deposition of nitrogen, which caused a delay in pursuing permits for clients. In addition, production was impacted by rules regarding soil contaminated by PFAS (man-made fluorochemicals). With regard to geopolitical developments, Brexit has been unfolding but with low impact until now, while further developments worldwide have been causing uncertainty in the world market.

This integrated report also illustrates positive developments in areas such as digital construction, innovation and sustainability. BAM's inclusion in CDP's Climate A list (January 2020) is again a recognition of our efforts to reduce emissions and to achieve a net positive impact.

With our Executive Committee we have taken concrete steps to accelerate our strategic agenda to improve the predictability and performance of our business. These steps include measures to improve the operational performance in our German construction

business and the decision to exit our activities in offshore wind foundations. Also our programme to roll out our uniform project approach, in support of our One BAM way of working, is showing good progress. This programme enables our employees to capitalise on state-of-the-art knowledge and resources, talent and training, thus creating a solid foundation for individual and collective growth and development.

We expect an improvement of the adjusted result before tax margin in 2020 compared to 2019.

Also on behalf of the Executive Committee, I would like to thank all our stakeholders for their confidence in BAM. I would like to especially thank our employees for their hard work and commitment throughout the year.

After almost six years as CEO and with the prospect of an updated strategy ahead, the upcoming Annual General Meeting is a logical moment to change leadership of the company. I am proud of what we have achieved with the One BAM programme as this enables us to leverage the scale of our company and the knowledge of our people. Being a frontrunner in digitisation and sustainability, BAM holds enormous potential, now and in the future. It has been a privilege to lead this great company.

Bunnik, the Netherlands, 20 February 2020

Rob van Wingerden,
CEO Royal BAM Group nv





Value creation

Ready for runway operations
Visual control tower, Dublin Airport

At 87.7 metres, Dublin Airport's new visual control tower is the tallest occupied building in Ireland. Its height was determined by its function: it houses the airport's visual control room. After completion by BAM Contractors in March 2019, the tower is now undergoing installations and testing in preparation for single runway operations to commence in the first half of 2020. It will be ready for parallel runway operations by 2021,



2.1 Business model

Organisation

BAM is a large European construction firm with ten operating companies active in two business lines, Construction and Property and Civil engineering, as well as in public-private partnerships. The Company employs 20,000 people.

The Group's activities are in five European home markets: the Netherlands, Belgium, the United Kingdom, Ireland and Germany. The Group also has a presence in Denmark, Luxembourg and Switzerland. In addition, BAM International provides services to clients outside Europe: Africa, the Americas, Asia Pacific, Australia, the Middle East and Antarctica.

Construction and Property

BAM carries out non-residential construction activities in all its home markets, as well as in Switzerland and Denmark. In addition, BAM delivers residential construction projects, primarily in the Netherlands and Belgium.

Non-residential property development activities are carried out in the Netherlands, the United Kingdom, Ireland and Belgium. Family homes are developed and built mainly in the Netherlands, where development and construction is provided as a fully integrated solution to clients. The business line Construction and Property employs approximately 9,100 professionals.

Civil engineering

The civil engineering activities cover all BAM's home markets,

as well as Denmark and Luxembourg. BAM International carries out civil engineering works in specific markets around the world. The business line Civil engineering employs approximately 10,300 professionals.

Public-private partnerships

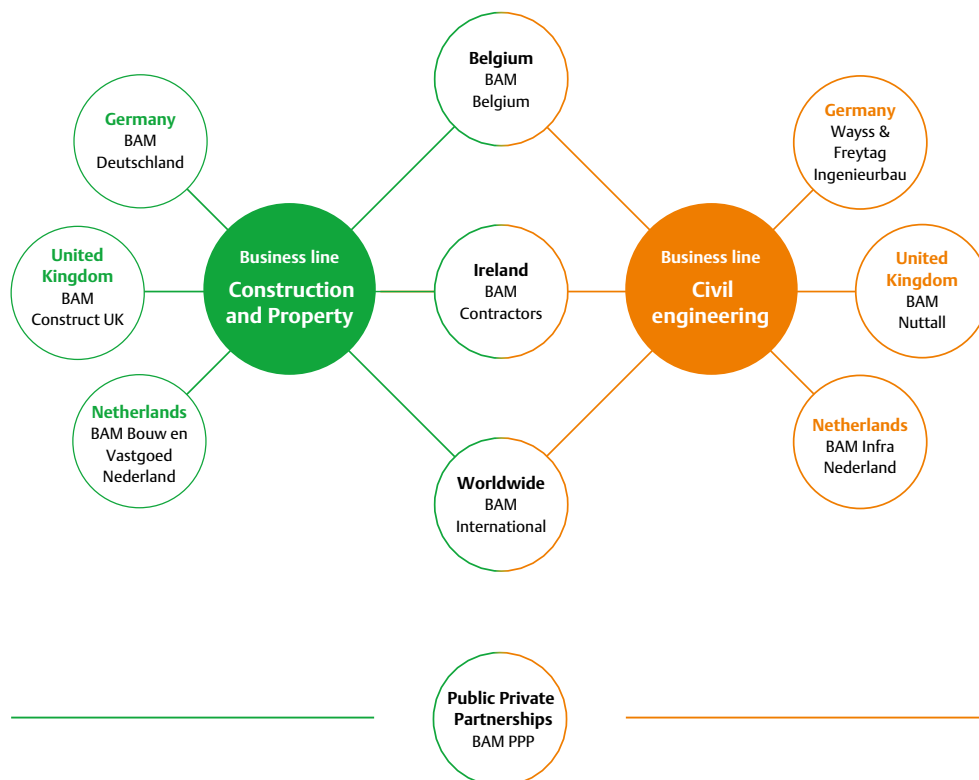
BAM is a well-respected player in the European market for public-private partnership (PPP) projects. BAM PPP delivers construction and recurring maintenance revenue for BAM's business lines, and operates concessions for roads, rail, education, health care and government buildings. BAM PPP employs approximately 100 professionals.

As from 1 April 2019, BAM has changed the top structure of the Company by establishing an Executive Committee in addition to the two-person Executive Board. The Executive Committee consists of the Executive Board members, the Chief Operating Officer of both business lines, the Chief Business Excellence Officer and the Chief HR Officer. The Executive Committee will decide – with final responsibility lying with the Executive Board – on strategic issues and policies, based on input from the operating companies and staff departments. Each member has a clearly defined focus and responsibility.

With this change, the Group is better able to leverage its economies of scale in line with the One BAM philosophy (▶ see also page 71).

The financial, social and environmental performance of BAM's business lines are described in chapter 3.

1 - Organisational structure

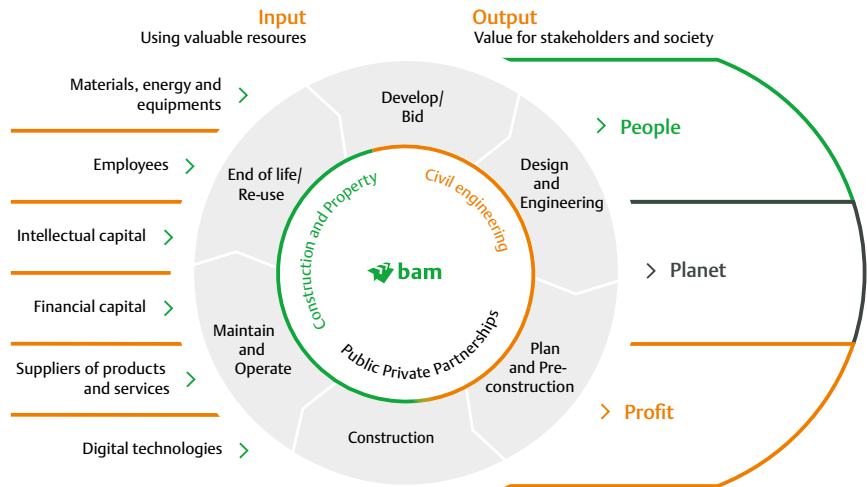


What we do and how we create value

2 - Value creation model

BAM's value creation model is based on the International Integrated Reporting Council's Integrated Reporting <IR> framework and gives an overview of how BAM creates value.

The cycle of integrated thinking and reporting supports financial and sustainability results. BAM discloses a combination of quantitative and qualitative information to describe how value is created.



People Creating social value

BAM's approach to sustainability delivers benefits to clients and communities in which the Group works. BAM aims to create a safe and more sustainable built environment. Within communities the Company wants to positively enhance the lives of more than one million people by 2020 by creating skills and learning opportunities and through voluntary and charitable work. BAM continues to target talent to maintain its position as one of the best companies to work for.

► For BAM's social performance, see paragraph 3.2.

Planet Creating environmental value

BAM wants to mitigate the impact of its operations on climate change and resource consumption. The Company is working towards having a net positive impact by reducing carbon emissions and waste intensity, as well as by adopting circular business principles and implementing innovative solutions. BAM works in close collaboration with its supply chain in achieving common goals and addressing global environmental challenges.

► For BAM's environmental performance, see paragraph 3.3.

Profit Creating financial value

Shareholders and financial institutions provide funds that BAM invests in its business lines, as well as in PPP, with a divestment strategy for a part of BAM's current land bank and property investments. BAM uses free working capital from the (non-)residential construction and civil engineering activities in selected property and PPP projects. These projects contribute to BAM's target of a 2 to 4 per cent range margin.

► For BAM's financial performance, see paragraph 3.1.

Building the present, creating the future

Mission

It is BAM's mission to create sustainable environments that enhance people's lives by enabling the right people to capitalise on state-of-the-art knowledge, resources and digital technologies, thereby providing solutions across the total construction lifecycle for the Group's clients and generating maximum value for its stakeholders.

Vision

It is BAM's vision that the Group will be recognised as one of Europe's leading sustainable and innovative construction businesses, with healthy profits and a strong balance sheet, active across the full construction lifecycle in its European home markets and in selected emerging economies worldwide.

United Kingdom

9 February 2019 - Fermanagh, Northern Ireland

3,000 trees – a diverse mix of plots with native Irish trees and traditional, modern and wild varieties of fruit and nut trees.

9 February 2019 - Ballymoney, Northern Ireland

3,000 trees – multifunctional forest with native species like oak, Scots pine, birch, hazel, and crab apple.

13 March 2019 - Warwickshire and Worcestershire

3,000 trees – as part of a huge new woodland in the heart of England. The trees planted are all native broadleaf trees.

5 December 2019 - Dorsington/Stratford-upon-Avon

2,500 trees – part of a huge new woodland in the Midlands of England, broadleaf native species have been planted.

10 December 2019 - Manchester

2,000 trees – urban woodland with birch, rowan, alder, guelder rose, hazel, hawthorn, blackthorn and beech.



Dave Ellis, Regional Director, BAM Construct speaking for BAM Construct and BAM Nuttall: ‘Planting trees is symbolic of sustainability. That is more important to this industry now than ever before. It says something about our culture that so many people have volunteered to help us do this.’

William Diver, Construction Director, BAM Contractors brought his family all the way up to Fermanagh. ‘BAM turned 150 last year and planted 150,000 trees all around the world to celebrate. We enjoyed to be part of the tree planting activities.’

Belgium



22 November - Zottegem

5,000 trees – a new mixed forest of deciduous trees was planted with indigenous species such as oak, birch, maple and beech. Fifty Belgian BAM colleagues together with pupils from local primary schools planted trees in the Steenbergse Bossen. This joint initiative from BAM and volunteer movement Natuurpunt added 1.5 hectares of woodland to the nature reserve.

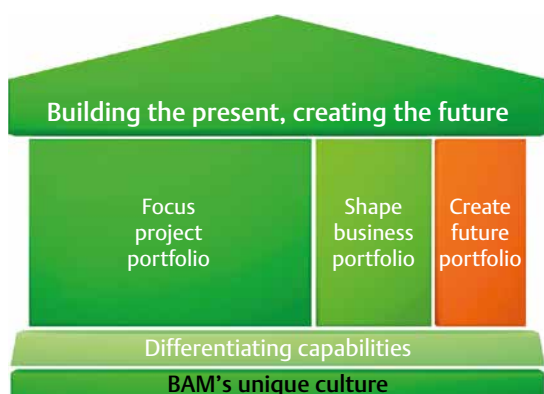
Vincent Colson, Sustainability Manager, BAM Belgium, was one of the volunteers: ‘We are planting trees to help save the planet for future generations. I think this is a wonderful initiative! It felt good today to be able to make my own small contribution to the reduction of CO₂ emissions together with the pupils of local schools.’

2.2 Strategy

Building the present, creating the future

BAM's strategy 'Building the present, creating the future' is based on three pillars: focus the project portfolio, shape the business portfolio and create the future portfolio. These are supported by a strong foundation consisting of two layers: culture and capabilities.

Strategy 2016-2020



Strategic targets

BAM's vision is translated into specific goals for profit, planet and people. The objectives of BAM for 2020 are:

- A return on capital employed (ROCE) of more than 10 per cent;
- An increase of the adjusted margin before taxes to between 2 and 4 per cent;
- A reduction of the real estate portfolio to less than €500 million;
- A reduction of working capital to less than -10 per cent;
- To be a sustainable company: have a net positive impact in 2050;
- To always put safety first: reach an incident frequency of less than 3.5.

Focus project portfolio

Doing things better

BAM is focussing the project portfolio. Using either scale or differentiation to win projects will be the main driver of performance improvement at the operating companies.

BAM keeps a focus on its project portfolio ('doing things better') by constantly analysing current projects. The main drivers for performance improvement are either scale or skills. In market segments where BAM is in price-led competition, the Company achieves cost leadership through project bundling, industrialisation and/or digitalisation. For complex projects, BAM achieves its product leadership by using its know-how, its position as a digital frontrunner and its quality assurance as key differentiating factors. This focus leads to scalable learning in relevant market segments with better propositions for the Group's clients.

Shape business portfolio

Doing better things

BAM is shaping the business portfolio by rationalising its propositions in selected market segments and developing new solutions for clients.

BAM is shaping the business portfolio by supporting the operating companies in developing new propositions in home markets as extensions of projects along the lifecycle, and by leveraging specialisms in international markets. These initiatives are driven by investments in people and systems and by the development of partnerships to further improve the performance. At the same time, BAM continues to critically assess its operational activities and exit those activities not offering sufficient opportunities to use scale or distinctiveness as critical success factors. BAM will continue to reduce its portfolio of property assets.

Create future portfolio

Doing new things

BAM will position itself as leader in the digitalisation of the industry. BAM is creating its future portfolio by integrating digital construction solutions in the construction process and by accelerating innovative solutions for its clients (both digital and non-digital).

BAM creates its future portfolio by supplying construction services using a digital construction platform and by accelerating innovative solutions generated within BAM. The Company facilitates this transition by investing in innovation to create an attractive environment for partnerships and rapid prototyping in order to shorten the time to market.

By creating this future portfolio, BAM strives to:

- Create a competitive advantage on the basis of innovation, with recurring superior financial returns for its shareholders;
- Improve product and project quality for its clients;
- Improve the attractiveness of the Company on the job market, and develop and retain talent;
- Contribute to the innovative spirit of suppliers and subcontractors;
- Build a sustainable environment for society in general.

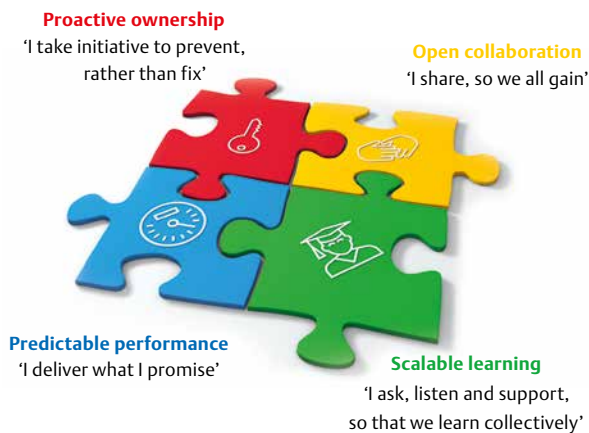
Differentiating capabilities

BAM's differentiating capabilities and operating model are being sharpened, with a focus on leveraging the scale and skills of the Company and its employees, and by striking the right balance between what can be done on a global level or by a more local approach. This is being done with the aim of knowledge sharing, promoting the usage of the same set of tools, systems and

definitions and of coming to a common language across the whole Group. The introduction of these global support functions will eventually lead to a more cost-effective organisation. The operating companies are improving their systems, knowledge and expertise for data-driven project selection, tendering and execution. At the same time, synergies within the Group are being leveraged in areas such as business controls, human resources, information management, digital construction, IT, strategic sourcing and partnerships and enhancing local entrepreneurship to serve clients.

BAM's culture

Reaching BAM's strategic goals will be supported by its four values.



Another fundamental part of BAM's culture is its safety ambition of 'zero accidents', allowing everyone to return home safe and healthy every day, and receiving recognition as a leader in safety in the European construction sector.

Sustainability

For BAM, the pursuit of these strategic targets goes hand in hand with aiming to have a net positive impact on climate change, material resources and people by 2050. The Group's approach to sustainability delivers benefits to clients and the communities in which it works.

Digital construction in daily practice

In BAM's ambition to become a leader in digital construction, it has made good progress in 2019 (▶ page 17). In daily practice, the Company's digital construction approach focusses on six main areas. Below, a selection of concrete implementations in these areas.

Scanning

- 3D point cloud scans used as a basis for 3D model designs.

Design

- Integrated 3D modelling, with BIM software, combining the different disciplines such as steel, concrete, installations, reinforcement in one 3D model;
- Parametric design based on algorithmics, which offers engineers many realistic design possibilities;
- Generative design to quickly generate design alternatives with a focus on specific constraints;
- Certification to the international ISO 19650 standard (▶ page 49).



Simulations

- Virtual reality: 3D visuals of the design for all stakeholders, and also used for safety training and safety walks;
- Gaming engines to simulate actual excavation plant movements and verify construction methodology (Antarctic project: ▶ page 202);
- 4D (project scheduling) and 5D simulation (costs);
- Sustainability simulations to calculate the energy use of a building, waste management, etc.

Production

- Off-site (modular) development and construction, DfMAD (design for manufacturing assembly and disassembly);
- 3D concrete printing: modular building services skids for office buildings;
- Robots to apply bricks to modular façade elements for housing.

Assembly

- Tablets/smartphone devices for quality and health & safety monitoring;
- Machine guidance & control technology to improve efficiency, safety and reduce CO₂ emissions.

Operations

- Augmented reality, virtual reality, as-built BIM data to support service engineers in operating and maintaining projects (schools, hospitals, roads);
- Artificial intelligence: BAM proactively scans roads with satellites and scanning vehicles. The collected data enables to identify road problems easy and efficiently.

During all these phases, a lot of data is generated, which can be used for:

- Machine learning and artificial intelligence to learn and scale the business;
- Autodesk BIM 360 Construction IQ, a tool to support project teams by predicting possible future risks in projects.

Strategy execution

Several external influences impacted the construction industry in 2019. Firstly, economies across BAM's home markets showed a flattening of growth. Trade wars, uncertainty about the outcome of the Brexit process, declining consumer and industry confidence, made them hesitant. In the Netherlands, environmental rulings such as the PFAS- and PAS (nitrogen)-case, led to further uncertainty within the industry. Secondly, (governmental) sustainability agendas and mega trends, such as urbanisation and energy efficiency, are creating new areas for increased growth. Thirdly, digitalisation continued to have a transformative effect on the construction industry and the built environment. Against this background, the main focus of BAM's strategy in 2019 remained to improve profitability and capital efficiency.

Doing things better

Thanks to the further sharpening of its tender stage gate procedure, BAM was even more selective in pursuing projects where it could differentiate on scale or knowledge. The tender stage gate is now being used to assess all major tenders at BAM. In 2019 BAM pulled out of 34 per cent of large tenders (projects regarded as highly complex and/or with a contract value > €45 million) because the risk/reward balance was considered not right. For example, BAM stepped out of the ViA15 project in the Netherlands. Together with branche organisation Bouwend Nederland, BAM is in talks with public clients in the Netherlands on getting a better risk division between contractor and client.

Of the tenders BAM pulled out of, 68 per cent was stopped at the early stages of the tender to prevent tender costs. Two thirds of this 68 per cent was stopped directly after assessing the tender documents and the other third after the assessment on a strategy to earn.

By using the tender stage gate procedure BAM is focussing on projects which benefit from the value of the Group and have an

acceptable risk profile, such as the Metro Brisbane project, a joint effort of BAM PPP, BAM Nuttall, BAM International and Wayss & Freytag Ingenieurbau, a multi-year framework rail contract by BAM Nuttall, highschool projects including maintenance in Denmark by BAM Denmark and the Tergooi Hospital in the Netherlands, a joint effort of BAM Infra and BAM Bouw en Techniek.

BAM has started the roll out of its uniform project approach (UPA). This programme is designed to use best practices from BAM's projects from all around the globe, resulting in a uniform way of working on large projects for the entire Company. In 2019, eight best practices were defined with the help of experts from all operating companies. These best practices, finalised during 2019, were rolled out across all operating companies. As of 1 January 2020 these best practices are mandatory on all new large projects. The goal of the UPA programme is to achieve better – more predictable and comparable – forecasts and results.

The tender stage gate process is being expanded into the execution of projects. With this extension, BAM builds on the existing stage gate procedure and aims to improve control and predictability. The various stage gates review if a tender or project is on track, and to check if projects are compliant with the uniform way of working and ready to move on to the next stage (► page 56).

Doing better things

BAM remains selective in its strategic investments. It acquired a minority stake in MHI Ireland, which specialises in the construction of prefab modular housing. This investment supports BAM's strategy to be at the forefront of new developments in the housing sector and supports BAM in Ireland as a key player in the Irish market.

BAM and Heijmans have formally applied for a permit for an asphalt plants joint venture. The objective of the proposed joint venture is

Personal advice on safer routes

The AllRide platform uses data from smart bicycle lights and an app to capture safe and unsafe spots in cycling routes, such as busy crossings or dangerous roundabouts. Based on the accumulated data, AllRide gives personal advice on safer routes.

In a pilot project at schools in Mechelen, Bruges and Antwerp, AllRide aims to encourage pupils to use their bikes more and find safer routes to school. Participation is encouraged via gamification: the children win points and prizes by giving input and cycling more safely.

Developed together with engineering consultancy AE, AllRide is an integrated solution that fits BAM's smart mobility vision. It generates relevant insights for smarter cities and communities.

Ultimately, AllRide aims to offer safe and dynamic infrastructure solutions, which can be offered to cities in every home country. AllRide is a result of BAM Belgium's innovation programme 'Future Forward', launched in 2018 in search of innovative solutions. Of the 100+ generated ideas, seven were developed into concepts that cover challenges in mobility, energy and living.

to combine knowledge, expertise and investments in innovation in the area of asphalt production, to further increase the sustainability of the asphalt chain and to improve efficiency. The plan for the intended joint venture of asphalt plants was submitted for approval to the ACM (the Dutch Consumers and Markets Authority) in 2019. ACM has granted permission on 13 February 2020.

Doing new things

Innovation

In 2019, 35 innovation initiatives were managed within the innovation funnel. This funnel consists of a stage gate review process of business innovations by BAM's innovation community, based on the lean startup methodology.

In 2019, BAM continued the further development of 3D printing. Together with partner Saint Gobain (Weber Beamix), BAM opened a print facility in Eindhoven, the Netherlands. BAM uses this facility to accelerate the embracing of this technology and to bring viable projects and products to the market. This is done by digital construction: creating a fully digital 3D design which is uploaded to the printer. BAM has started the design and production of 3D-printed bridges. In addition, the facility has printed concrete formwork for the Dribergen-Zeist rail station project (▶ page 56). The potential for the 3D concrete printing facility is acknowledged by clients, which has resulted in visits and information requests from, amongst others, the United Kingdom and Ireland.

BAM's innovation success has also been recognised in the extension of the collaboration with Dutch Analytics, a startup company focussing on AI (artificial intelligence) which BAM helped to start up in 2016.

Together with Global Founders Capital, BAM invested €2 million to further develop its AI product Xenia; artificial intelligence algorithms which are put to use into operations, which they can help manage and monitor throughout their lifecycle. This helps to

project upcoming maintenance tasks and to prolong the lifespan of assets, making them more efficient. This is done at both Dutch operating companies and was in 2019 also applied at BAM Nuttall in the United Kingdom.

Digital construction embedded in business operations

Digital construction is now embedded in BAM's standard business operations, including the stage gate process and the overall operating model. It is no longer perceived as an optional activity, it is the default approach to the business, making it the new normal.

BAM continues to be acknowledged as a leader in digital construction. With the certification of BAM International in December 2019, all BAM operating companies are now BIM level 2 certified. All of BAM projects are using the same standards and best practices on digital construction (▶ page 49).

2019 saw the successful introduction of the AI system Construction IQ, which uses machine learning algorithms to support site engineers on a day-to-day basis with proactive risk management. The system uses large volumes of data from current and historic projects to analyse and prioritise risks on a real-time basis for BAM's site engineers. BAM achieved a 20 per cent reduction in quality and safety issues as a result of better decision-making by using Construction IQ.

BAM's projects involve the creation, alteration, control and retention of millions of different files across project teams. In 2019, BAM agreed on a single approach to information management using a common data environment (CDE). This enables BAM to significantly reduce the usage of paper and local storage of files. Currently, CDEs are daily practice in each operating company, with measurable benefits in terms of team collaboration, version management and paper reduction.



Differentiating capabilities

A new governance structure

In 2019 BAM introduced a new governance structure. With the new Executive Committee (since April 2019) and the business lines Construction and Property and Civil engineering - led by their respective COOs - there is more focus on projects and improving collaboration within the business lines (▶ page 71).

Leveraging the One BAM scale and skills

To better leverage the scale and skills of BAM, the functional mandate of the supporting functions Finance, HR and IT is being reinforced. The transformation from different Finance, HR and IT organisations per operating company into One BAM Finance, One BAM HR and One BAM IT started in 2019. The preparations for the kick-off in 2020 of the transformation from different procurement organisations towards One BAM Procurement were completed in 2019.

BAM's culture

Safety

With the safety campaign 'Your Safety is My Safety', BAM paid extra attention to conversations about safety, creating an open and honest environment to talk about feeling safe or unsafe (▶ page 33).

New leadership programmes

In 2019, BAM introduced two new leadership programmes: the Future Leadership programme for young talent and the Enterprise Leadership programme for business leaders, both across the Group. Just like existing project management programmes Olympus (for the top project managers) and Everest (for upcoming project managers) the new leadership programmes are aimed to get colleagues better acquainted with each other, share knowledge and become better educated about BAM and the uniform way of working within the Group. An Advanced Leadership programme was developed for BAM's top management in 2019 and will start in 2020.

All these programmes reflect BAM's values and accelerate learning and collaboration across all operating companies and functions to operate as One BAM (▶ page 36).

Science-based CO₂ reduction target

To support the Paris Agreement and climate change science, BAM developed and published its science-based CO₂ reduction target (SBT) in 2019, which focusses on reducing BAM's own emissions and helping other parties in the value chain to reduce their emissions (▶ page 45).

New XblocPlus finds immediate application



XblocPlus is BAM's further development of the successful Xbloc which has been applied on projects around the world over the past fifteen years. The new block makes breakwater construction even more reliable, faster and more efficient. Compared to other blocks in the market, XblocPlus requires significantly less concrete and fewer units to cover the same breakwater, which means a reduction in material quantities, time and effort, and in the carbon footprint of breakwater construction. A few months after its market introduction, XblocPlus was already selected for two high-profile projects.

Afsluitdijk: 75,000 units

On the iconic Afsluitdijk dam project in the Netherlands, XblocPlus is applied under the name Levvel blocks, after the Levvel consortium (BAM, Van Oord and Rebel) that is strengthening the dam on behalf of Rijkswaterstaat (part of the Dutch Ministry of Infrastructure and Water Management). A total of 75,000 units, each weighing around 6,500 kilograms, will be produced specially for the Afsluitdijk. In addition to being extremely strong and having a wave-retardant effect, XblocPlus is easy to install due to the similarity in shape to roof tiles. Last but not least, XblocPlus gives breakwaters and shore protections a very smooth and beautiful look.

Marina Porto Albania: combination of Xbloc and XblocPlus

In Albania, both the Xbloc and the XblocPlus are being used in the Marina Porto Albania project. XblocPlus is applied on the straight and mildly curved breakwater sections, where units can be placed fast and efficiently in a roof tile pattern. The flexibility of the original Xbloc is used on the breakwater heads, where it provides protection on the sharply curved surface area.

Pieter Bakker, Manager Xbloc: 'In both projects, clients have chosen a solution that provides an armour layer which is economical, stable and robust, while at the same time contributing to the aesthetic quality of the project through the beautiful placement pattern of the XblocPlus layer.'

2.3 Stakeholder engagement and material themes

Stakeholder engagement

BAM recognises that real business benefits can only be achieved by involving all stakeholders. BAM therefore continuously engages with its stakeholders in all home countries and throughout all operating companies to understand their priorities and concerns through benchmarking, sector meetings, client surveys and direct contacts.

The Group has defined its stakeholders as those groups which significantly influence or are influenced by the economic, environmental and social performance of BAM.

Clients

BAM is in daily conversation with its clients about project expectations and projections. In addition, BAM organises client meetings to share knowledge, best practices and innovation within its value chain. Maximum value for money is of utmost importance to the clients and this extends beyond simply delivering a project at the lowest price. On all its projects, BAM tries to exceed clients' sustainability expectations or to suggest an enhanced approach where none exists or where no targets have been set.

Providers of financial capital

Communication with investors, financial institutions and the financial community at large is actively pursued and usually takes place through meetings, project visits, road shows, seminars, presentations, investment meetings and press releases. The main recurring topics of discussion are financial performance, transparency and control.

Employees

As part of the performance management process, personal learning and development plans of employees are evaluated annually between manager and employee. Progress to meet annual targets together with personal growth and career development are discussed. BAM has active works councils within the operating companies to discuss organisational changes and other employee related matters. Employee engagement is facilitated through multiple platforms such as Young BAM events, open collaboration days, senior management meetings and online surveys through BAM Panel. In those events BAM aims to share learnings from projects, inspire employees with new ideas and collect feedback on what can be improved (► pages 34-36).

Suppliers and subcontractors

Supply chain partners are essential to BAM and therefore the Company engages with almost all of its suppliers. At the project level, BAM is in daily conversations with its suppliers about project expectations and the carbon footprint of supplied goods. In 2019, BAM increasingly engaged with suppliers to reduce the environmental impact of projects by implementing lifecycle assessments on product level.

Society

By their nature, the construction and civil engineering works of BAM have an impact on local communities. BAM builds facilities which society needs, such as housing, hospitals, schools, leisure and industrial facilities, utilities and infrastructure. Discussion points differ per governmental body, but health and safety as well as human rights are common. Paragraph 3.2 of this report describes BAM's results and provides examples of its activities for social involvement in 2019. BAM's programme on enhancing lives shows its ambition to increase its positive impact on local communities.

Regulators

By delivering projects, BAM is in constant contact with (local) government authorities about issuing permits, compliance with regulations and monitoring of activities. BAM is involved in many governmental initiatives including several Green Deals throughout Europe. The Group aims to engage regulators in issues such as health and safety management, carbon-free buildings, carbon impact in the infrastructure lifecycle and other sustainability related issues within the built environment. An example is platform CB23, which BAM joined in 2019, whose goal it is to develop and implement circular building regulations for the entire Dutch construction industry by 2023.

Cross-sectoral collaboration

For BAM, stakeholder engagement is about transparency, a deeper understanding of requirements and expectations and, ideally, future-proof partnerships in the supply chain. During 2019, BAM engaged in several stakeholder dialogues to address cross-industry trends and movements throughout the entire construction value chain, for example during yearly supplier days at different business units.

In 2019, BAM engaged in discussions around the following themes: smart cities and mobility, circular economy, healthy urban living, lifecycle values, energy transition and digital construction. These themes are all societal challenges that no single party in the value chain can solve on its own. Tackling these challenges requires cross-sectoral collaboration, which can only be achieved if organisations and people from different sectors are willing and able to think, learn, communicate and collaborate across the boundaries that used to divide them.

Sustainable Development Goals

BAM values alignment of its strategy with regard to the UN-adopted Sustainable Development Goals (SDGs): seventeen goals that serve as a roadmap to address the world's biggest sustainability challenges and achieve a better and more sustainable future for all by 2030. BAM recognises the importance of the SDGs as a global agenda and believes it has a moral obligation to support these goals. BAM's business potentially impacts all SDGs, but given the nature of its business, some have a more direct influence within current markets.

To that end BAM has identified seven goals that fit its strategy and impact best:



- 3 – Good health and well-being
- 4 – Quality education
- 8 – Decent work and economic growth
- 9 – Industry, innovation and infrastructure
- 11 – Sustainable cities and communities
- 12 – Responsible production and consumption
- 13 – Climate action

The link between BAM’s performance indicators, material themes, risks and the SDGs is explained in figure 4.

Case study

In June 2019, BAM International organised a sustainable development goals kick-off event. Members of its senior management each championed a single SDG and during the event they got together with employees to come up with objectives and initiatives per goal. BAM International has since implemented a number of these initiatives, such as embedding a carbon and waste measuring tool into its tender process and additional vocational training sessions on its projects. The development and implementation of sustainable initiatives is ongoing.

The Group is exploring to organise similar events in other BAM operating companies and business units to ensure a dialogue around the SDGs with different stakeholders. In this way, the SDGs can be integrated with BAM’s sustainability ambition and its way of working.

Currently, BAM does not explicitly monitor its impact on the SDGs. Suitable KPIs to monitor the Company’s contribution to these goals will be a discussion point in the process towards a strategic agenda for 2021-2025.

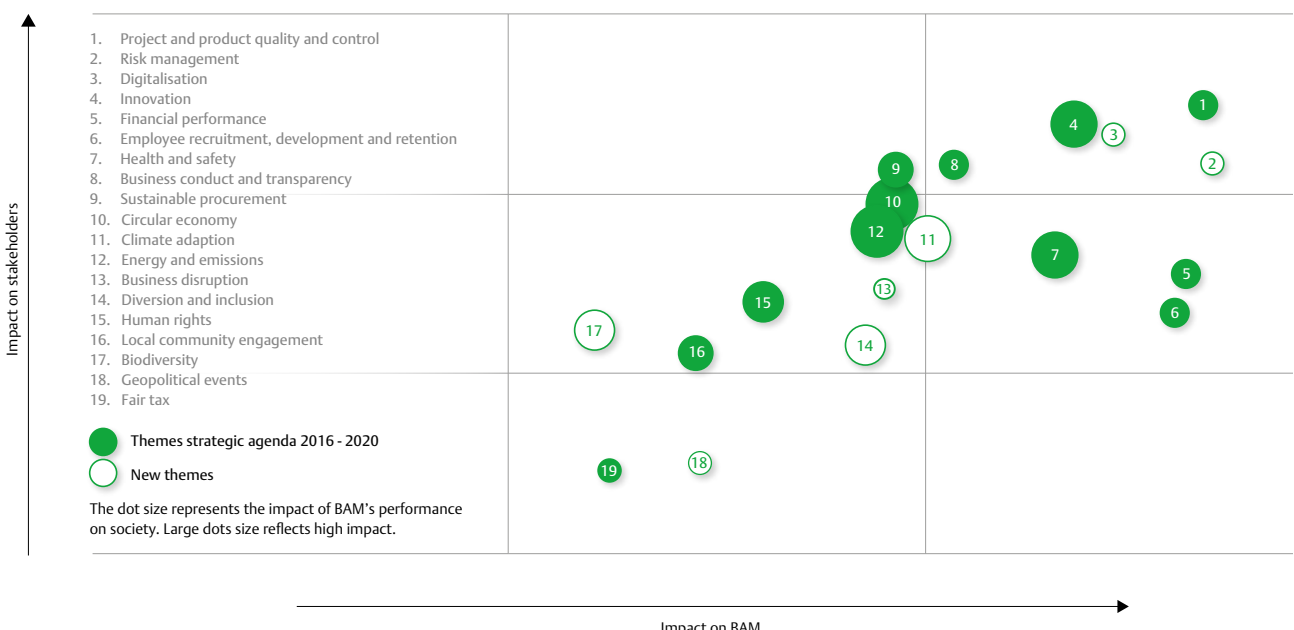
Material themes

As part of the development of the strategic agenda for 2016-2020, the Group carried out a materiality assessment in which twelve material themes were identified. Material themes significantly influence BAM’s ability to create value in the short, medium and long term. In order to be able to update the materiality matrix, BAM distributed an online survey to international stakeholders across all six stakeholder groups, selected with support from regional business development contacts to determine relevant stakeholders. A detailed description of the twelve material themes, their impact on BAM and the management approach can be found in ► paragraph 9.7. The materiality matrix (figure 3) displays the prioritisation of the matters based on their relative importance to BAM, to its stakeholders and to society.

New themes

Compared to the previous year, BAM sent out an extended stakeholder survey in 2019. The Group performed an analysis and looked at peers in the construction industry and leading companies in integrated reporting to further identify relevant market trends. Seven topics that were considered material themes in other companies were selected and added to the survey. The materiality matrix below shows the ratio and prioritisation between the current twelve and the seven newly identified themes. Of these new themes, risk management and digitalisation appear important and have a high impact on BAM and its stakeholders. Climate adaptation, business disruption and diversion and

3 - Materiality matrix



inclusion have a limited impact. Biodiversity and geopolitical events appear less important for BAM and its stakeholders. Currently, BAM does not monitor its impact on the seven new themes with KPIs since these are not part of its current strategic agenda. The prevailing twelve remain material.











The Executive Committee was involved in the engagement process and the discussion on the materiality of these themes. The discussed approach with the Executive Committee was to specifically report on risk management and digitalisation since these are important for BAM's long-term value creation. A detailed description of BAM's approach and 2019 strategic initiatives on risk management can be found in ► chapter 4. The approach to digitalisation can be found in the paragraph strategy (► pages 15, 17).

Another main conclusion of the process was to use the outcome of the 2019 stakeholder engagement (nineteen identified themes) as an inspiration for BAM's upcoming strategic agenda 2021-2025 process and the product-market combination discussions to be held in 2020.

Most material themes

Stakeholders identified and prioritised the potential impact of (material) themes on themselves and on society. The prioritisation of BAM's material themes remained very similar compared to last year. The most relevant theme for the client group was project and product quality and control. The employee group specifically indicated financial performance and project and product quality and control as the most material themes. Providers of financial capital indicated that BAM's financial performance is most relevant to their organisations, in addition to risk management. BAM's subcontractors and suppliers as well as the group representing society in general (NGOs, government and knowledge institutes) specifically indicated innovation and sustainable procurement as material themes. Additionally, the stakeholders were requested to introduce and assess matters that they felt were missing in BAM's original materiality assessment. Topics raised by stakeholders included supply chain integration and networking economy (► pages 38-39), building information modelling (BIM) (► page 49) and health and well-being (► pages 31-33).

4 - Link between performance indicators, material themes, risks and SDGs

Indicator	Material themes	Risks	Sustainable Development Goals (SDGs)	Performance in paragraph
Innovations in innovation funnel	Innovation	Innovation, IT	 	2.2
ROCE	Financial performance	Market, project, financial, property development		3.1
ROCE	Project and product quality and control	Project, financial	 	3.1
Diversity of staff	Employee recruitment, development and retention	Reputation, people	 	3.2
IF BAM Safety behaviour audits	Health and safety	People, health and safety		3.2
Trainings on Code of Conduct	Business conduct and transparency	Reputation	 	3.2
Number of supplier performance assessments	Procurement strategy	Project, financial, supply chain	 	3.2
Number of lives enhanced	Local community engagement	Reputation, health and safety	 	3.2
Number of social audits	Human rights	Reputation, project	 	3.2
Fair distribution of tax	Fair tax	Reputation, financial	 	3.2
Number of circular products/services Construction and office waste intensity	Circular economy	Market, sustainability		3.3
CO ₂ emissions intensity	Energy and emissions	Market, sustainability		3.3

3

Business performance

Upgraded railway line cuts journey times *Railway Aberdeen-Inverness, Scotland*

As part of a larger project to improve the rail connection between Aberdeen and Inverness, BAM Nuttall doubled the tracks between Dyce and Inverurie and upgraded the signalling system between Aberdeen and Huntly. In a fifteen-week project, over ten miles of new rail was laid across more than 41,000 sleepers, and nineteen bridges on the line were either refurbished or replaced. These upgrades will help to increase services and cut journey times.



3.1 Financial performance

Targets	Performance in 2019	Progress
Return on capital employed (ROCE)* >10 per cent	ROCE in 2019 amounted to 3.4 per cent (2018: 7.5 per cent).	●○○○
Key performance indicators (KPIs):		
• Return: BAM aims to get its results on projects into a 2 to 4 per cent range.	The margin on the adjusted result before tax for 2019 deteriorated to 1.0 per cent, compared to 2.1 at year-end 2018.	●○○○
• Capital employed*: increase trade working capital efficiency below +/- 10 per cent of revenue.	The trade working capital efficiency improved to +/- 10.4 per cent at year-end 2019 compared to +/- 8.8 per cent at year-end 2018.	○○●●
• Capital employed*: reduce investment in land bank and property development below €500 million by 2020.	BAM achieved net divestments of land bank and property for a total of €2 million in 2019 (2018: €5 million). Balance sheet value for land bank and property down to €531 million (2018: €564 million), including €8 million impairments.	○○●●
• Improve capital ratio* towards 25 per cent by 2020.	Capital ratio amounted to 16.5 per cent compared to 18.5 per cent at year-end 2018.	●○○○

* Refer to 9.5 Glossary for definitions.

Management summary

The 2019 result was impacted by cost overruns on projects in Germany and one project in the Middle East, as announced in the profit warning on 8 July 2019. BAM's performance recovered in the second half of 2019 and the Company realised its revised full-year outlook. Trade working capital efficiency improved further during the year. The cash position strengthened further. Steps are being taken to accelerate the execution of the strategic agenda in order to improve the future performance and predictability.

The business line Construction and Property delivered a solid performance in the Netherlands and strong results in the United Kingdom and Ireland, driven by an enforced focus on project execution and selective tendering. In Belgium the improving results in the Wallonia region and property development were offset by disappointing results in the Flanders Construction and Property business. The German performance in Construction and Property was very disappointing due to deteriorated results on large projects.

The business line Civil engineering showed a mixed picture. The performance was robust in the United Kingdom, due to a mix of selective tendering and improved project management. Mixed results were visible in Belgium and Germany. Disappointing outcomes were recorded by BAM International and in the Netherlands. The effects of legislation to limit the deposition of nitrogen and rules regarding soil contaminated by PFAS were visible in this business line.

5 - Key financial results

(x € million, unless otherwise stated)

	2019	2018
Revenue	7,209	7,208
Adjusted result before tax	74.1	153.2
Margin (%)	1.0	2.1
Result before tax	50.6	114.5
Net result attributable to the shareholders of the Company	11.8	23.8
Order book	12,659	12,692
Earnings per share	4 cents	9 cents
Dividend proposal	2 cents	14 cents

Revenue

Revenue remained stable at €7,209 million for 2019 (2018: €7,208) despite the reduction due to the de-consolidation of German Argen.

6 - Analysis by sector

(x € million, unless otherwise stated)

	Revenues		Result	
	2019	2018	2019	2018
Construction and Property	4,226	4,043	46.3	114.7
Civil engineering	3,012	3,223	3.6	19.3
Public Private Partnerships (PPP)	45	35	27.2	20.2
Eliminations and miscellaneous	(74)	(93)	-	-
Total	7,209	7,208	77.1	154.2

Result

The adjusted result before tax for the year 2019 was impacted by the €94 million loss on projects in Germany and a project in the Middle East as announced in July, and therefore declined from €153.2 million to €74.1 million. This equates to an adjusted profit before tax margin of 1 per cent (2018: 2.1 per cent), which is in line with the revised outlook issued in July.

7 - Result before tax

(x € million, unless otherwise stated)

	2019	2018
Continuing operations		
Adjusted result before tax, depreciation and amortisation charges	233.7	223.0
Depreciation and amortisation charges	(159.6)	(69.8)
Adjusted result before tax	74.1	153.2
Impairment charges	(18.5)	(23.8)
Restructuring and other exceptional costs	(5.0)	(3.8)
Pension one-off	-	(11.1)
Result before tax	50.6	114.5
Income tax	(38.7)	(90.1)
Result for the year	11.9	24.4
Non-controlling interests	0.1	0.6
Net result attributable to shareholders of the Company	11.8	23.8

The restructuring charge of €5 million in 2019 related to BAM Infra Nederland, BAM Construct UK and BAM International. Impairments of €18.5 million included €10.3 million for intellectual property following BAM's decision to withdraw from the market for offshore wind foundations, as announced in the first half of the year. The remaining €8.2 million represents impairments and value adjustments on several regional land positions and a commercial development.

Income tax in 2019 included a non-cash impairment of €24.6 million (2018: €72 million) on the balance sheet deferred tax assets, related to the underperformance of the Dutch and German fiscal entities.

Order book

The overall order book remains relatively stable at €12,659 million. In Civil engineering the order book increased with €592 million, of which €437 million in the United Kingdom and €285 million at Germany, offset by several other movements. The Construction and Property business line showed a decrease €544 million in all operating countries, except the Netherlands, where a growth of €352 million was reported.

The margin on the new order intake continued to improve and was well within the strategic target margin bandwidth of 2 per cent to 4 per cent. Of the current order book position, €5.7 billion (2018: €5.9 billion) is expected to be carried out in 2020 and €7.0 billion (2018: €6.8 billion) in the years after. Growth is particularly noticeable in Civil engineering.

Earnings per share

The number of outstanding ordinary shares of the Group amounted to 273.3 million in 2019, which was in line with 2018. Earnings per share amounted to 4 euro cents (2018: 9 euro cents).

Dividend proposal

BAM's policy is to pay out 30 to 50 per cent of the net result for the year, subject to considering the balance sheet structure supporting the strategic agenda and the interests of the shareholders. BAM's net result for 2019 amounts to €11.8 million. Therefore, BAM proposes a dividend of 2 euro cents per ordinary share for 2019 (2018: 14 euro cents) which equates to a payout ratio of 40 per cent of the net result. Subject to approval by the Annual General Meeting on 15 April 2020, this will be paid in cash.

Cash and cash equivalents

In 2019, the Group generated a business cash flow of €141 million (2018: €99 million) driven by a positive net cash result and a strong trade working capital improvement.

The adoption of IFRS 16 has no impact on the cash flows of the Company. The positive effect of the implementation on the line item Group net cash result was €105 million; there was a negative impact on the line item Investments (in) tangible assets for €105 million.

Cash from trade working capital improved significantly due to the improved balance between accounts payable and accounts receivable, the re-start of the funding of OpenIJ and the benefit of advanced payments on a few new contracts. On average, BAM's payment performance to suppliers was stable.

8 - Business cash flow

(x € million, unless otherwise stated)

	2019	2018
Group: net cash result	137	171
Investments (in) tangible fixed assets	(170)	(71)
Trade working capital	177	(60)
Net investment property	(1)	6
Net investment PPP	14	6
Other changes in working capital	(16)	47
Business cash flow	141	99
Dividend	(19)	(11)
Restructuring	(5)	(11)
Pensions (additional)	(9)	(12)
Other	2	(17)
Change in cash position	110	48

Borrowings

As at 31 December 2019, total borrowings amounted to €583 million (2018: €343 million), of which €101 million (2018: €127 million) concerned non-recourse debt. Non-recourse loans associated with PPP projects stayed stable at €43 million (2018: decrease €147 million). Non-recourse debt related to property development decreased with €25 million in 2019 (see table 10).

As at 31 December 2019 a net cash position was achieved of €271 million (2018: €401 million net cash position). This position comprised of cash and cash equivalents of €854 million minus borrowings of €583 million.

The Group had two credit facilities as at 31 December 2019: unsecured subordinated convertible bonds for €125 million and a committed syndicated credit facility of €400 million. The bonds will be convertible into ordinary shares of BAM with a nominal value of €0.10 each. The bonds are subordinated to BAM's senior payment obligations. The bonds will carry an annual coupon of 3.5 per cent payable semi-annually and a conversion price of €4.8334. The bonds will be redeemed at their principal amount on or around 13 June 2021.

BAM will have the option to call all but not some of the outstanding bonds at their principal amount plus interest from 28 June 2019, if the value of a BAM share exceeds for a specified period of time a price which is 30 per cent higher than the conversion price.

9 - Financial position

(x € million, unless otherwise stated)

	2019	2018
Cash position	854	744
Financial leases	-	(25)
Interest-bearing debt	(271)	(318)
Net cash position (excl. leases)	583	401
Lease liabilities (IFRS 16 impact)	(312)	
Net cash (incl. leases)	271	
Shareholders' equity	628	729
Capital base	749	847
Balance sheet total	4,540	4,578
Capital ratio	16.5%	18.5%
Capital employed	1,537	1,389
Return on average capital employed	3.4%	7.5%

The committed syndicated credit facility has a duration until 31 March 2023 and as at 31 December 2019 the committed syndicated credit facility was not used, just as in 2018.

The recourse net debt, part of the recourse leverage ratio in BAM's financing arrangements, mainly comprising equity bridge loans for PPP projects and property loans on a recourse basis minus cash and cash equivalents, amounted to a net cash position of €372 million as at 31 December 2019.

10 - Borrowings

(x € million, unless otherwise stated)

	2019	2018
Non-recourse debt		
PPP	43	43
Property	54	79
Other	4	5
	101	127
Subordinated convertible bonds	120	118
Recourse debt		
PPP	-	14
Property	50	59
Financial lease	-	25
Lease liabilities (IFRS 16 impact)	312	-
	362	98
Borrowings	583	343

Capital employed

Non-current assets

On balance, non-current assets increased in the year with €243 million (2018: decrease €154 million). The net capital expenditures in the year were higher than the annual depreciation. The carrying amount of property, plant and equipment decreased with €13 million to €277 million. The majority of the capital expenditures concerned the asset category plant and equipment in the Civil engineering business line.

Intangible assets predominantly contains goodwill with a carrying amount of €380 million, an increase of €7 million compared with 2018 due to the development of the exchange rate of the British pound sterling. Goodwill is tested for impairment annually and this did not result in an impairment.

The total carrying amount of intangible assets decreased with €8 million, mainly due to the impairment of the capitalised development costs for the patented Gravity Based Foundations for offshore wind power. PPP receivables decreased from €85 million to €74 million in 2019, principally due to the divestment of one project to the BAM PPP/ PGGM joint venture.

The carrying amounts of investments (accounted for using the equity method) increased in the year with €25 million (from €110 million to €135 million). Furthermore, other financial assets increased in the year with €9 million (from €101 million to €110 million).

Net working capital

Net working capital (current assets excluding cash and cash equivalents minus current liabilities excluding current borrowings and current lease liabilities) as at 31 December 2019 amounted to minus €830 million (2018: minus €625 million). Gross investment in property development was reduced with €33 million in 2019 to €531 million (2018: €564 million), as a consequence of property sales, divestments and an impairment charge of €8.2 million (2018: €21.9 million). Net investment in property development, taking into account associated borrowings, amounted to €429 million (2018: €431 million).

Shareholders' equity and capital base

BAM's capital ratio declined to 16.5 per cent versus 18.5 per cent at year-end 2018. Without the impact of IFRS 16, the capital ratio at year-end 2019 would have been 17.6 per cent. Next to the reported net income of €11.8 million, BAM distributed €36 million dividend. The following non-cash elements explain the other movements in shareholders' equity of the Group;

- BAM took the opportunity to further de-risk its pension obligations, which reduced equity by €29 million;
- Lower interest rates had a negative impact on the valuation of the remaining pension liabilities of €39 million;
- Interest rate movements had a negative effect of €31 million on PPP-related interest rate hedges;
- The appreciation of the British pound had a positive effect of €23 million.

Capital base includes the subordinated convertible bonds of €120 million (2018: €118 million). The difference between the

nominal value of the convertible bonds of €125 million and the reported value of €5 million consists of the valuation of the conversion right and transaction cost.

Solvency

As at 31 December 2019 solvency was 16.5 per cent (2018: 18.5 per cent), determined by using the capital base. The solvency ratio was influenced by the implementation of the Standard IFRS 16 Leases, lowering the solvency by 1.1 per cent point.

Recourse solvency, the ratio in accordance with the bank covenants, slightly increased to 28.5 per cent as at 31 December 2019 (2018: 27.0 per cent). The recourse solvency is measured at frozen IFRS hence no impact of IFRS 16 is measured. The recourse solvency comfortably exceeds the required minimum of 15 per cent.

Other balance sheet items

Post-employment benefits

The net benefit liability amounted to €29 million as at 31 December 2019, a change of -€49 million compared to 2018. Principally due to changes in the discount rate and the effect of de-risking a part of the UK pension scheme.

Provisions

Provisions, other than post-employment benefits, increased by €37 million to €275 million as at 31 December 2019, predominantly due to the net increase of the provision in associates and joint ventures of €53 million.

Deferred tax assets and liabilities

The Group has a net deferred tax asset of €118 million (2018: €126 million). The decrease in the deferred tax asset was predominantly related due to the impairment of €17 million of the Dutch fiscal unit and an impairment of €8 million of the German Construction and Property unit. On the other hand the tax rate increase in the Netherlands for 2020 and 2021 led to an increase of €7 million.

Assets and liabilities held for sale

The assets and liabilities held for sale as at 31 December 2019 amounted to €9 million (2018: €9 million) for the assets and €0 million (2018: €0 million) for the liabilities and were fully attributable to one remaining property position to be transferred in the northeastern part of the Netherlands.

Tax

In 2019, BAM recognised a tax expense of €38.7 million (2018: €90.1 million). Excluding the impairment of Dutch and German deferred tax assets of €25 million and the non-recognition of tax losses of the German Construction and Property unit of €14.4 million, the effective tax rate of the Group for 2019 is 14.3 per cent (2018: 15.8 per cent), influenced predominantly by the use of previously unrecognised tax losses.

On corporate income tax, taxes on wages, social security contributions and VAT, the Group paid a total amount of €849 million in 2019 (2018:

€819 million). Relative to the Group's revenue, the share of taxes paid in the Netherlands deviated most from the share of revenue. Here, the Group's share of taxes was relatively high compared to revenue.

11 - Total taxes paid in 2019

(x € million, unless otherwise stated)

	Taxes	%	Revenue	%
Netherlands	434	51	2,895	40
United Kingdom	217	26	1,937	27
Belgium	42	5	739	10
Germany	117	14	603	9
Ireland	20	2	816	11
Rest of the world	19	2	219	3
Total	849	100	7,209	100

Construction and Property

12 - Analysis by geography

(x € million, unless otherwise stated)

	2019		2018	
	Revenues	Result	Revenues	Result
Netherlands	1,612	65.6	1,431	47.2
United Kingdom	1,061	35.7	1,070	31.8
Belgium	445	3.9	503	4.5
Ireland	508	20.0	419	19.6
Germany	476	(57.5)	467	5.2
International	124	(21.4)	153	6.4
Other	-	-	-	-
Total	4,226	46.3	4,043	114.7
Result margin		2019		2018
		1.1%		2.8%
TWC (% 4-Q rolling)		-14.9%		-12.3%
Order book		6,268		6,812

Revenue in Construction and Property increased by €183 million (5 per cent) to €4,226 million, driven by residential development and in the Netherlands and construction in Ireland. Revenues in the UK and Germany were broadly in line with 2018. Revenues in Belgium and for BAM International were lower due to the phasing of large projects.

The adjusted result before tax for 2019 declined to €46.3 million (2018: €114.7 million), mainly due to the project losses in the first half year totaling €72 million in Germany and for BAM International. The sector result in the second half of the year was €59.6 million (2018: €62.7 million).

For the year as a whole, there were strong results from the Netherlands, the UK and Ireland, where market conditions

remained supportive despite uncertainties regarding nitrogen deposition, PFAS and Brexit. In the Netherlands, although pressure on the supply chain still exists, BAM observes a trend towards stabilisation. As stated in the first half-year report, the result in Ireland included a €6 million share of the loss at a large project in the Middle East, which is being executed in combination with BAM International. The performance in Belgium was mixed but the overall result improved in the second half of 2019.

The disappointing performance in Germany resulted in a loss of €57.5 million. In the second half of the year there were additional costs on projects in execution, an impairment of older claims and under-recovery of overhead costs.

For BAM International, the 2019 negative result of €21.4 million included the loss on a large project in the Middle East and under-recovery of overheads. Discussions with the client in the Middle East are ongoing, however the timing and amount of any settlement remain uncertain.

Dutch home sales were up by 5 per cent to 2,593. Impairments and value adjustments of property positions had an effect of €8.2 million. This related to several regional land positions and a commercial development. Including these impairments, BAM's gross investment in property declined by €33 million, to €531 million at the end of 2019. Trade working capital efficiency further improved to -14.9 per cent, mainly driven by the Dutch residential market.

The order book in Construction and Property declined by 8 per cent to €6.3 billion. The order backlog in the Netherlands increased strongly (+16%) on the back of continuing strong demand for new homes. The order books in the UK and Ireland decreased by -21 per cent and -28 per cent respectively. Commercial clients in the UK seemed more cautious due to the uncertainty related to Brexit, which was mitigated by BAM's continuing success in winning framework agreements for future public sector projects. Last month, BAM Construct UK was appointed for three additional lots of Crown Commercial Services (CCS) frameworks, and BAM has a total of nine general construction lots under CCS frameworks in all parts of the UK. The order backlog in Ireland came down due to good progress on large projects. As a result of selective tendering, the order intake in Germany and for BAM International declined.

Bergh & Boszicht, Hilversum, the Netherlands.



Civil engineering

13 - Analysis by geography

(x € million, unless otherwise stated)

	2019		2018	
	Revenues	Result	Revenues	Result
Netherlands	1,283	(17.3)	1,332	(15.3)
United Kingdom	876	23.0	843	27.0
Belgium	294	5.3	279	(0.6)
Ireland	95	(4.3)	134	5.2
Germany	340	14.1	462	7.0
International	128	(17.2)	177	(4.0)
Other	(4)	-	(4)	-
Total	3,012	3.6	3,223	19.3
Result margin		2019		2018
		0.1%		0.6%
TWC (% 4-Q rolling)		(4.5%)		(4.6%)
Order book		6,382		5,790

Revenue in Civil engineering declined by 3 per cent to €3,012 million, adjusted for the deconsolidation of the German Argen at the end of 2018, which reduced Group revenue by €117 million.

The adjusted result before tax was €3.6 million (2018: €19.3 million). This includes additional costs of €22 million in the first half of 2019, relating to a large civil engineering project in Germany which is being executed in joint venture with BAM Infra Nederland. The sector result in the second half of the year was €22.7 million (second half of 2018: €27.1 million).

The performance of the Dutch civil engineering activities was, from a financial result point of view, disappointing. During 2019, the result on several larger and mid-sized projects deteriorated, and there was an under-recovery of overheads. BAM is involved in ongoing discussions with public sector clients aimed at achieving an improvement in the risk/reward balance of future projects. Until this is resolved, BAM will be cautious to tender for large projects where its share would be above €150 million. During the fourth quarter of 2019, the loss provision on OpenIJ reduced by approximately €4.0 million to a total loss for the year of €4.1 million (2018: loss of €31.8 million). The second caisson was immersed successfully in October 2019, which was an important step in de-risking this project, which is now 80 per cent complete.

In the United Kingdom, BAM Nuttall delivered a good result including a stronger performance in the second half of the year as expected. During 2019, the contribution of Germany improved substantially. This was based on a satisfactory performance in the second half of the year in combination with a partial compensation for the extra costs of the loss-making project mentioned in July and a claim settlement. Belgium benefited from an improvement of results on

some larger projects. In Ireland, the civil market remains competitive. The loss in BAM International's civil engineering activities of €17.2 million related predominantly to a substantial under-recovery of overhead costs and a claim reversal on a completed project. BAM International is implementing measures to structurally lower the cost base and to focus on nearshore marine projects with a favourable risk/reward profile.

Year-on-year, the trade working capital efficiency slightly deteriorated from -4.6 per cent to -4.5 per cent.

The order book in Civil engineering increased by 10 per cent to €6.4 billion. This was mainly due to the award of two tunnel projects, which are being executed collaboratively by several operating companies. The overall strong order intake in the UK led to an increase of 17 per cent and a total order backlog in the UK of almost €3 billion. The order book in Ireland also improved during the year. The order backlog of BAM Infra Nederland declined by €300 million (14%) as a consequence of more selective tendering. The order backlog in Belgium remained stable.

New motorway bypass Couvin, Belgium.



PPP

(x € million, unless otherwise stated)

	2019	2018
PBT	27.2	20.2
Invested equity	80	75
Number of operational projects	40	38
Projects under construction	9	8
Preferred bidder stage	0	1
Total number of PPP projects	49	47

BAM PPP delivered a strong performance, with an adjusted result before tax of €27.2 million (2018: €20.2 million), coming mostly from the existing portfolio and including three project refinancing transactions. One project was transferred to the joint venture with PGGM.

Two new projects were added to the portfolio in 2019, with the financial close of the Cross River Rail project in Australia and the Silvertown Tunnel project in the United Kingdom. The M11 Gorey Enniscorthy scheme in Ireland and the A94 Isen Valley motorway in Germany were completed ahead of schedule. At the end of 2019, BAM PPP had 40 operational projects and nine under construction. The portfolio also provides recurring operations and maintenance revenues of approximately €150 million per year for other BAM companies.

At year-end 2019, shareholders' equity invested by BAM PPP totalled €80 million (2018: €75 million). BAM PPP invested €16 million of equity in the year and transferred €11 million to the BAM PPP/PGGM joint venture in 2019.

BAM PPP discloses the unrealised value of the shareholder cash flows in different scenarios. This will be disclosed on an annual basis and replaces the directors' valuation published in the past (2018: €75 million).

The portfolio value is based on the discounted expected shareholder equity cash flows. These cash flows include dividends, interest and principal repayments. A sensitivity analysis of BAM PPP's shareholder cash flows at different discount rates is presented in the table below, adjusted for expected equity divestments to joint venture partners. BAM PPP's business activities (bidding, operations and asset management) and gains on transfers are not included.

14 - Sensitivity analysis

Unrealised value BAM PPP

Discount rate	Portfolio valuation	Book value	Unrealised value € million
11%	149	80	69
9%	172	80	92
7%	202	80	122
5%	242	80	162

Maintaining buildings to a high standard



With construction completed in 2001, Crawley Schools is one of BAM's earliest school schemes comprising the design, construction, operation, maintenance and financing of a series of schools. Accommodating a total of 4,000 pupils, the scheme comprises three secondary school facilities in neighbouring communities in Crawley, United Kingdom.

In all three schools, BAM Facility Management is responsible for operating the schools on a 30-year contract. The head teachers of the schools are pleased with BAM's services.

Philip Stack, Head Teacher at Oriel High School: 'I can state without any hesitation whatsoever that the PFI contract works exceptionally well and is not considered a 'drain' on resources. Visitors often comment upon the high standard of our building and the manner in which it is maintained. Private finance initiatives have had a poor representation in the media, but as is often the case, the reality is somewhat different. We could not be happier with the service provided by BAM. To not have to be concerned with building and grounds maintenance is very refreshing and allows me and my team to focus on the quality of teaching and learning and the overall experience for our students and staff.'

'We are very happy with having a lovely learning environment for students', says **Rob Corbett, Head Teacher at Ifield Community.** 'The cost is largely met by the local authorities, who are the partners in the contract. There are clear expectations of the facilities management company and they maintain the building to a high standard. This means, essentially, I can concentrate on ensuring good teaching without the headaches that managing a school site can bring.'

3.2 Social performance

Ambition: to offer added value to clients, employees, business partners and the community

Targets	Performance in 2019	Progress
<ul style="list-style-type: none"> Fully incorporate safety in daily activities to achieve a BAM incident frequency (IF BAM) of ≤ 3.8 for 2019. 	IF BAM of 4.8 (2018: 4.2).	● ○ ○
<ul style="list-style-type: none"> Leadership development programme for top business management in 2019. 	The Accelerated Leadership programme was developed in 2019. The kick-off will be held early 2020.	○ ○ ●
<ul style="list-style-type: none"> Olympus: project management development programme for top project managers in 2019. 	Also in 2019 the Olympus leadership programme was organised for three new groups. Since the start of the programme in 2017, 161 project directors have participated in this leadership journey.	○ ○ ●
<ul style="list-style-type: none"> Enhance one million lives in local communities by 2020. 	In 2019, BAM started to report against a new set of 'enhancing lives' activities, focussing on quality over quantity. The Group has reported nearly 430,000 enhanced lives so far, but verifying and understanding this number remains a challenge.	○ ● ○ ○

Management summary

BAM aims to prevent all accidents, however, the IF (incident frequency BAM employees at risk on projects) target was not achieved in 2019. BAM regrets the two fatalities in 2019 on its projects. The Company is also fully aware that safety does not stop at the gate of projects, as demonstrated by the shocking news of two colleagues (brothers) who died in a tragic traffic accident while travelling to work.

BAM is working hard to foster a genuine and strong safety leadership culture within senior management. 'Your Safety is My Safety', BAM's ongoing safety campaign, aims at zero accidents, which can only be achieved through a joint approach and responsibility at all sites, at home, while travelling to work and in the offices.

One of the areas of attention is to learn from accidents and near-miss situations that have occurred and to take corrective actions to prevent repetition. Learning from best practices and positive developments also helps people to react to similar situations in the future. Accident investigations are a crucial learning tool. Workplaces with positive pro-safety attitudes carry out similar investigation to near-miss cases as they do for actual accidents. Furthermore, BAM expects to increase the focus on mental health related matters in the future.

BAM also targets social performance in other parts of the business, highlighted by its leadership programmes, the updated code of conduct and improved reporting on enhancing lives activities. BAM can improve its monitoring of human rights (via social audits) and other social aspects in its supply chain.

Social value for BAM

BAM's activities have an impact on local communities, occupants and other users of buildings and infrastructure and society as a whole. BAM aims to create sustainable environments that enhance people's lives. This chapter describes how all social subjects are interrelated and how BAM actively collaborates with all stakeholders to create long-term (social) value. Health and safety is the most important element of the Company's social performance: every employee should be able to return home safe every day. This requires excellent performance from all employees and supply chain partners on thousands of construction sites every day. The construction supply chain is increasingly complex and fragmented and needs active collaboration to manage responsible supply chain management, human rights and ethical business conduct. The Group increases intellectual capital and human capital by investing in its employees and in the development of the supply chain. BAM recognises the importance of Groupwide development and implementation of its talent strategy, based on BAM's organisational development and strategic objectives. The positive legacy to society is increasingly important and is reflected in the programme for enhancing lives: making a real and positive difference to the lives of people with whom BAM comes into contact through its work.

Health and safety

Creating the right environment for knowledge-sharing and scalable learning throughout BAM's supply chain is most important to reach the Group's safety targets.

This is done by:

Developing leadership and behaviour by carrying out safety behaviour audits (SBAs)

Every operating company has to organise at least one SBA per year. The number of safety-related activities per operating company is based on turnover (one per €350 million, rounded up) and performance. The worse the result on the lagging indicator (incident frequency: IF), the more control is needed and the more SBAs will be planned. Across the Group, fifteen SBAs took place in 2019.

An SBA consists of the following steps:

- Assessment (audit);
- Interview, assessment of records and compliance analysis on site;
- Close-out and final score;
- Report;
- Improvement plan with actions and areas that require special attention;
- Benchmarking and sharing outcome.

Rewarding excellence

Safety behaviour audits (SBAs) will make excellence count and reward (safety) innovations. By disclosing the results through the safety portal, safety excellence becomes visible to other operating companies with an emphasis on continuous improvement within organisations and throughout the Group.

SBA scores focus on three areas: safe environment, management system and site conditions. In 2019, overall SBA performance slightly improved to 73 per cent (2018: 72 per cent).

Excellent performance in leading and lagging indicators (IF) in operating companies will result in less control by Royal BAM Group's SBAs, but should increase commitment to share excellence performance by organising a safety exchange.

Recognition of performance by carrying out safety exchanges (SEs)

SEs or safety reviews are a peer reviews and focus on creating a debate aimed at challenging and learning (themes from the maturity model). It is a dialogue between two operating companies who have to develop best practices together. This will result in a customised knowledge exchange. Across the Group, six SEs took place in 2019.

Strengthening BAM's (safety) culture supported by uniform safety communication processes, methods and channels

In 2019, BAM continued its global safety campaign 'Your Safety is My Safety' for all employees, which was launched in 2018.

15 - Safety exchange process focusses on a debate for challenging and learning.



Improving the safety performance: IF < 3.5 in 2020

BAM's IF (incident frequency) is determined by the total number of industrial accidents leading to absence from work per million hours worked on construction sites (all BAM site employees on own work and joint ventures on risk). In 2019, IF increased to 4.8 (2018: 4.2), which is above the 2019 target of 3.8.

This safety approach is established to keep safety on top of everyone's mind and to meet strategic targets.

Making safety more personal



YOUR SAFETY IS MY SAFETY

In the follow-up to the global campaign 'Your Safety is My Safety', 2019 saw the launch of the safety conversation. All employees, from all project locations and offices worldwide, were invited to start conversations about safety with colleagues within their teams, but also with clients and subcontractors.

To guide the conversations, a set of cards was developed to suggest statements and questions about a variety of safety themes, such as: What are your positive and negative experiences with safety? How do we keep each other safe each and every day?



Good practices Sharing and learning across the Group

BAM Nuttall supports Time to Talk Day, which was held in February 2019. During this day everyone was encouraged to have a conversation about mental health. BAM Nuttall wants everyone who works there to feel they can be open about their mental health and ask for support if they need it. The operating company also has mental health and well-being champions and an employee assistance programme (EAP) which is available at any time. The EAP gives advice/support by telephone and one-to-one sessions with a trained counsellor.

In 2019, BAM DLP, the business unit that supervises all soil decontamination work for BAM Infra Nederland, became the first organisation to be awarded the 5th step of the Dutch Safety Culture Ladder. Step 5 means that safety is fully integrated into all business processes and embedded in the thinking and actions of all employees; safety is second nature to them.

BAM International completes a global, safety related survey every year. Most organisations limit themselves to objective assessments, while BAM International realises that subjective indicators can provide valuable information that, when used effectively, can continuously improve the company. The key element of the survey (and its results) is to provide an insight into company perceptions and subsequently to target areas they can improve.

The European Agency for Safety and Health at Work (EU-OSHA) has commended BAM in Ireland for its innovative approach to successfully tackling the risks posed by dangerous substances as part of its 14th Good Practice Awards competition. These awards recognise organisations with an outstanding commitment to occupational health and safety and promote practices that protect workers and boost productivity.

Global safety campaign for all BAM employees

In June 2018, BAM launched the global safety campaign 'Your Safety is My Safety' for all employees. A year later, a follow-up of this campaign was launched with the following purposes: to increase awareness of safety in general, to further strengthen the shared responsibility that came from 'Your Safety is My Safety' and to start conversations on safety. These conversations are aimed at making people aware of safety and encouraging them to make their own workplace even safer.

The people waiting at home (family, friends, partners) played an important role in the introduction video, which mainly showed why safety is so important: getting back safely to the people that wait for us at home. To easily start conversations, a set of cards named 'Safety Conversation Starters' were distributed to all operating companies. These cards contain statements and questions about a variety of safety themes.

BAM teams in offices and at project sites held safety conversations in their own teams to discuss a variety of safety themes and filling in action lists with improvement points.

Worldwide BAM Safety Day



On 8 October 2019, it was Worldwide BAM Safety Day, organised for the tenth time. The aim of this specific day in the year is to reflect together on the importance of a safe working environment to improve employees' awareness.

This year's Safety Day focussed on 'making safety more personal' by conducting a safety conversation. It is important to talk with each other – with colleagues, but also with family – about safety, every day, year in, year out. Management, office workers, welders, construction workers, crane operators – everyone shares the same responsibility, and everyone can improve safety in the offices or on construction sites in their own way. That is why everyone was invited to start safety conversations on a regular basis. Worldwide Safety Day kicked off with a video in which the members of the Executive Committee had a safety conversation with each other.

Serious accidents

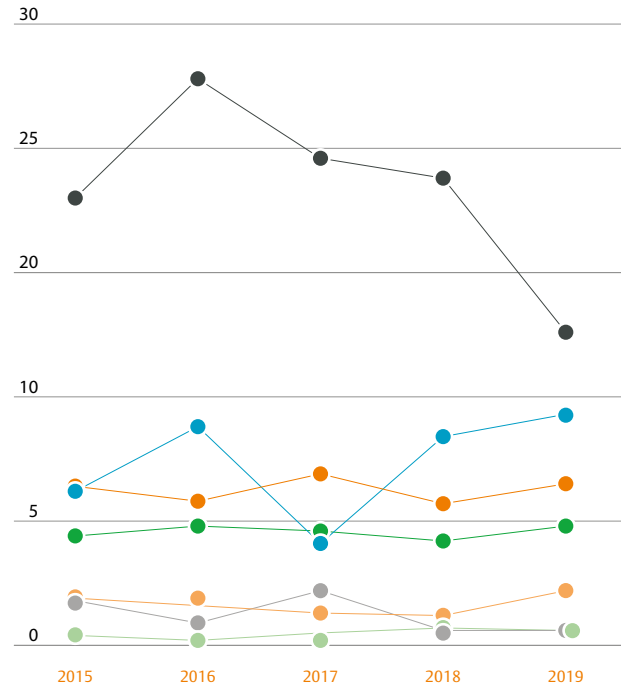
BAM is highly committed to prevent all incidents and feels responsible for all people who are involved in or are influenced by the activities of the Group. This includes employees, clients, partners, suppliers, subcontractors and members of the public. BAM regrettably had to report two fatal occupational accidents on BAM sites. These were extensively evaluated with the Executive Committee. Furthermore, the number of serious accidents (BAM employees, hired, subcontractors' employees, or other) is 143 in 2019 (2018: 121). An accident is classified as serious when an employee is admitted to hospital for more than 24 hours or results in electrocution (with enter and exit mark on the body), amputation or a fracture.

Setting minimum health management requirements

More insidious than the fatal and serious occupational accidents is the number of employees with a health damage or a long-term illness that has been caused or worsened at work. Many of these diseases manifest themselves only years after exposure and many are ultimately deadly. BAM believes that all injuries, deaths and illnesses should be prevented. BAM is in the process of setting minimum health management requirements. Within ENCORD (Europe's forum for industry-led research, development and innovation in the construction industry) the Group has put research and development in the field of quartz dust and asbestos inhalation, diabetes and skin cancer on the agenda.

16 - Incident frequency (IF BAM) by country

(x 1 million worked hours)



- Belgium 17.6 (lost days: 1,603)
- Germany 9.3 (lost days: 1,623)
- Netherlands 6.5 (lost days 3,749)
- United Kingdom 2.2 (lost days 1,954)
- Ireland 0.6 (lost days 811)
- Rest of the world 0.6 (lost days 202)
- Total, consolidated 4.8 (lost days 9,942)

Within BAM we still see a large spread in safety maturity. The safety performance in Belgium and Germany is relatively low but improving. Safety conversations and safety exchanges aim to strengthen safety leadership ('we really, honestly care') and encourage people to make a personal visible difference on safety behaviour in our day-to-day business ('Your Safety is My Safety').

Organisational development and employee engagement

From a human resources perspective, 'Building the present, creating the future' requires harmonised and modern ways of working, standardised and automated processes across all operating companies, leveraging self-service and a platform that provides (predictive) people analytics and reporting and also supports employees in development programmes. BAM wants to have a safe and engaging environment and a talented workforce, and aims to become the employer of choice in its key markets so that BAM can enhance the life of employees and everyone around BAM.

BAM People

This is the new employee portal within BAM, which is now live in the Netherlands. In 2019 the project was redesigned to an agile approach with a Company-wide implementation scheduled in 2020 for all other operating companies. BAM People contributes to the achievement of BAM's strategy through uniform processes, digital collaboration and unambiguous reports.

BAM Learning

This online learning tool went live in the Netherlands. Via BAM Learning, employees have access to all trainings available. They can select a training based on their needs, and after approval from their manager attend the training. The tool will be rolled out in the United Kingdom, Ireland, Belgium and Germany during 2020.

BAM Panel

BAM is fully embracing digital ways of working, not just for its clients but also for its employees. Via a rotating panel approach a standardised set of questions is sent out periodically.

Outcomes are available in real time in an online dashboard. With smart analytics and algorithms BAM aims to predict the future development of its employees and use these insights to improve the most important people-related KPIs.

European Works Council

In 2019, BAM's European Works Council (EWC) was fully involved in various transnational decision-making processes. Several EWC meetings took place on the One BAM governance decisions for staff functions HR, IT, Finance and Procurement (▶ page 18). The EWC recommendations contributed to sound decision-making.

Recruitment

BAM strives to diversify its workforce and find potential talent with different capabilities, various degrees of experience and different genders, age, nationalities and cultural backgrounds. Together, they can help BAM to mirror its client base and execute its strategic agenda.

Through the recruitment website www.bamcareers.com and recruitment campaigns, BAM continues to target talent and to maintain its position as the employer of choice in a scarce labour market.

Diversity and inclusion

BAM is a purpose-driven business that enhances people's lives through the work it does. This begins with its employees. BAM wants everyone to feel included, valued and respected and to have access to equal opportunities to succeed, regardless of social/cultural backgrounds or personal circumstances. BAM recognises that diversity and inclusion make a business stronger by driving innovation, performance and improving the engagement of their stakeholders by reflecting the communities in which they work.

Netherlands



13 March 2019 - Hollandse Hout

10,000 trees – new mixed forest with deciduous trees, such as oak, birch, maple and beech.

27 November 2019 - Houten

10,000 trees – a mix of deciduous trees to replace a large number of ash trees which got sick and died due to a fungus.

Arno Kampstra, IT Process Manager, came with his 3.5-year old son Fintan. 'I fully support this beautiful initiative to help preserve the planet. It felt good to do my bit in reducing CO₂ by planting some of these trees with my son. However young he is, I want him to know about the importance of it and I always enjoy spending quality time with him.'

BAM's inclusive approach means that all stakeholders are treated with fairness, dignity and respect. The Company aims to avoid being adversely influenced or prejudiced in any way by an individual's age, gender identity, marital or civil partnership status, race, colour, ethnic origin, sexual orientation, disability (physical or mental), religion or belief, working patterns, caring responsibilities, pregnancy or trade union membership.

2019 has seen significant strides to accelerate the depth of inclusion considered in the business. BAM has appointed a Director Diversity and Inclusion to implement consistent practices across the businesses that support equality and remove both personal and organisational bias.

Mental health

BAM is committed to supporting, promoting and maintaining the mental and physical health and well-being of its employees through training and workplace practices, and encouraging individuals to take responsibility for their own mental health and wellbeing. An education programme has been introduced and will be rolled out in all operating companies.

Mental health support for employees is provided through a number of ways including company doctors, employee assistance programmes, telephone, one-to-one and on-line counselling, mental health first aiders, line managers and HR. Levels of engagement and success are measured through surveys, absence rates, external awards and accreditations, resignations and employee turnover, ill-health/early retirements, insurance claims and data analytics. Critical incident supporting and counselling will be made available to all operating companies. Some operating companies additionally offer flexible working to support the work/life balance, two well-being days and a volunteering day.

Women in Construction Award

Jessica Rigley, Area Staff Manager at BAM International, won the coveted Women in Leadership category at the Women in Construction Awards. The judges commended her for over 20 years of experience in leading more than 200 staff and her pioneering role as a woman in HSE, which involved the development of an online HSE monitoring system, among other achievements.



Open Collaboration Day



BAM held the fifth edition of Open Collaboration Day in May 2019. The theme for this edition was 'diversity and inclusion'.

How do you create a safe workplace for yourself and others? How do you ensure that everyone feels a sense of belonging? And how often do we allow ourselves to still be guided by prejudices? Finding answers to these questions, together with inspiring internal and external key speakers, was the aim of Open Collaboration Day. Around 125 employees from all levels in the organisation participated actively in the discussions. The sixth edition took place in October.

Open Collaboration Day is an initiative of Young BAM, conceived after a trip that Young BAM members took to investigate how BAM's key values are viewed in different BAM countries. During this trip they experienced the importance of sharing and connecting. Now the twice-a-year event focusses on thinking, discussing, and acting across borders, teams or any other kind of segmentation. It is about bringing people together and sharing views.

Learning and development

Over the past year BAM delivered two business leadership programmes that were developed in 2018 to complement the existing project management programmes Olympus and Everest: the Enterprise Leaders programme for directors and managers and the Future Leaders programme for young professionals identified as talent with management potential. Both programmes were launched in 2018 and continued in 2019. Two groups of 20 participants each completed the Enterprise Leadership programme and a third group started its journey in October 2019. For the Future Leaders, programme the fourth cohort was launched.

For the top leaders within BAM, 2019 saw the development of the Accelerated Leadership programme, which will be kicked off in early 2020. One of the fundamentals of the programme is the Leadership Compass, a set of attitudes and behaviours to establish common leadership and culture, aligned with the One BAM values. The programme is developed to accelerate purpose-driven and collective leadership with the most senior leaders and to lead the business aligned to BAM’s strategy as well as to develop a mindset that stimulates personal growth and continuous improvement.

The Olympus programme has continued in 2019 and since the start in 2017 a total of 161 project managers and tender managers involved in large and complex projects have participated. In all business leaders programmes, blended personal coaching is an integrated part of the journey and beyond.

The Everest programme, a complementary programme for project managers of less complex projects, also continued in 2019: the eighth cohort of 21 project managers started the programme in the Netherlands. In 2020, the Everest programme will be made available across the Group and will facilitate the development of all those involved in project management.

Participants of the Enterprise Leaders programme for directors and managers.



17 - Female/male employees by region

(in % of total employees)

	2019	2018
Netherlands	13/87	13/87
United Kingdom	26/74	26/74
Belgium	12/88	13/87
Germany	23/77	22/78
Ireland	22/78	21/79
Rest of the world	6/94	7/93

18 - Employees per gender by employment type

(in %)

	2019	2018	2019	2018
Full-time	93	94	57	58
Part-time	7	6	43	42

19 - Employees per employment contract by gender in 2019

(in %)

	Permanent contract	Temporary contract
	90	10
	93	7

20 - Employees per employee category by gender in 2019

(in %)

	Senior management	Middle management	Operational staff
	8	12	18
	92	88	82

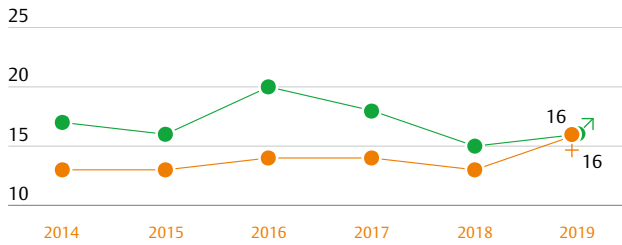
21 - Employees by age group

(in %)

Age group	2019	2018
<20	1	1
20-29	13	14
30-39	23	24
40-49	25	25
50-59	27	26
60-64	9	10
65>	2	-

22 - Average hours of training per employee

(in hours)



Annual total compensation by country

In 2019, the annual total compensation ratios improved in most countries of operation. This indicates that the gap between the highest paid individual and the average annual total compensation for all employees decreased. The relatively high ratio for BAM's international business can be explained by the fact that Dutch management members work together with local workforce. BAM International's figures are relatively volatile due to the difference in salary standards at the project locations/areas.

23 - Annual total compensation by country

	2019		2018	
	Ratio of percentage Increase	ratio	ratio	ratio
Netherlands	4%	13	12	
United Kingdom	9%	7	6	
Belgium	-3%	3	3	
Germany	5%	5	5	
Ireland	4%	7	6	
Rest of the world	-39%	16	27	

Business conduct and transparency



Code of Conduct
Doing things right.

BAM is committed to being an ethical company and to live up to the highest standards of honesty and integrity in the way it does business with clients, suppliers and within BAM. BAM's Code of Conduct and underlying policies were updated in 2019 in close collaboration with all operating companies to make it more robust, more up-to-date with current global standards and better aligned with the One BAM culture initiative. 'Doing things right' is the central theme of the updated Code of Conduct. This means that the code gives guidelines to do the right thing and remain true to the BAM core values. Living the Code of Conduct contributes to a safe, ethical and sustainable culture and protects the future of BAM. New employees must sign a statement in which they acknowledge to comply with this code as part of their employment contract with BAM.

The updated Code of Conduct was communicated with employees via local management. An e-learning tool is used to train employees on the code. The training, available in English, German, French and Dutch, is mandatory for new white-collar BAM employees. The e-learning tool was rolled out in November 2019 and approximately 50 per cent of the approached employees had finalised the training at year-end. The aim is to achieve 95 per cent completeness of the e-learning in the first quarter of 2020. Progress is closely monitored and reported to management. BAM's blue-collar employees are trained by so-called toolbox meetings. BAM strongly believes in a targeted approach for the different working groups to achieve optimum understanding and adaptation.

Support for International Women's Day

BAM supported International Women's Day via social media. Many colleagues from all around the world participated in this campaign, underlining BAM's belief that diverse teams at all levels make the Company stronger by the different perspectives that diversity brings.

Adam Harding, member of BAM's Diversity Steering Group:

'The theme for this year's International Women's Day was 'a better balance, a better world'. A better balance also means a better construction industry and a better BAM. We want to improve the balance in our company, because we want to be better equipped to meet the challenges ahead in society and to design, build and manage sustainable buildings that will serve people's needs in the future. Within the construction and



property services industry, the proportion of women – at about 14 per cent – is far too low. We want to harness the creativity we can achieve with different ideas and views in our business.'

Furthermore, BAM has a robust speak-up process, including an independent speak-up line to report suspicions of misconduct. All reported suspicions of misconduct have been assessed and where needed sanctions have been taken up to and including dismissal. Reported cases dealt with issues such as inappropriate use of company assets, equal treatment and privacy breaches (of which a number needed to be reported to the external local privacy authorities).

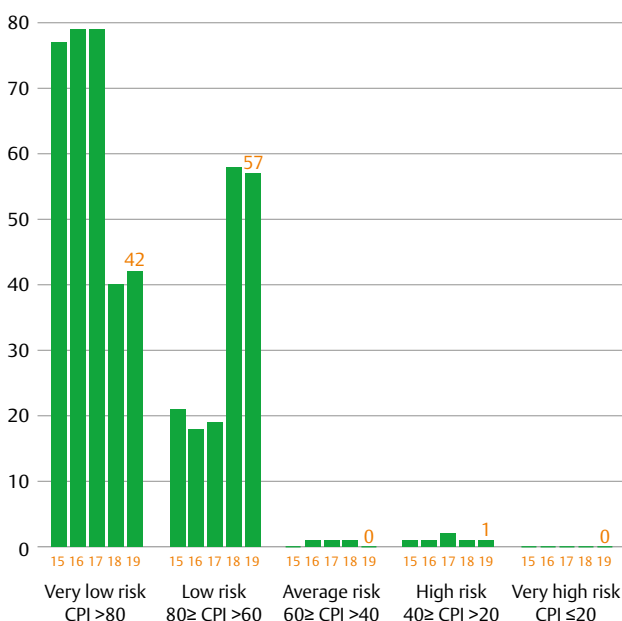
BAM has set up an Ethics & Compliance Committee to support the Executive Committee and the operating companies with the compliance programme, actual compliance matters and remedial actions and to ensure consistency across the Group. Reported suspicions of misconduct are discussed on a quarterly base with the Executive Committee and every six months with the Audit Committee. Furthermore, on a yearly basis the effectiveness of the management approach is assessed and improvement activities are captured in the operating plan of the Governance, Risk and Compliance (GRC) function.

Corruption Perception Index

The Corruption Perception Index (CPI) is calculated annually by Transparency International, which focusses on the strict application of the UN Convention against Corruption. The CPI classifies countries according to their perceived level of corruption on a scale from 0 to 100. BAM mainly operates in Europe, which explains the overall score. BAM obtains main turnover in countries with a very low or low risk of corruption.

24 - Revenue according to Corruption Perception Index

(in %)



Human rights

BAM has integrated its policy to protect human rights in the Code of Conduct. In addition, BAM underwrites the importance of the International Finance Corporation, in particularly with regard to labour and working conditions and the promotion of sound worker-management relationships. BAM believes that by treating its workers fairly and providing them with an extensive safety programme on site, avoiding discrimination in employment, not using child labour, paying fair wages, giving attention to education and training, creating healthy and decent working conditions, this creates tangible benefits, such as enhancement of efficiency and productivity of its business.

In 2006, BAM and the international federation Building and Wood Worker's International (BWI), signed a framework agreement to promote and protect employee rights. As part of 'doing things right' and taking responsibility, BAM facilitates BWI in visiting projects to audit local working conditions on human right practices. The aim is to agree a new framework agreement with BWI in the first quarter of 2020. The process of reaching new agreements with BWI takes place as much as possible in collaboration with the Netherlands Association of International Contractors (NABU).

As part of the agreement with BWI, BAM targets to perform one social audit on an international project every year. In 2019, no social audit was performed. However, at the invitation of BAM, BWI paid a visit to BAM's head office to get further acquainted and discuss the terms of a new framework agreement. BAM is aware that it needs to enforce its commitment in organising these social audits to make sure the target is reached in 2020.

Combatting slavery

BAM is committed to preventing slavery and human trafficking throughout its operations and those associated with its business. Modern slavery is also a key issue for BAM and its supply chains. BAM is partner member of the Supply Chain Sustainability School (www.supplychainschool.co.uk) where help and advice is freely available to assist suppliers within the construction industry. Combatting slavery is not a stand-alone issue, but one that is part of BAM's approach to ensure that people are met with dignity and respect, that goods and services are purchased responsibly, that transparency is promoted and that business is done with the highest professional and ethical standards. With its speak-up procedure, BAM has an adequate whistleblowing process, which encourages to report on all suspicions of misconduct.

Supply chain management

BAM is involved in many stages of the construction value chain, from development, engineering and construction to maintenance and operation. Suppliers are essential to BAM. Their knowledge, people and other resources provide more than 70 per cent of BAM's turnover which BAM brings as value to its clients.

Large supply categories for BAM include concrete works, steel construction, mechanical and electrical engineering and façades. All of these are typically sourced from preferred suppliers close to the sites.

BAM's supply chain management is primarily focussed on incentivisation and changing supplier behaviour. The Group aims to increase sustainability awareness and continuously looks for opportunities to jointly improve sustainability performance of both BAM and its suppliers. These processes primarily take place through procurement on Group and local project level, where BAM tries to reduce the environmental impact of products and the carbon footprint of supplied goods both in the supply chain and daily operations. In 2019, BAM increasingly engaged with suppliers to reduce the environmental impact of its projects by implementing life cycle assessments on product level – for example on several infrastructural tenders in the Netherlands.

A 2019 example of supply chain engagement at Group level is the quarterly engagement with BAM's preferred car leasing company in the Netherlands. BAM's vehicle fleet accounts for 29 per cent of BAM's direct CO₂ emissions. In line with BAM's science-based target, the company has the ambition to further increase the share of electric vehicles in the vehicle fleet. As a result of this engagement, the amount of electric vehicles within BAM quadrupled from 45 (January 2018) to 180 (January 2019).

Additionally, BAM completed the roll-out of a spend-and-contract tool (Bravo), which enables the Company to have a global overview of all suppliers and subcontractors. Within Bravo, supplier and subcontractor performance is measured based on questions that are grouped in themes such as safety, quality, commercial, sustainability and future business. Evaluators score on a predefined scale and are able to leave comments as well. The end result is a score per supplier or subcontractor per project. This score is an indicator to see if action towards the supplier or subcontractor is needed. A dashboard is in place to show the results of the performance evaluations. In 2019, a total of 1391 supplier and subcontractor performance assessments were carried out (2018: 872).

Enhancing lives

Playing a part in addressing social issues at local and global level is part of BAM's sustainability strategy. To structure its efforts on community engagement, BAM launched its 'Enhancing lives' programme in 2016.

Enhancing lives is about adding value to people's lives. BAM aims to enhance the lives of people with whom the Company comes into contact through its activities and connections with local communities. This involves supporting people and communities by giving them an opportunity to achieve their personal aspirations, support broader social ambitions and meet their needs. As part of its strategy, BAM has set a target of enhancing 1,000,000 lives by 2020.

Homestudios for advice and inspiration

Larense Veld – gasless future

BAM Wonen has completed 51 homes in the popular 1930s style in the first phase of the Larense Veld project in Almere Haven, the Netherlands. Fully ready for a gasless and energy-efficient future, all homes use a combination of a heat pump and solar panels to generate heat and electric power. Together with top-level insulation, smart ventilation and underfloor heating this makes the homes energy-neutral, with a 0.0 energy performance coefficient. Further measures in some of the homes make them fully net zero.

Prospective buyers were invited to visit BAM's experience centre Homestudios to receive advice and inspiration for the finishing style of their new homes. Personal home advisors were available to assist them on their journey to creating the home of their dreams and if they so desired, ensure turnkey delivery.



Amanda van Wijk, one of the new residents:

'With only drawings to go on, we found it very difficult to envisage our new home. It was a big help therefore to be able to actually experience different options at Homestudios. Our personal advisor has been with us from

the start of the process right through to the final details. Working with Homestudios has been very inspirational. We have even included some of the examples in the model homes into our new home. We are very happy with the end result. It's been sheer luxury that as a family with two children, all we had to after receiving the key was move in our own furniture!'

BAM distinguishes three categories of life-enhancing activities:

- **Connect** – this is an activity which produces a ‘light touch’ impact. It is often (although not always) a one-off activity aimed at a group of people which requires a short amount of time given to preparation and/or interaction. The impact may be through raised awareness or new basic knowledge.
- **Improve** – this is an activity which produces a more ‘in depth impact’, often taking place over more than one occasion or for a duration of several days. The beneficiaries are likely to be individuals and groups. The impact may be through gaining new skills, experience or deeper knowledge
- **Transform** – this is an activity where the impact on the beneficiary is ‘truly transformational’ or life-changing. The transformation may happen following several previous activities (but it could be a stand-alone activity). The impact is most likely to be through an unemployed person entering employment or a person whose health or living situation has been dramatically improved.

Challenges in verifying reported numbers

All operating companies began to monitor life-enhancing activities in 2017. The activities and the regularity of reporting varied from one operating company to another as some operating companies were more developed in this area than others. BAM decided to sort different activities into categories to improve consistency in reporting. Defining what activities contribute to life enhancement is an ongoing process. Based on the numbers reported in 2017 and 2018, the Group decided to apply changes in the categories and definitions in 2019 to ensure the most life-enhancing activities are focus areas for the Company. BAM discarded the numbers in some categories, such as social media, as the Group felt these categories should not be part of the ‘Enhancing lives’ strategy.

Due to the changes in categories and definitions and the absence of reporting guidelines, verifying and understanding the reported numbers is still an ongoing challenge. Numbers that were reported in the past years have not been fully verified. Nevertheless, BAM has decided to start disclosing the reported figures, not to highlight the amount of lives BAM is enhancing but to aim to provide an

insight in its journey towards understanding and measuring life enhancement or social value. The unverified reported number of enhanced lives are presented in table 25. In 2019, BAM sharpened the definitions of the categories and the reporting guidelines that will be used for consistent reporting and verification of enhancing lives reporting in 2020.

25 - Reported number of enhanced lives

Lives	2017	2018	2019
Connect	70,576	124,322	158,095
Improve	6,499	13,920	54,337
Transform	295	932	767
Total	77,370	139,174	213,199

Progress to date

The increase in reported numbers is a reflection of improved monitoring. The upward trend from 2017 onwards is a result of operating companies developing their reporting channels and gaining a more detailed understanding of measuring enhancing lives. On its journey to define what enhancing lives means, BAM recognises that delivering quality is more important than delivering quantity. This might imply that BAM will not achieve the goal of enhancing one million lives in 2020, but it does help BAM to understand how it really can enhance the lives of people in a meaningful way.

Community engagement progress

In 2019, local community engagement programmes that measure and manage the impact of building projects on the local environment were implemented in 35 per cent of BAM’s projects. These were initiatives as part of existing programmes, such as the Considerate Constructors Scheme (CCS) in the UK and its Dutch equivalent ‘Bewuste Bouwers’, as well as unique initiatives of engagement managers on projects and site-specific sponsoring or charity work.

Rehabilitation of gait-training space

At the close of their airport project, the Terminal 3 team in Dar es Salaam, Tanzania, returned to the Centre for Comprehensive Community-Based Rehabilitation for an additional CSR project.

The skills of the team were put to work to rehabilitate a gait-training space, where people with physical impairment learn to walk in challenging environments. Many colleagues gave their support to the completion of this rehabilitation.



CCS fosters good communication with the local community and promotes professionalism on building sites. BAM Construct UK and BAM Nuttall sites registered under the CCS scheme are monitored to ensure that they comply with the Code of Considerate Practice developed to promote good practice, going beyond legal requirements. Additionally BAM Construct UK is a partner of the CCS. In the UK 77 projects were registered in 2019 and nineteen

awards were won, seven silver and twelve bronze.

Based on the success of the UK Considerate Constructors Scheme, BAM was one of the companies that introduced the scheme 'Bewuste Bouwers' in the Netherlands in 2009. During 2019, 60 sites were registered under the scheme in the Netherlands (2018: 74). The average audit score in 2019 was 7.7, well above the industry benchmark of 7.2.

Successful completion of airport project in Tanzania



BAM completed the design and construction of the Terminal 3 complex at the Julius Nyerere International Airport in Dar es Salaam for Tanzania Airports Authority in 2019. The new terminal is designed (together with NACO, Netherlands Airport Consultants) for the anticipated growth of international air traffic, leaving the existing international Terminal 2 to cater for domestic flights.

In future, the terminal will have a capacity to facilitate six million annual passengers. The project was executed in joint venture by BAM International and BAM Nuttall, while BAM Advies & Engineering was involved as one of the design partners.

3.3 Environmental performance

Ambition: to achieve a net positive impact on climate and natural resources

Targets

Performance in 2019

<ul style="list-style-type: none"> Achieve 25 per cent relative emissions reduction in scopes 1, 2 and 3 (employee travel) by 2020 (base year 2015). 	BAM reduced its CO ₂ intensity by 24 per cent compared to 2015.	○○●
<ul style="list-style-type: none"> Be included in the CDP Climate A List Leadership Index by achieving performance band A. 	BAM achieved leadership status on CDP's climate change benchmark and performance was rated A.	○○●
<ul style="list-style-type: none"> Deliver at least one product or service contributing to wider emissions reduction (zero carbon product) per operating company by 2020. 	In total BAM has delivered four zero carbon projects. BAM delivered two projects in 2019: 567 zero energy homes in the Netherlands and a new energy neutral office in Sint-Truiden.	○●○
<ul style="list-style-type: none"> Recycle or re-use 100 per cent of construction and office waste by 2025. 	BAM reduced the amount of construction and office waste to landfill and incineration to 32 kilotonnes (2018: 35 kilotonnes).	○●○
<ul style="list-style-type: none"> Deliver at least one BAM circular project, product or service per operating company by 2020. 	In total, BAM has delivered 14 circular projects. BAM delivered ten circular projects in the Construction and Property business line in the Netherlands, Belgium and the United Kingdom in 2019.	○○●
<ul style="list-style-type: none"> Source 100 per cent sustainable timber by 2020. 	BAM increased the completeness of its timber analysis to 80 per cent. Of the covered timber, 99 per cent is certified sustainable.	●○○

Management summary

BAM's CO₂ footprint strongly depends on its project portfolio. Due to fewer energy-intensive civil engineering projects and reduction measures across the Group, BAM achieved a large reduction in CO₂ intensity. The achieved reduction is in line with the Company's 2020 reduction target. In order to meet this target in 2020 BAM will continuously accelerate CO₂ reduction initiatives and measures.

The amount of construction and office waste remains at the 2018 level due to waste intensity increases in some parts of the business and compensational intensity decreases in other parts. Improving waste management and further pursuing reduction measures is needed to bring the Company closer to its goal of zero construction and office waste to landfill and incineration by 2025. Additionally, BAM provided more zero carbon and circular projects, initiated in different parts of the Company. The Group aspires to scale up these successful initiatives and roll out more products and projects throughout the business.

BAM increased the completeness of its sustainable timber analysis in 2019, yet there are still parts of the business where there is limited insight in sustainable timber use. BAM will continue to focus on improving the procurement of sustainable timber but expects it will not achieve its target to source 100 per cent sustainable timber by 2020. Insight in procurement of other key materials (concrete, steel and asphalt) remains challenging for

BAM, where supply chain management across the business is key in achieving better sustainable procurement performance.

Sustainability strategy

BAM's ambition is to improve its impact on the environment and people (towards a positive impact in 2050), by collaborating with the supply chain, encouraging innovative and digital thinking through its products, and realising benefits of circular business models. This chapter describes BAM's performance towards creating a sustainable built environment from an environmental perspective. The sustainability strategy emphasises both climate change (see 'Climate positive') and resource constraints (see 'Resource positive').

BAM is preparing for a low-carbon economy and needs to reduce its own emissions as well as supply chain emissions. BAM has a large impact on reductions in the lifecycle carbon impact of buildings and infrastructure (through material selection, design and/or asset management), deploying renewable energy systems or energy reduction measures for its clients or communities.

The Company is working towards a circular economy and believes the industry will be able to leave a positive legacy to the environment if it is able to work from reversible designs that are regenerative. BAM aims to reduce construction waste by becoming more efficient, utilising off-site manufacturing and by working with its supply chain to eliminate waste throughout the lifecycle of its projects.

Climate positive

BAM focusses on reducing its own carbon emissions and helping others to reduce emissions more widely. This means BAM will:

- Reduce the energy it uses by digitalising its business and by improving the efficiency of its operations;
- Use as much power, fuel and heat from renewable or non-polluting sources as possible;
- Work with clients and supply chain partners to reduce carbon emissions in the value chain;
- Bring low or zero carbon products and services to the market to scale up its positive impact.

Scopes CO₂ emissions

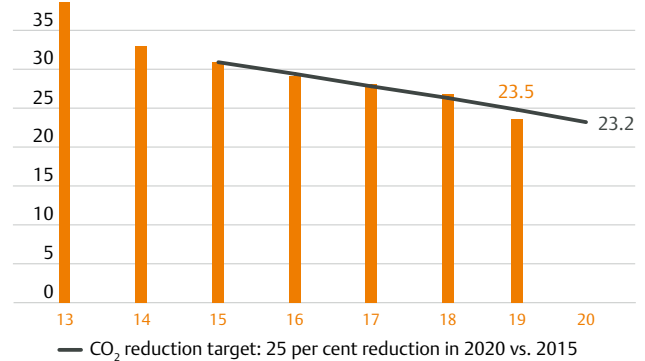
BAM monitors its carbon footprint by measuring its carbon emissions using the greenhouse gas (GHG) protocol. The GHG protocol defines three scopes for greenhouse gas accounting and reporting purposes:

- Greenhouse gas directly emitted from the Company's own activities (scope 1)
- Indirect emissions from purchased electricity, heating and cooling (scope 2)
- Indirect emissions up and downstream in the value chain (scope 3).

BAM reports all material emissions (scopes 1 and 2) and employee transport emissions (scope 3).

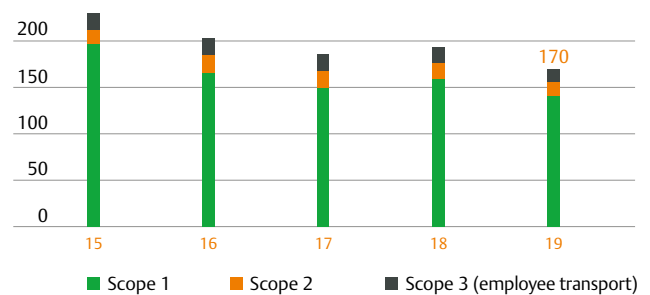
26 - CO₂ emissions intensity

(in tonnes per €1 million revenue)



27 - Total absolute CO₂ emissions

(in kilotonnes)



Cultural heart of Groningen

Forum, Groningen, the Netherlands

This fizzling new cultural meeting place is at the heart of Groningen municipality's major city centre project. A multifunctional meeting place to debate, explore and learn, this expressive building stands out for its shape, volume and height. Both the location – limited space and an earthquake zone – and the design of the building made for a technically complex construction.

BAM Bouw en Techniek handled this complexity by making the project one of its most advanced in the application in digital construction solutions. The many digital initiatives, the use of 3D BIM modelling and other new developments made this project a signature project in the field of digital construction during all project phases.



To reduce its direct impact on climate change, BAM has set a target to reduce CO₂ emissions intensity by 25 per cent by 2020, compared to 2015 levels (scope 1, 2 and travel-related scope 3). The CO₂ intensity decreased to 23.5 tonnes per € million revenue, a 12 per cent reduction compared to 2018 and a 24 per cent reduction compared to 2015. The strong reduction in 2019 puts BAM in an excellent position to meet the Company's 2020 target of 25 per cent reduction compared to 2015. Absolute CO₂ emissions decreased by 12 per cent to 170 kilotonnes (2018: 193 kilotonnes).

BAM's energy intensity was 0.34 TJ per million revenue (2018: 0.38). The absolute energy consumption decreased to 2,442 TJ (2018: 2,744). To reduce its carbon footprint, BAM continuously initiates energy reduction measures. This is driven by both its own policies and the European Energy Efficiency Directive (EED), a set of binding measures to help the European Union reach its 20 per cent energy efficiency target by 2020.

Emissions from construction sites

The largest source of carbon emissions lies in BAM's construction sites, this is further sub-divided into 'Construction and Property' and 'Civil engineering', of which the latter is by far the most energy and carbon intensive. In 2019, absolute emissions from construction sites decreased by 15 per cent due to carrying out less energy intensive civil engineering projects and ongoing CO₂ reduction efforts. Key aspects of BAM's CO₂ reduction strategy are lowering the reliance on diesel and gasoil and to procuring renewable electricity.

Emissions from vehicle fleet

The emissions from the vehicle fleet, which account for 32 per cent of BAM's total CO₂ emissions, decreased by 5 per cent compared to 2018. BAM pursues a more efficient and sustainable vehicle fleet, by optimising travel distances of employees and deploying more energy-efficient vehicles. The Company stimulates the use of electric vehicles to reduce fuel consumptions, carbon emissions and improve air quality. Electric driving is promoted and employees are financially incentivised to choose smaller and more fuel-efficient cars (below 90 grams per kilometre). More than 8.6 million kilometres were driven in 2019 by the Company's fully electric cars and plug-in hybrid cars (4.6 million kilometres in 2018).

Emissions from asphalt plants

The emissions from asphalt production account for 14 per cent of BAM's total CO₂ emissions. In 2019, CO₂ emissions were 20 per cent lower than in 2018, predominately as a result of less asphalt production. Ongoing efforts to improve energy efficiency and the use of less carbon intensive fuels also contribute to the reduction of CO₂ emissions in asphalt plants.

Emissions from offices and air travel

In 2019, emissions from BAM's offices slightly increased by 1 per cent compared to 2018, mainly due to an increase in revenue and office personnel. BAM's policy to reduce air travel by stimulating meeting digitally and minimising international business flights has led to a 15 per cent reduction in air travel emissions compared to 2018.

Green revenue

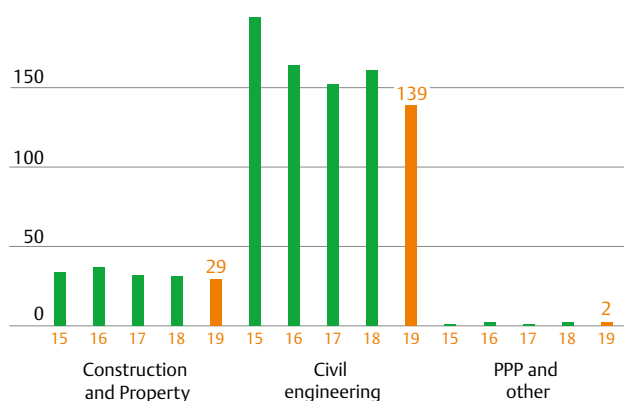
BAM supports its clients in the reduction of their footprint and environmental impact. In 2019, 20 per cent of BAM's revenue, approximately €1.5 billion (€1.4 billion in 2018), came from projects that were registered with third-party green building or sustainable construction rating organisations, such as the US Green Building Council's Leadership in Energy and Environmental Design (LEED) standards, the UK's Building Research Establishment Environmental Assessment Method (BREEAM), Germany's Passivhaus standards and other objective and third-party standards or BAM's green building products.

BAM's climate action acknowledged

BAM was again commended for its climate action in 2019, as it achieved a place on CDP's prestigious 'A List' for climate change. This global ranking evaluates corporate efforts to address and mitigate climate change. The index is produced by CDP, an international NGO that promotes sustainable economies at the request of over 525 investors. Information provided by more than 8,400 companies was independently assessed on the basis of the CDP scoring methodology and ranked accordingly. BAM was recognised for its actions to reduce carbon emissions and assess the potential role of climate change on the business strategy and performance.

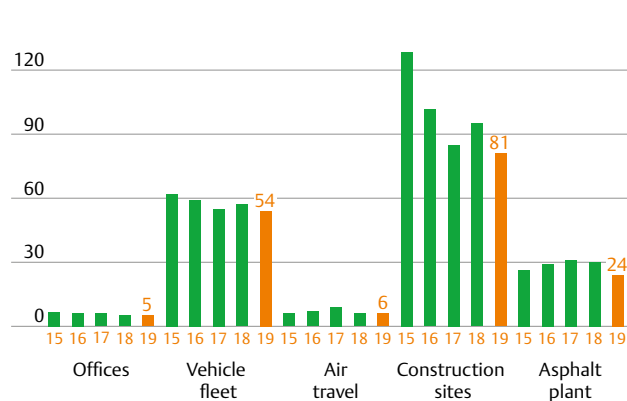
28 - CO₂ emissions per business activity

(in kilotonnes)



29 - CO₂ emissions per source

(in kilotonnes)



Since 2012, BAM has been a leader in transparent reporting on impact on climate change issues. The Group supports the focus on more ambitious targets to drive longer-term progress towards a low-carbon future. Emissions in the value chain outside BAM's activities are an important aspect of a low-carbon future. BAM discloses these so-called scope 3 emissions as part of its CDP submission every year. The scope 3 assessment underlines the importance of scope 3 emissions and improves the understanding of BAM's wider climate change impacts. The areas 'purchased goods and services' and 'use of sold products' contribute most to BAM's scope 3 emissions and the Company engages with suppliers in exploring reduction measurements that focus on these areas. In 2019, BAM worked together with master students from Utrecht University to further mature its assessment. While this has led to an improved accuracy of BAM's scope 3 assessment, further steps are still required to get the accuracy of the assessment to the desired level. BAM aims to continue its engagement with suppliers, partners and clients to develop a strategy and action plan aimed at enhancing its scope 3 carbon emissions measurements and reduction initiatives.

Science-based CO₂ reduction target

In 2019, BAM published its science-based target to ensure CO₂ reduction is in line with the latest climate change science. The target was accepted by the Science Based Target Initiative in April 2019. The science-based target has been set for 2030 and provides a pathway towards BAM's long-term climate positive ambition. In 2030, BAM aims to:

- Reduce scope 1 and scope 2 CO₂ intensity by 50 per cent compared to 2015;

- Reduce scope 3 CO₂ emissions by 20 per cent compared to 2017 (the first year BAM assessed its entire scope 3 emissions).

The key measures that are specified in the science-based target and which the Group is actively pursuing in all its operating companies are:

- Procurement of 100 per cent renewable electricity in all offices, facilities and project sites;
- Reduction of diesel use in generators by establishing early-stage grid connections in all projects where that is possible.

Climate adaptation

Climate adaptation is gaining attention as an important aspect of corporate climate strategy. It relates to how companies deal with risks and opportunities associated with climate change. BAM addresses climate adaptation through the assessment of climate change risks at project and business level and through its stage gate procedure. BAM discloses the full details of its climate change risk assessment in its CDP submission.

Identified key risks and opportunities in 2019 include:

- Market-related risks and opportunities (e.g. changing client behaviour, changing prices construction materials, new markets).
- Products- and services-related risks and opportunities (e.g. development of new products and services through R&D).
- Physical weather conditions (e.g. extreme weather events, adaptation to sea level rise).

Sustainable urban development in Belgium

Tivoli GreenCity is a unique example of a sustainable urban development. This new neighborhood includes a mixed-used programme of 397 passive housing apartments (35% zero-energy) in eleven buildings, two child day care centres and seven commercial spaces. Tivoli also includes three slow-traffic streets and sustainability mobility facilities, and five semi-public parks conceived as biodiversity laboratories. Besides innovative sustainable energy systems, there is also an experimental greenhouse.

Benjamin Cadranel, General Manager of citydev.brussels

'Sustainability is at the core of citydev.brussels's vision for the future of our region. Most of our projects aim to take into account every aspect of sustainable development – socially, economically, and environmentally. Our goal is to create new neighborhoods in line with the ideas of an inclusive, walkable, affordable city, open to economic activities and attractive amenities for all its inhabitants.

To achieve our ambitions, we require strong, trust-based partnerships with the private sector. This has been spectacularly



the case with BAM, which has deservedly won several of our public contracts in the recent past. No project could better demonstrate the success of this mix of high ambition and efficiency. That is why it has won a great number of sustainability awards and is even in the process of being certified as 'outstanding' by BREEAM and 'the most sustainable development in the world'. We are definitely looking forward to even more collaboration with BAM in the near future as we continue our efforts to raise our quality standards for a better Brussels.'

Reducing nitrogen emissions

In 2019, BAM signed the Dutch ‘Malieveld’ agreement together with 25 other parties in the construction industry (architects, consultancy-firms, real estate developers, construction companies). By signing this statement, all parties indicated that reducing nitrogen emissions is an important focus area and that they aim to tackle nitrogen emissions in conjunction with other initiatives related to CO₂ reduction. With this agreement, BAM committed to nitrogen emission-free property development, design and construction.

Resource positive

BAM strives to achieve a net positive impact on resources by 2050, eliminating waste over the lifecycle of developments by the way it designs and builds projects.

BAM aims to preserve raw materials and resources over the lifecycle of its built environment and deliver projects using safe, healthy and natural materials. BAM intends to:

- Eliminate wasteful construction practices, and deliver projects that will produce less waste in operation;
- Promote the circular economy by using products and materials that can easily be maintained, reused or repurposed in the future, avoiding low grade recycling wherever possible;
- Procure materials from certified responsible sources.

Waste

BAM’s waste typically consists of excavation, demolition, construction and office waste. In 2019, BAM saw a large increase in excavation waste due to the start of some large groundwork activities in the United Kingdom and Ireland. The Company considers excavation and demolition waste to be less relevant indicators of operational performance and sustainability as these types of waste are present at sites before the Company takes on a project. BAM has limited impact on the amounts of these waste types and it is merely a part of its business model to efficiently reuse or remove these materials.

BAM focusses on construction and office waste as performance indicators. All construction and office materials are initially brought to BAM’s sites and offices on its behalf, in contrast to excavation and demolition waste. In 2019, BAM’s construction and office waste was on par with 2018, at 128 kilotonnes (2018: 129 kilotonnes). The construction and office waste intensity was 17.7 tonnes per € million revenue (2018: 17.9).

Reductions in construction waste in the United Kingdom and the Netherlands were offset by an increase in Belgium and Germany. This increase resulted from several large construction projects being in their finalisation phase, when most waste is produced. Efforts to improve the efficiency of the production process by the use of prefabricated building elements are ongoing. Moreover, digital construction technologies are helping to reduce construction waste by integrating material use in the early design stage.

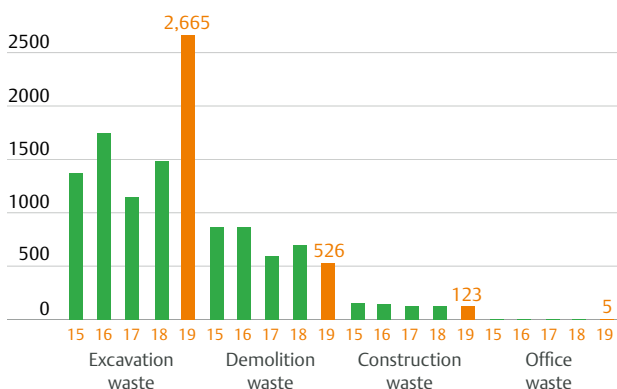
BAM has set an objective to completely recycle or reuse its construction and office waste by 2025. In 2019, 75 per cent of BAM’s construction and office waste was recycled or reused (2018: 73 per cent). A total of 18 kilotonnes (2018: 18 kilotonnes) was landfilled or incinerated without energy recovery. By engaging with its waste contractors, BAM pursues to improve the waste treatment process and further increase recycling and reuse ratios. BAM also stimulates its projects and offices to improve waste separation and recycling/reusage.

Circularity

Circularity is becoming an important topic in the construction sector and BAM is well placed in the industry to build on its past circular economic achievements. Within the Group, circularity is an upcoming theme with opportunities for new market potential, primarily in the Netherlands, Belgium and the United Kingdom. BAM is in the process of further defining its strategy towards circularity to demonstrate the opportunities and benefits through design, construction and operation of buildings and infrastructure assets using new circular economic business models. BAM’s main

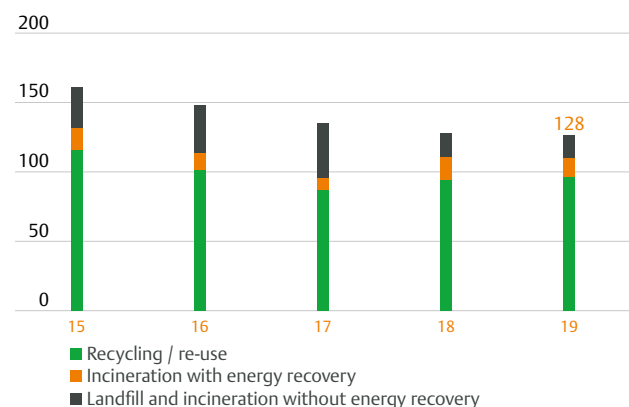
30 - Total waste production per source

(in kilotonnes)



31 - Construction and office waste production per destination category

(in kilotonnes)



Circular initiatives

Circular product

BAM continued the development of circular asphalt. BAM Infra applied 16,000 tonnes of ZOAB in paving the A32 highway in the Netherlands. This scale, and the 70 per cent recycling rate of this circular asphalt mixture in a project are unique in the Netherlands. At other smaller test sections, BAM already realised even higher recycling percentages up to 93 per cent, approaching the ambitious level of 100 per cent circular asphalt.

Circular economy engagement programme

In cooperation with two other members of the Circular Economy 100 Network (CE100), BAM piloted an e-learning engagement programme. It chaired three working groups with 20 employees, consisting of six webinars around key circular economy themes. BAM facilitated the conversations and shared learnings, challenges and opportunities for each of these topics to actively promote the dialogue and exchange knowledge relating to the circular economy within the Group.

Product life extension and service systems

BAM completed the largest energy storage system powered by Nissan LEAF second-life batteries in the Johan Cruyff arena. In 2019, the battery was extended with vehicle-to-grid-technology. Electric vehicles are used as an energy source and service system for the arena.

Value recovery

Within its maintenance contract at Schiphol airport, BAM created a proposition for circular deconstruction of an office building. Simultaneously, BAM developed a building circularity index (BCI). With this concept tool, circular (de-)construction is made measurable, controllable and feasible by scoring on two key aspects of circularity: material use and detachability. In this way, explicit insights into the progression towards a sustainable and circular Schiphol Airport are provided.

challenge is how to realise the transition from linear to circular patterns and increase the scale of circularity. In 2019, different circularity initiatives and products were rolled out. A few significant initiatives are described above.

An example of a circular initiative is the Taskforce Circular Development, which was started with the goal to investigate the circular challenge for the Dutch Construction and Property business. The taskforce researched circular trends and focus areas and created a benchmark to compare BAM's current position with innovative disruptors in the industry. One of the main findings was that BAM has a unique advantage: BAM's property developer AM

can bring innovators together to learn quickly, while BAM's operating companies, together with progressive value chain partners, can further develop and build these circular products.

Construction materials

BAM has identified the quantities of materials used in its construction projects in the Netherlands, its largest home market, since 2011. The Group has identified the main categories of procured materials as shown in table 32. The material quantities and recycled content are based on supplier data, industry averages and data from BAM's asphalt plants.

Ireland



9 February 2019 - Mount John, Newcastle

2,000 trees – new agroforest with oak, scots pine, alder, birch, rowan, hazel, hawthorn, blackthorn, crab apple, heritage apple trees and other traditional fruit trees.

9 February 2019 - Ballineen, Cork

1,000 trees – replanting trees due to storm damages in a multifunctional forest: oak, scots pine, alder, birch, rowan, cherry, hazel, hawthorn, blackthorn, and crab apple.

Noel Buckley, Quantity Surveyor BAM Ireland, brought his son Jerry to Ballineen. 'My son Jerry and I had a great day! We have worked together to plant trees that will flourish to enhance the environment again and benefit future generations.'

32 - Material consumption in the Netherlands

Consumption			2015	2016	2017	2018	2019
Ready-mix concrete	m ³		265,000	189,000	173,000	208,000	203,000
Timber	m ³		32,000	23,500	19,000	19,500	34,500
Asphalt	t		1,400,000	1,450,000	1,300,000	1,250,000	1,100,000
Steel	t		73,000	54,000	61,000	72,500	76,000

Recycled content			2015	2016	2017	2018	2019
Ready-mix concrete	%		12	18	15	12	10
Timber	%		1	3	1	0	0
Asphalt	%		40	42	37	41	42
Steel	%		63	71	72	66	70

Asphalt production

The production of asphalt is a process that typically requires large amounts of natural resources and energy. BAM has developed a low-energy asphalt concrete (LEAB, after the Dutch name: 'laag energie asphalt beton'), an innovative type of asphalt that requires less energy and fewer natural resources, and results in lower CO₂ emissions compared to conventional asphalt. In 2019, BAM applied 32,500 tonnes of LEAB in the Netherlands corresponding to 3 per cent of the total asphalt production (2018: 69,000 and 6 per cent). Although the use of LEAB has (temporarily) decreased in 2019 in the Netherlands, the application of LEAB has gained attention in 2019 in BAM's other home markets, most noticeably in the United Kingdom: Highways England provided a subsidy to BAM to show that English asphalt mixtures can be produced using a lower temperature with the LEAB method.

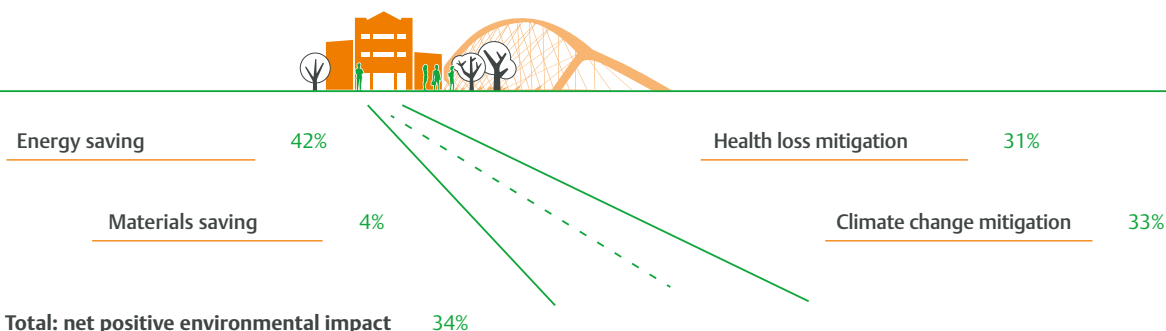
Following the ambition to further reduce the environmental impact of asphalt production, BAM continued the development and testing of low energy and emission asphalt pavement (LE2AP) with support of the EU LIFE+ programme. LE2AP is the next

circular milestone towards developing silent (sonic) and sustainable roads that optimise traffic flow. The positive environmental impact of applying LE2AP instead of conventional asphalt is shown in figure 33.

BAM's efforts towards developing sustainable asphalt were recognised by the Dutch government, which awarded BAM two prizes for its innovative solutions for more sustainable asphalt production in 2019.

In 2019 BAM and Heijmans continued to investigate the transfer of their current asphalt plants in the Netherlands to a new joint asphalt company. By establishing this new asphalt company, the knowledge, expertise and investments in innovation of both companies can be combined. Increasing sustainability of the asphalt chain is an important objective, from lowering CO₂ emissions to circularity and reuse of raw materials and semi-finished products. Collaboration offers opportunities to make better use of the available capacity and to improve the utilisation rate of the asphalt plants, aimed at efficiency and better returns.

33 - The positive environmental impact of the applied LE2AP in 2019 compared to conventional asphalt



Notes:

- Scope includes production, transport and end-of-life treatment. The paving process and the use phase are not taken into account.
- Compared LE2AP 'Fluisterfalt 8/16 PA-Stone' to 'Fluisterfalt 11/16 Bestone 30 per cent PR'.

Sustainable timber

BAM considers sustainable timber a valuable construction material to support the transition to a circular economy. Besides, using sustainable timber is key to support forest conservation and biodiversity and helps to combat climate change. The Group signed a new covenant with FSC Netherlands in 2019 restating its commitment to exclusively use certified sustainable timber for its projects. In cooperation with FSC Netherlands, BAM continues to engage with suppliers to encourage them to improve the identification and reporting of certified timber.

Over the past few years, BAM has improved the coverage of its timber use measurement to 80% of its operations (based on revenue) in 2019. All home countries are covered, except Germany and Ireland. The market conditions in these countries make it extremely challenging to gather (sustainable) timber use figures. Of the timber use that is measured, BAM has increased its certified sustainable timber use to 99 per cent in 2019 (94 per cent in 2018).

The major reason for the larger share of sustainable timber use in 2019 is a substantial increase of timber consumption in the Netherlands, mainly for the construction of dwellings. Dutch timber use data is provided by BAM's suppliers, covering 89 per cent of all timber use in construction works carried out by BAM in the Netherlands. Timber use by subcontractors and in subcontracted projects is not included. BAM estimates that in total 99.6 per cent of its timber use was certified.

In the United Kingdom, the origin of certified sustainable timber from both FSC and PEFC sources is registered in BAM SMART, an online data monitoring system. In 2019, 98.5 per cent of timber used in the United Kingdom was from verified legal and sustainable sources, of which 91 per cent was delivered with full FSC or PEFC Chain of Custody certification.

BAM Belgium and BAM International started measuring timber use in 2018. In 2019, both operating companies increased their share of sustainable timber use significantly, to an estimated 94 per cent (Belgium) and 92 per cent (International), driven by improved supplier engagement and data collection efforts.

In 2019, BAM obtained leadership status on the CDP forest timber benchmark (score A-). This global ranking evaluates corporate efforts to address and mitigate deforestation and forest degradation. The Company is recognised for its business strategy to only use certified sustainable timber, transparent reporting and progress towards achieving this target.

34 - Certified sustainable timber use

(in %)

	2015	2016	2017	2018	2019
Organisational coverage	65	68	65	79	80
Sustainable timber	98	98	98	94	99

BIM Level 2 certification for digital construction



All BAM operating companies are BIM Level 2 certified. With BAM International's certification to ISO 19650 in December 2019, BAM is one of the first fully certified international construction companies.

ISO 19650 is the international standard for the production and management of information over the entire lifecycle of a building by using building information modelling (BIM). It contains the same principles and high requirements as BIM Level 2 and is closely aligned with the current PAS 1192 standards. All operating companies are generating work with these standards.

Menno de Jonge, Director Digital Construction:

'The standards set out the recommended concepts and principles for business processes across the built environment sector, in support of the management and production of information during the lifecycle of built assets when using BIM. Many of BAM's clients and government institutions are demanding compliance with the BIM level 2 standard in order to work with them, and in order to produce the highest quality work. Achieving certification is a great result of hard work.'

3.4 Outlook

Markets

In the Netherlands, the continuing uncertainty regarding the legislation of the deposit of nitrogen might impact revenues in the Construction and Property and Civil engineering business lines. This while the underlying demand for newbuilt homes remains high. Growth is also constrained by the availability of permitted locations and the affordability of houses. The volumes in non-residential construction continue to improve. The supply chain remains under pressure, but this is expected to ease based on the impact of the nitrogen legislation. Longer-term demand in both markets will benefit from the transition to more energy efficient buildings. For Civil engineering, the underlying demand is robust while the risk profile of projects to be tendered remains challenging.

In the United Kingdom, reduced uncertainty and pledges on investment in the built environment following the 2019 general elections will have a positive impact on the non-residential and civil engineering markets. The UK government has pledged an increase in infrastructure spending, with public sector funding likely to become available in roadworks. The education segment remains strong. The health sector will gain momentum as result of an increase in capital funding for the National Health Service.

In Germany, construction and civil engineering markets are stable but competitive. The German construction industry is currently facing levels of strained capacity amid unfilled vacancies and a strong recovery of the housing market.

The Belgian civil engineering market is growing slowly, with some opportunities for larger projects. The market in the Walloon region remains at a low level. The construction and property markets are growing modestly on the back of higher demand from the public sector.

In Ireland, residential and non-residential construction remains strong. Civil engineering is stable with a limited number of larger projects coming to the market.

The global oil and gas market is not picking up and opportunities in onshore construction are limited.

For the market of public-private partnerships, the pipeline of prospects and active bids remains healthy.

Sustainability

Across operating companies in both business lines, sustainability is an increasingly important theme for BAM's clients. Instead of a construction-only focus, the demand for sustainable products and services and a trend towards lifecycle focus are on the rise.

The challenge for BAM is to improve its financial performance in the short term (2020), while simultaneously implement its sustainability strategy and achieve a net positive impact in the long term.

BAM is further focussing on bringing down its own emissions and helping other parties in the value chain to reduce their emissions. This is in line with BAM's science-based CO₂ reduction target (SBT) and the 2015 Paris Agreement.

The concept of circularity is increasingly gaining attention in the construction sector. Linear consumption patterns ('take-make-dispose') of products are beginning to cause constraints on the availability of resources. The construction sector needs to develop new opportunities and realise its circular economy ambitions faster, which requires a vigorous innovation of design and construction methods.

Employees

BAM continues to face a tight labour market, especially in the field of technology, where the Group finds it increasingly challenging to find skilled people. This will be addressed in BAM's employer branding approach, in which specifically defined key target groups are made aware of relevant job opportunities and employee stories via recruitment marketing activities. Simultaneously, the Group will continue to stimulate employee development by offering learning and personal development programmes. To understand the needs and interests of BAM's employees, regular engagement surveys are held, and actions are defined based on the outcome. BAM focusses on fostering an attractive company culture to offer talent a rewarding career. The workforce will develop in line with expected market developments.

Financing and investments

BAM expects no material changes in the financing structure of the Company in 2020. BAM expects investments in strategic and project specific equipment in normal course of business.

Outlook 2020

BAM expects an improvement of the adjusted result before tax margin in 2020 compared to 2019.

Bunnik, the Netherlands, 20 February 2020

Executive Board



Zero-energy building for IBA

IBA (Ion Beam Applications) opened its new international logistics and manufacturing headquarters in Louvain-la-Neuve, Belgium. It is part of IBA's 'scale-up' programme to increase production capacity in response to the growing global demand for proton therapy

solutions in the treatment of cancer. The zero-energy building, realised by BAM Galère, makes use of innovative elements including heat recovery from the particle accelerators' testing process, green roofs, passive-type insulation and solar panels to reduce the impact on the environment.

4

Risk management

Net-zero living in Delft *Schoemaker Plantage, Delft, the Netherlands*

On a former business location, AM and BAM Wonen realised a sustainable residential estate in Delft, with net-zero homes. The balance between incoming and outgoing energy streams, offers a healthy and comfortable living environment. Solar panels on the roof compensate for the average household's energy consumption (2700 kWh), while insulation, automated ventilation and floor heating with heat pumps ensure the net-zero target.



Risk is inherent to any business venture and the risk to which BAM is exposed is not unusual or different from what is considered normal in the industry. The Group's risk management system is designed to identify and manage risks. Effective risk management enables BAM to capitalise on opportunities in a carefully controlled way.

Risk profile and appetite

The focus areas of BAM's strategy 'Building the present, creating the future' have a positive impact on the risk profile of the Group. In the current project and business portfolio, BAM has a more disciplined focus on market segments and projects where the Company can use either scale or expertise as a critical success factor. For its future business portfolio, BAM is rationalising its propositions and developing new solutions for clients, and is investing in digitalisation to be an industry leader in how and what it builds. The new strategy also places a stronger emphasis on cultural values, to further support the brand and the strategy of the Group. Risk appetite is defined as the level at which BAM is willing to accept risk in the ordinary course of business in order to achieve its objectives. The general approach is to balance risk and reward and to limit uncertainties as much as possible, taking into account the sector in which managing risk is a necessary core competence to survive and to carry out sustainable business.

Key factors in explaining the risk appetite are described in accordance with the following risk categories:

Strategy – BAM takes a balanced approach on risk and reward to achieve its strategic objectives in terms of results and innovation and continues to invest in innovation through digital technologies and digital construction.

Tenders – Based on knowledge and experience in the home markets, BAM participates in tenders for complex multidisciplinary projects, in which the risks are distributed in a controlled manner between the clients and BAM. Outside its home markets BAM operates worldwide in niche areas, provided they are in line with the Group's business principles. In PPP investments, BAM invests in design, build, finance, maintain and operate contracts (DBFMO), mainly in home markets, where payments are based on availability of the asset.

Property – BAM invests selectively in property development projects under the condition that these are profitable and have a clear and predefined exit strategy.

Operational – BAM seeks to limit the risks that may jeopardise the execution of its business activities.

Finance – BAM strives to maintain a solid financial position (e.g. solvability and credit facilities) ensuring access to the financial markets and retaining its clients, supply chain and other partners. BAM wants to provide an insightful, fair and accurate representation of its performance and economic results.

Compliance – Compliance with all applicable laws and regulations including BAM's Code of Conduct is of fundamental importance to the Group.

Risk appetite statements are further underpinned by BAM's strategic agenda, governance, core values, Code of Conduct and policies and procedures.

Improvements to the risk management framework

The enterprise risk management is embedded in different levels of the organisation and has various areas of attention. The core of BAM's risk management at project level covers the full lifecycle of the project, from opportunity to tendering, and from execution to handover. BAM has developed and implemented a unified project approach in 2019 and this will be operational in operating companies and projects in 2020. This approach covers stage gates, not only during tendering, but also in the execution of projects. The implementation of these new requirements is performed via a project team with the use of expert groups. BAM continues to improve its risk management capabilities in order to realise the strategic agenda and guarantee value creation in the long term.

BAM's risk management framework

At Group level, the BAM strategy is the starting point. The Group's strategy offers guidance on focussing the project portfolio (doing things better), shaping the business portfolio (doing better things) and the creation of the future portfolio (doing new things). These areas and underlying strategic objectives and initiatives form the basis for the focus on enterprise risk management, taking into account BAM's risk appetite. The Supervisory Board supervises and advises the Executive Board, which has the overall responsibility for enterprise risk management within the Group.

There is an annual risk assessment for the Group in relation to the strategic agenda and operating plans. The Group's risk management framework, which is based on COSO (Committee of Sponsoring Organisations of the Treadway Commission), addresses strategic, operational, financial and compliance risks. Risks are assessed and prioritised on their impact and probability and on effectiveness of the controls. The cycle is concluded with a risk response and monitoring of effectiveness in the organisation.

At executive level, the Executive Committee receives progress updates on the status of the strategic objectives, initiatives and leading indicators through dashboards in periodic reports and in management meetings. These are periodically shared with the Supervisory Board.

At operational level, there is attention to the management of processes, the portfolio and projects in various phases. The management of the operating companies closely monitors the progress of projects, the risks and opportunities and actions going forward in periodic reports and in project and management meetings. Furthermore, there is close attention to strengthening processes, systems and people's capabilities.

At project level, the project team manages the contract and the expectations of clients in the most effective and efficient way, by forming the right team that can make this possible and by choosing

the right tools and capabilities to support them. Digital construction is one of the means to minimise risk and cost. In addition, project teams manage risks and opportunities, both qualitatively and quantitatively. The periodic reporting includes a bandwidth for the outcome of the project.

The risk management and control systems provide a platform for the structured sharing of knowledge and expertise in the business, so that risk management plays a key role in achieving the strategic objectives. Business functions and topics across the Group accelerate the process of acquiring and sharing knowledge and expertise through a consistent language and approach to risk management.

Operating model supporting internal control framework

The BAM strategy is supported by the BAM operating model, which creates clarity and uniformity in the way the Company operates. All key processes are identified around strategic enablers and are aligned with existing core processes in accordance with these enablers. BAM has derived its internal control framework from this operating model and underlying core processes and policies (for accounting, treasury, legal, compliance, information security, and so on).

The internal control framework ensures insight into the effectiveness of internal risk management and control systems, as well as the reliability of the financial reporting and compliance with laws and regulations.

Comfort on the effectiveness of the internal control framework is obtained by a semi-annual assessment of the requirements in the framework. All operating companies and the headquarters carry out self-assessments and the results are reported to the Group. The results of these self-assessments are challenged and improvement

actions are implemented and monitored.

Furthermore, internal audits challenge the results and provide recommendations to further improve the effectiveness of the internal control framework.

In control statement process

BAM has a structured 'in control statement process', resulting in an end-of-year 'Executive Board statement' (▶ page 55). The underlying assessments on operating company level form the basis for management's accountability for the effectiveness of the internal control framework, together with the formal issuance of a statement and letter of representation to the Executive Board. Any deviations from the internal control framework are highlighted, including identified follow-up actions to resolve these deviations.

All operating companies have confirmed and signed the letter of representation which supports the Executive Board in its assessment of the effectiveness of the design and operation of the internal control and risk management systems. Reported deviations included an improvement plan to further strengthen the level of control. The most important improvement areas are IT, procurement and project execution.

Core values supporting the right risk culture

BAM's risk management and internal control systems are supported by BAM's core values (▶ page 15). These elements are instrumental in steering the behaviour of BAM's people and help to ensure that BAM's risk profile remains in line with the risk appetite. The Group's culture is further strengthened by scalable learning from tenders and projects, more predictable performance, working together in open collaboration and ownership of challenges and opportunities.

Germany



3 April 2019 - Bärenstein

4,000 trees – mixed new forest (deciduous trees), with species such as oak, birch, maple and beech.

5 November 2019 - Friedrichsruh, Germany

4,000 trees – a mix of deciduous trees, such as birch, maple, white fir and beech. This project is aimed at forest restoration in a nature reserve where trees were damaged by storms and invading beetles.

Helga Wahl, Manager Corporate Communications of BAM Deutschland, handled the spades together with a number of her colleagues from all branches of BAM in Germany. 'Collaboration on the job is already inspiring and value-adding; collaboration in tree-planting added a whole new dimension: paying forward to future generations.'

Executive Board statement

The Executive Board is responsible for the design and operation of the internal risk management and control systems. In discharging this responsibility and to provide a substantiation for the statement below, the Executive Board has made an assessment of the effectiveness of the design and operation of the internal control and risk management systems. In addition, the Executive Board has determined the outlook based on market developments, financing, orderbook and cash flow.

On the basis of this management report and in accordance with best practice 1.4.3 of the Dutch corporate governance code as adopted on 8 December 2016, and article 5:25c of the Financial Supervision Act ('Wet op het financieel toezicht'), the Executive Board confirms that, to the best of its knowledge:

- The management report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems of Royal BAM Group;
- The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis;
- The management report states those material risks and uncertainties that are relevant to the expectation of Royal BAM Group's continuity for the period of twelve months after the preparation of the management report.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations. Nor can they provide certainty that we will achieve our objectives.

Furthermore, the Executive Board confirms that, to the best of its knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Royal BAM Group and of companies included in the consolidation;
- The management report provides a fair review of the position at the balance sheet date, the development and performance of the business during the financial year of Royal BAM Group;
- The management report describes the principal risks and uncertainties that Royal BAM Group faces.

Innercity re-development



The construction of Zalmhaven project is now in full swing. Three residential towers will arise in the former harbour of Rotterdam, developed by The Zalmhaven CV joint venture. This urban development comprises a 215-metre tower which will house 256 apartments, two 70-metre towers which will house 196 apartments and 33 single-family homes, retail spaces and parking facilities. The first homes will be completed in 2022.

Zalmhaven CV is a joint venture between area and project developer AM (part of Royal BAM Group nv) and developer and investment manager Amvest. The project is being built by BAM Bouw en Techniek.

With this development Rotterdam will get a major eye-catcher at the foot of the well-known Erasmus Bridge.

Michelle Corbeau, Project Developer for AM, and Edwin van Leeuwen, Project Developer for Amvest:

'Zalmhaven was developed in response to the high demand for new homes in Rotterdam. With this eye-catching residential high-rise in the beautiful Scheepvaartkwartier neighbourhood, Zalmhaven CV is realising 485 rental and owner-occupied homes for the elderly, young couples and families who want to live in the city centre. As an extension to the city centre, Zalmhaven offers the whole package from a pleasant living environment to job opportunities and a place to unwind in local bars and restaurants. We are not just building new homes, we are creating a place where people want to live.'

Healthy order intake and project control

Fundamental to managing a healthy order intake and a controlled project execution is BAM's stage gate policy. BAM has extended the existing stage gate approach used in the tender phase into the execution phase. This extended approach was developed and implemented in 2019 and will be fully operational in operating companies and projects in 2020.

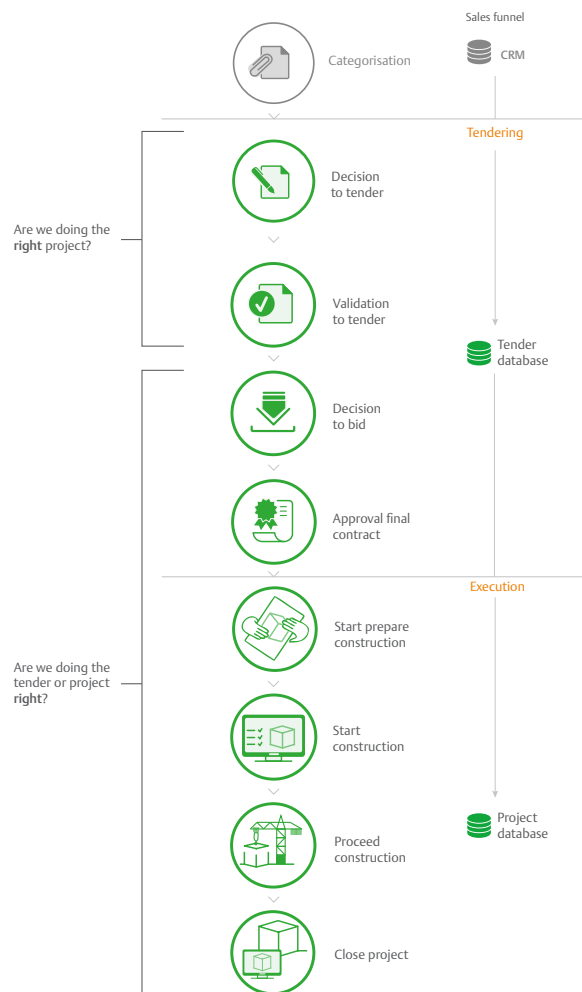
Tenders and projects are guided through various stage gates, based on complexity, size and risk profile. The first two stage gates focus on 'Are we doing the right tender/project?', while the other stage gates address the question 'Are we doing the tender or project right?'

The stage gates are designed to establish a robust risk profile and ensure predictable performance across all BAM's tenders and projects. Expert involvement is arranged to leverage the combined knowledge within the Group, supporting the tender and project in reaching its full potential.

The stage gate policy follows a governance structure based on risk categorisation, to ensure each tender and project is reviewed and approved by the right level of management. Bids for major projects or project involving exceptional risk are submitted to the Executive Committee for ratification and – if necessary – to the Supervisory Board for approval.

Separate from the various stage gate assessments, the Internal Audit department performs independent project reviews on selected projects across BAM to review the effectiveness of the project control system and the overall project performance.

35 - Stage gate procedure



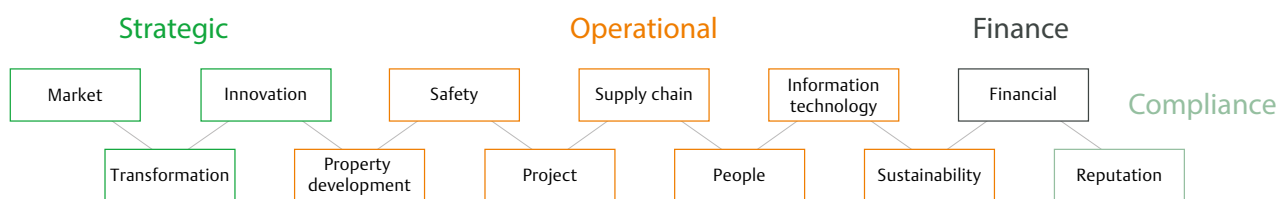
Europe's first 3D concrete printing facility

Printing 3D concrete elements on an industrial scale is now available in Europe's first commercial facility in the Netherlands. Set up by Weber Beamix and BAM Infra, the facility is scaling up 3D printing for the construction industry in all areas: volume, size, speed, and efficiency. The fully digital process allows for greater freedom in design, while the 3D printing technology saves raw materials, reduces emissions and prevents waste.

In the development of this facility, Saint-Gobain Weber Beamix and BAM Infra had the support of their long-time knowledge partners Bekaert, Witteveen + Bos and Eindhoven University of Technology. Several orders queued up even during development. BAM has started the production of the longest 3D printed concrete pedestrian bridge in Nijmegen and is in the design phase for the province of Noord-Holland for four cycling bridges. For the Driebergen-Zeist railway station project, 3D printing of formwork saved many hours of labour and waste material.



Main risk areas



Several risk areas and measures have been identified with respect to BAM's strategic objectives. Follow-up and feedback are part of the regular management reporting cycle.

Risk description	Possible impact	Management measures
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Market risk

Most of the Group's home markets are subject to fierce competition.

Fierce competition may lead to a buyer's market, which influences margins, causes a shift in design and contract risks for the contractor and endangers the pre-financing of projects by clients.

Based on the Group's strategy, BAM applies a disciplined focus on market segments and projects where it can use either scale or expertise as a critical success factor. For its future business portfolio, BAM rationalises its propositions and develops new solutions for clients and invests in digitalisation to be a market leader in how and what BAM builds.

Transformation risk

The strategic agenda 'Building the present, creating the future' involves a transition to a new organisation, so that BAM can follow the developments in the sector and be a leader in the selected markets.

BAM may not realise a successful and agile implementation of the One BAM transformation process, together with other strategic initiatives and targets.

The Executive Committee is closely steering and monitoring the progress of the transformation activities as defined in the strategic agenda and translated in the yearly operating plans. Furthermore, BAM has implemented a programme management organisation to steer transition progress.

Innovation risk

The construction industry is at the brink of major technological changes. Digital technology is beginning to change value creation within the industry, where traditional capabilities may become commoditised.

Competitors or disruptive newcomers on the market can marginalise BAM's distinctive capabilities and thus jeopardise the existing business model.

BAM's management measures with regard to innovation risk are described in ► paragraph 9.7, 'Material themes and management approach'.

Property development risk

BAM is involved in property development for its own account. The level and timing of both income (sale/rent) and costs (site acquisition and building costs) of these projects may deviate from the initial expectations as a result of divergent market and process (planning/permits) conditions.

Property development projects can be postponed or completed at higher costs than budgeted. Furthermore the realisable value of our land bank and property development positions may be lower than book value. This has consequences for the financial results (level and duration of the capital employed, profit).

The Executive Committee takes a decision on the basis of project proposals from the relevant operating company and associated analyses carried out by the Group's Property Investment function. The general rule is that construction does not start before a significant number of properties have been sold or, for non-residential buildings, a large part of the project has been rented out or sold. In the United Kingdom – where BAM only operates in the non-residential property sector – the inventory risk is mitigated by a system of phased project execution.

Risk description

Possible impact

Management measures

Safety

The nature of BAM's business can pose safety risks to its people. The well-being and safety of the people of BAM are of vital importance to the Company.

Safety incidents may lead to serious injuries, fatalities or project disturbance, loss of time or additional costs, and as a result impact BAM's performance.

BAM's management measures with regard to health and safety are described in ► paragraph 9.7, 'Material themes and management approach'.

Project risk

BAM is constantly active in thousands of projects where the Company is exposed to a wide variety of risks, in a sector known for its asymmetrical risk profile. Selecting the right projects against balanced contractual conditions is crucial.

Failure to achieve a healthy order intake and flawless project execution leads to fluctuations in the project results, possible claims and litigation and ultimately to the failure to achieve BAM's strategic objectives.

BAM has implemented several measures to manage the project risk. The starting point is selective tendering with a focus on portfolio management, a robust tender stage gate procedure, a uniform project approach (UPA) and peer reviews. During the execution phase, attention is paid to achieving operational excellence with, among other things, the right composition of the project team, design management, schedule management, contract management, working capital management and project monitoring.

Supply chain risk

On an annual basis, the Group purchases more than 70 per cent of its turnover from suppliers and subcontractors. These partners have a major impact on the projects, both financially and technically.

Failure to manage the cost of the supply chain (subcontractors, materials and services) and insufficient access to qualified and cost-effective vendors has impact on successful and profitable execution of the projects.

BAM's management measures with regard to procurement and supply chain risk are described in ► paragraph 9.7, 'Material themes and management approach'.

People risk

Attracting, training and retaining talented people is crucial for BAM, because it enables the Group to respond more effectively to changes in the market by exploiting its full potential. It is essential that BAM remains a preferred employer.

The inability to attract and keep the right talent, expertise and human capital within BAM will have a negative effect on success.

To attract top talent, BAM has a professional recruitment team that works together with external recruitment agencies. The Group invests in the development of employees through various training programmes, including a programme for management trainees, project directors and project managers, and prepares candidates for key positions to improve (inclusive) leadership.

Risk description

Possible impact

Management measures

Information technology risk

Digitalisation, data, communication and connectivity are essential for BAM. A global presence also leads to cyber security challenges, which require the Group to have the flexibility to continuously adapt.

Information technology is crucial in supporting and protecting the core and supporting processes. BAM increasingly relies on digital communication, connectivity and the use of technology. The Group has to remain alert to prevent the use of compromised data and the unavailability, loss or theft of critical strategic, financial and operational data.

BAM aims to improve the maturity of the IT function to keep up with external developments. In addition, BAM has increased its security efforts to remain resilient to growing cyber risks. This includes implementing and testing of an information security framework to ensure confidentiality, integrity and continuity of data.

Sustainability risk

The construction industry relies heavily on natural resources, which will be depleted when consumption goes faster than the natural supplement. Climate-related risks such as global warming cause more acute frequent extreme weather conditions, such as storms, heat waves, droughts, heavy rainfall with flooding and heavy snowfall.

Failure to deliver sustainable construction processes and (new) sustainable solutions could disrupt BAM's position related to clients and supply chain partners and lead to reduced revenue and higher costs.

BAM has a strong corporate team and sustainability teams in all operating companies to ensure continuous improvement. By driving and implementing sustainability measures, BAM makes considerable efforts to reduce its impact on the environment with the ambition to achieve a net positive result. To reduce the impact of BAM on resource use, the Company works with partners in the supply chain and clients to explore circular economic business models.

Financial risk

The attractiveness of BAM as a trusted partner to collaborate with or to invest in is strongly influenced by its financial position and the ability to manage financial risks.

Failure to achieve the status of trusted partner may prevent BAM from working with preferred parties and lead to restrictions on access to financial markets.

BAM's financing strategy is based on long-term relationships with reputable financial institutions and a well-spread debt maturity schedule. A strong centralised focus on cash and working capital, including financing by clients and suppliers, limits the need for extra capital. The Company enters 'equity-light' in property development projects and in PPP investments. It is the intention of the Company to sell these projects to investors. Specific financial risk management measures, including those in the area of interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk are disclosed in note 3 of the financial statements.

Reputation risk

The trust of clients, shareholders, lenders, construction partners and employees in the Group is vital to ensure the continuity of the Company.

BAM's reputation may be damaged if it fails to successfully mitigate the main reputational risks, such as fraud, bribery and corruption.

BAM's management measures with regard to business conduct and transparency are described in ► paragraph 9.7, 'Material themes and management approach'.

What impacted BAM in 2019?

The following risks and uncertainties related to the nature and complexity of BAM's business environment had an impact on BAM in 2019.

Risk/reward profile

BAM's performance in 2019 was impacted by significant cost overruns on several large projects in Germany and in the Middle East. These cost overruns led to a profit warning on the 8th of July. BAM remains selective in tendering for large projects and continues to discuss ways to improve the risk and reward balance as well as contract conditions with its public sector clients.

Safety

Although the focus on safety remains high, the Company still faces incidents at project sites. Besides having the knowledge and tools to work safely, it is crucial that employees can always communicate openly about unsafe situations with each other and their managers.

PAS and PFAS

In the Netherlands, a national nitrogen approach programme (in Dutch 'Programma aanpak stikstof' or PAS) was introduced to limit nitrogen deposition and protect natural habitats. PAS has also led to a (temporarily) shut-down of large construction projects, which potentially affects BAM's project portfolio.

BAM established a PAS taskforce that performed a risk analysis for all BAM tenders and projects in the Netherlands, including potential

impacts and a roadmap with steps to take anticipating on a lower order intake.

A related issue that impacted BAM in the Netherlands is that of PFAS, a collective name for substances that can be found in soil and surface water. National PFAS legislation is being reviewed by the Dutch government to limit the impact for the construction sector. BAM and other industry participants are cooperating closely with the government on how to build more homes and improve infrastructure, balanced with PAS and PFAS requirements.

Brexit

The United Kingdom is BAM's second largest home market after the Netherlands. BAM's activities in the United Kingdom are split between three operating companies: BAM Construct UK in non-residential construction and property development, BAM Nuttall in civil engineering and the UK operations of BAM PPP. Uncertainty about Brexit continued during the year. Brexit uncertainty persists although recent elections provide some more clarity, leading to potential delay in investments.

Events after balance sheet date

Supervisory Board of Royal BAM Group nv has announced - with a press release of 17 February 2020 - that by mutual agreement it has been decided that Rob van Wingerden will not be nominated for a next term as CEO and member of the Executive Board. In accordance with its contractual obligations, BAM will pay a severance payment of one-year base salary.



Studley Castle historical landmark

Just south of Birmingham, Grade II* listed Studley Castle has been transformed into a hotel. Dating from 1834, the castle has been restored and refurbished and is now the fourteenth hotel of Bourne Holidays group. A new building, with hotel rooms and a restaurant with a banquet hall, connects the monumental building with the old stables located behind. More than two hundred rooms and extensive wellness facilities are housed in the modern hotel of

historic character. The team of BAM Construction has worked closely with Bourne Leisure to develop the design and construction strategy to deliver the rejuvenation of this historical heritage. Jon Kitely, BAM's Construction Manager on this project: 'We had the opportunity to deliver a redevelopment which will see the rejuvenation of this important local landmark, allowing its story to continue towards, and beyond, its 200th anniversary.'



Governance

New tunnel improves connection with European rail network
Bad Cannstatt tunnel, Stuttgart, Germany

This six-kilometre railway tunnel from Stuttgart's central railway station to Bad Cannstatt is part of the large-scale project Stuttgart 21'. The overall aim of the project is to improve the infrastructure in and around Stuttgart and to further integrate the area in the European rail network. Construction of the tunnel plus rescue tunnel and smoke extraction structure is realised with the drill-and-blast method and a tunnel excavator.



5.1 Corporate governance

Legislative and regulatory developments

The latest version of the Dutch Corporate Governance Code ('the Code') was published on 8 December 2016. By means of a decree dated 29 August 2017 the Dutch government has designated the Code as applicable to Dutch companies with a public listing. The Code is based on the comply-or-explain principle and applies as from the financial year 2017.

Decree with respect to the contents of the Executive Board report

This chapter reports on the application of the Code at Royal BAM Group. Together with the information about the corporate governance structure and the BAM corporate governance compliance overview (see www.bam.com/en/about-bam/corporate-governance), this comprises the 'Corporate governance statement' as specified in section 3 sub 1 of the Decree with respect to the contents of the Executive Board report ('the Decree').

Information about BAM's corporate governance structure and compliance with the Code (clause 3.1 of the Decree with respect to the contents of the Executive Board report), functioning of the General Meeting and the rights of shareholders (clause 3a sub b of the Decree with respect to the contents of the Executive Board report) can be found on the Company's website under the corporate governance heading. The most important aspects of BAM's risk and control systems (clause 3a sub a of the Decree with respect to the contents of the Executive Board report) are available in ► chapter 4 of this integrated report. Information about the composition and functioning of the Executive Board and Supervisory Board (clause 3a sub c of the Decree with respect to the contents of the Executive Board report) is described in ► paragraphs 5.3 and 6.1 and the diversity policy for both boards is explained in this chapter and ► paragraph 6.1. A declaration with regard to the Decree on Article 10 of the EU Takeover Directive (clause 3d of the Decree

with respect to the contents of the Executive Board report) can be found in ► paragraph 5.2.

Compliance with the Corporate Governance Code

Compliance with the Code is described in the BAM corporate governance compliance overview, which is available on www.bam.com. This is to be read in conjunction with this section and is deemed to be incorporated into this section. In case there is a difference between the content of BAM's publication and this section, this section will prevail.

BAM fully complies with the principles and best practises of the Code. In accordance with the Code the Company will submit any substantial changes in the main features of the corporate governance structure to the General Meeting for discussion purposes.

Corporate governance review 2019

The corporate governance structure was reviewed by the Executive Board and Supervisory Board, assisted by the company secretary. The implications of the establishment of an Executive Committee in April 2019, including the amendment of the rules of procedure for the Executive Board and Executive Committee as well as the rules of procedure for the Supervisory Board were assessed and the BAM corporate governance compliance overview was updated.

Diversity

Best practice 2.1.5 of the Code stipulates that the diversity policy for the Executive Board and Supervisory Board should be explained in the Executive Board report as well as the way that it was implemented in practice, addressing (1) the policy objectives, (2) how the policy has been implemented and (3) the results of the policy in the past financial year.

Encouraging more women into construction and engineering

In 2019, BAM Nuttall attracted a record number of women in its apprenticeship intake, with over a third making up the 40 apprentices' starting roles, from September, across the business. In collaboration with Women In Science and Engineering (WISE), BAM Nuttall has been involved in launching revolutionary initiatives for increasing the number of girls choosing construction careers.

'Engineering the Future for Girls' – Together with the Faculty of Engineering at the University of Strathclyde, Glasgow, BAM Nuttall and BP brings 100 schoolgirls into the university to take on engineering challenges. The partnership also runs a residential outward-bound course within the department of Civil and Environmental Engineering.



'People Like Me In Construction' – A new career resource pack, which encourages girls to think about their personality and attributes, matches them to types of roles (e.g. explorer, regulator, developer) and shows how they fit construction careers. The pack introduces a variety of women they can relate to, including two women from BAM Nuttall, as case studies and role models.

Since the implementation of the new Code in 2017, the profile for the Supervisory Board holds diversity aspects, including a clear target for gender participation. This target of at least 30 per cent female and at least 30 per cent male members of the Supervisory Board does not differ from the target set in the previous profile. Since the general meeting in 2017 the composition of the Supervisory Board has been in line with this target, given that two out of five members are female. Besides gender, diversity in background, nationality, expertise and experience in the Supervisory Board is equally important in order to provide most value. The Supervisory Board meets these diversity requirements. The Supervisory Board has resolved that the diversity aspects set in the profile for the Supervisory Board will apply equally to the Executive Board and the Executive Committee. Regrettably, the composition of the Executive Committee is not (yet) in line with the target as far as gender participation is concerned.

The Executive Committee now only consists of male members. In the search for suitable candidates for the Executive Committee, the Supervisory Board put a great deal of emphasis on identifying female candidates. This was expressed in the instructions to the external recruitment agency and in the subsequent review of the resumes and candidates. In the end however, it proved very difficult to identify and attract qualified female candidates. Given the above, it was concluded that even more emphasis should be put on this topic. In order to put this into effect, a director for diversity and inclusion has been appointed, with the CEO taking the lead as sponsor of diversity and inclusion. A Group-wide programme for diversity and inclusion will be developed and implemented. BAM will increase its attention to women in our management development programmes to assure that the rise of women to our senior management positions is warranted. In addition, external recruitment agencies are instructed to identify capable female candidates for senior management positions. Finally, the Company will give preference to women in case of equal suitability.

Notwithstanding the above, it should be noted that especially at the executive level, achieving the gender target is proving to be difficult due to the nature of the business and the lack of female candidates with sufficient management experience in the construction industry. It is therefore difficult to predict when this target is likely to be achieved.

Sustainability, responsibility and delegation

The Executive Board is responsible for defining the sustainability policy, in consultation with the directors for Strategy and Sustainability and the management of the operating companies.

Meetings with senior management are used to define sustainability issues and reach agreement on prioritising objectives, monitoring activities, and reporting results. Critical concerns are reported to the Executive Board at least in quarterly reports, or whenever more urgency is required. The Executive Board communicates to the Supervisory Board according planned reporting cycles, or whenever more urgency is required. The reduction of CO₂ emissions and waste, and enhancing lives, along with business integrity and safety, apply to all BAM operating companies. In addition, each operating company measures KPIs addressing issues of relevance to its own business.

Each operating company has a management team member who shares responsibility for BAM's sustainability activities. The operating companies report progress quarterly to the Executive Board and the Strategy and Sustainability directors, together with details of actions taken to support the Group's business objectives. They interpret BAM's objectives based on their unique operating conditions. Sustainability is part of how managers and employees carry out their day-to-day roles. It is addressed, for example, at regular work discussions and performance reviews. In this way, implementing sustainability is shared across all levels of the Group, from BAM's Executive Board to its local champions.

Bolivia

Various dates in 2019 - Sicirec

50,000 trees – the project area is located in the Bolivian lowlands at the edge of the Andes. The area is known as a gateway to the tropical rainforest and is one of 34 biological hotspots in the world that are threatened with destruction by unsustainable agricultural practices. It is here that 50 farmers and their families have been working towards a better future for their children and the environment in 2019, thanks to BAM.

The farmers have planted cocoa, fruit and trees that provide shade and sustainable timber on their land, which will provide them with the essential commodities to improve and stabilise their economic situation. Their improved economic situation will prevent further destruction of the surrounding native forests.





Engineering Innovation Centre, University of Central Lancashire, UK

The state-of-the-art Engineering Innovation Centre (EIC), built by BAM Construction, has 652 panes of specially design glass each weighing 250 kilogrammes and measuring four square metres.

It was also constructed using 630 tonnes of steel which hold 150 pre-cast concrete floor planks, the largest of which weighs 11 tonnes. The EIC is set to be a real asset to the university and the region, bringing educational and economic benefits now and for generations to come.

5.2 Decree on Article 10 of the EU Takeover Directive

This chapter relates to the provisions of the decree of 5 April 2006 implementing article 10 of Directive number 2004/25/EC of the European Parliament and the Council of the European Union dated 21 April 2004 and lastly revised on 13 October 2015 ('the Decree of Article 10 of the EU Takeover Directive').

Capital structure

The Company has three classes of shares: ordinary shares, preference shares B and series of preference shares F. BAM shares are traded on the Euronext Amsterdam stock exchange. Note 16 of the financial statements may be used as a reference for the Company's capital structure. At the balance sheet date only ordinary shares were issued. The following rights attached to the shares into which the Company's capital is divided follow from the Articles of Association and the Dutch Civil Code. There is no difference in the voting rights attached to a preference share B, a preference share F or an ordinary share. As all ordinary shares and preference shares B and F have the same nominal value (EUR 0.10), every issued and outstanding share of a class gives the right to cast one vote in the general meeting and to cast one vote in the meeting of holders of that specific class. Ordinary shares and preference shares F may only be issued against payment in full. Preference shares B may be issued against partial payment. Holders of ordinary shares have a pre-emptive right in respect of new ordinary shares to be issued, unless restricted or excluded pursuant to a resolution of the General Meeting. Holders of ordinary shares do not have a pre-emptive right in respect of new preference shares to be issued. Holders of preference shares B and F do not have a pre-emptive right in respect of shares to be issued. The transfer of ordinary shares and preference shares F is not restricted by the Articles of Association. The transfer of preference shares B requires the approval of the Executive Board.

The relevant financial right attached to the shares which follows from Article 31 of the Articles of Association concerns the application of the profit in relation to preference shares B and F.

A brief summary of Article 31 of the Articles of Association

From the profit realised in any financial year, an amount will first be distributed, where possible, on the Class B cumulative preference shares, calculated by applying the percentage stated below to the amount that must be paid up on those shares as at the start of the financial year for which the distribution is made. The percentage referred to above will be equal to the average of the Euribor rates for money market loans with a maturity of twelve months – weighted according to the number of days for which these rates prevailed – during the financial year for which the distribution is made, plus one percentage point. Euribor refers to the Euro Interbank Offered Rate as determined and published by the European Central Bank.

Subsequently, if possible, a dividend will be distributed on each financing preference share of a certain series, with due consideration of the provisions of Article 31(6) of the Articles of Association. See ► paragraph 8.3 for Articles of Association provisions governing the distribution of profit.

Limits on the transfer of shares

The Company has no limitation, under the Articles of Association or by contract, on the transfer of shares or depositary receipts issued with the Company's cooperation, apart from the restriction on the transfer of preference shares B. Article 13 of the Company's Articles of Association stipulates that approval is required from the Company's Executive Board for the transfer of preference shares B. The scheme is included in order to offer the Company the facility – because of the specific purpose of issuing these shares, namely the acquisition of finance or achieving protection – of offering the holders of these shares an alternative in the event that they wish to dispose of their shares.

As regards the preference shares B, the Company and Stichting Aandelenbeheer BAM Groep (Foundation Preference Shares BAM Group) have agreed that the Company will not proceed to issue these shares or to grant any rights to purchase them to anyone other without the foundation's permission. The foundation will not dispose of or encumber any preference shares B, nor renounce the voting rights relating to them, without permission from the Company. See page 204 onward with regard to the reasons behind protecting the Company and the manner in which this is done.

Substantial interests

The Company is aware of the following interests in its equity, which are now reported under the provisions concerning the reporting of controlling interests under the Disclosure of the Financial Supervision Act. See ► table 52 on page 208.

Special control rights

The shares into which the Company's equity is divided are not subject to any special control rights.

Employee share or employee option plan

The Company does not have any employee share or employee option plans. Since 2015 a long-term incentive plan based on performance shares has been introduced for the members of the Executive Board. This long-term incentive plan is cascaded down to a maximum number of fifteen senior executive positions below the Executive Board.

Voting rights

Each share in the Company provides entitlement to the casting of one vote at shareholders' meetings. There are no restrictions on the exercising of voting rights. The Company's Articles of Association contain the usual provisions in relation to intimation for the purpose of being acknowledged as a proxy at shareholders' meetings. Where the Articles of Association mention holders of depositary receipts or depositary receipt holders, whether named or bearer, this is understood to mean holders of depositary receipts issued with the Company's cooperation and also individuals who, under the terms of Articles 88 or 89, Book 2 of the Dutch Civil Code, have the rights accorded to holders of depositary receipts for shares issued with the Company's cooperation.

Shareholders' agreements

The Company is not aware of any agreements involving one of the Company's shareholders and which might provide reasons for:

- Restricting the transfer of shares or of depositary receipts issued with the Company's cooperation, or
- Restricting the voting rights.

Appointment and dismissal of members of the Supervisory Board and members of the Executive Board and amendment of the Articles of Association

The Company is obliged by law to operate a mitigated two-tier structure. The General Meeting appoints the members of the Supervisory Board, based on a recommendation from the Supervisory Board. The General Meeting also appoints the members of the Executive Board, with the Supervisory Board having the right of recommendation. A more detailed explanation of the appointment and dismissal of members of the Supervisory Board and members of the Executive Board can be found in the Articles of Association of the Company. Resolutions to amend the Articles of Association or to dissolve the Company may only be adopted by the General Meeting pursuant to a proposal of the Executive Board and subject to the approval of the Supervisory Board.

Powers of the Executive Board

The Executive Board's powers are those arising from legislation and regulations. A more detailed description of the Executive Board's duties can be found in the rules of the Executive Board and the Executive Committee. The Executive Board was authorised by the General Meeting held on 17 April 2019 to issue ordinary shares and Class F preference shares and/or to grant options to purchase these shares, subject to approval from the Supervisory Board. This authorisation is limited in duration to eighteen months. It is also limited in scope to 10 per cent of the issued capital.

The General Meeting held on 17 April 2019 granted authority to the Executive Board for a period of eighteen months to repurchase shares in the Company, within the limitations imposed by the law and the Articles of Association and subject to the approval of the Supervisory Board. In principle, the General Meeting is asked to grant these authorisations every year. Resolutions to amend the Articles of Association, or to dissolve the Company may only be passed by the General Meeting on the basis of a proposal put forward by the Executive Board and approved by the Supervisory Board.

Change of control provisions in important agreements

BAM differentiates the following categories of agreements as referred to in the Decree on Article 10 of the EU Takeover Directive:

- The Group has entered into syndicate revolving credit facilities (RCF). See for further details note 19 of the financial statements. The RCF agreements stipulate that in the event of a change of control, the loans/amounts outstanding under these arrangements are immediately due;
- In June 2016, Royal BAM Group issued €125 million in subordinated unsecured convertible bonds (see note 19 of the financial statements). This agreement also contains a change of control which gives the holder of each bond the right to require BAM to redeem that bond;
- Royal BAM Group and its subsidiaries have entered into various important agreements that contain clauses that in the event of a change of control the other party has the right to terminate the agreement. These agreements are in itself not considered key agreements within the meaning of the Decree on Article 10 of the EU Takeover Directive, but jointly they are considered significant;
- The terms and conditions of the conditional performance share plan stipulate that, upon the occurrence of a change of control, the Supervisory Board may decide to vest the conditional Performance Shares accelerated on a prorated basis, both in terms of time and performance. The Supervisory Board is however also authorised to withdraw conditional and unconditional performance shares in exchange for a cash payment at market value.

5.3 Supervisory Board and Executive Board

Biographies of the Supervisory Board members

H.L.J. (Harrie) Noy (1951), Chairman



Mr Noy completed his studies at Eindhoven University of Technology in 1974. Mr Noy worked for Arcadis throughout his entire career. He joined that company, which at the time still operated under the name Heidemij, in 1975 and has since occupied various positions. From 1989 to 1994 he was a member of the Management Board

of Arcadis' consultancy division in the Netherlands, and served as Chairman of that board from 1992 to 1994. In 1994, Mr Noy was appointed as a member of the Executive Board. From 2000 to May 2012, he served as CEO and Chairman of the Executive Board of Arcadis. Mr Noy is a Dutch national and did not own any shares in the Company's capital per 31 December 2019.

Other offices: Chairman of the Supervisory Board of Fugro, Chairman of the Board of Stichting Administratiekantoor TKH Group.

Mr Noy was appointed to the Supervisory Board in 2012 and reappointed in 2016. He was appointed as Chairman of the Supervisory Board in 2017.

G. (Gosse) Boon (1959), Vice-Chairman



Mr Boon studied both quantitative business economics and Dutch law at Erasmus University Rotterdam. He also completed his RA (Chartered Accountant) studies at this same university. Mr Boon started his career at Unilever. From 1983 to 2000, he fulfilled various senior positions within the company, lastly as the CFO of Unilever

Brazil. In 2000, Mr Boon was appointed CEO of DiverseyLever Netherlands, a position he fulfilled until 2004. Subsequently, Mr Boon held the position of CFO and Member of the Executive Board of Rijnmond Waste Processing and Van Ganswinkel Group respectively. In 2010, he transferred to Nutreco, where he was appointed CFO and Member of the Executive Board in 2011. In 2015, following the delisting of Nutreco, he decided to leave the company. He is a Dutch national and did not own any shares in the Company's capital per 31 December 2019.

Other offices: Chairman of the Supervisory Board of Albron, Member of the Supervisory Board of KPMG, lay judge (expert member) at the Companies and Business Court (Enterprise Chamber), which is part of the Amsterdam Court of Appeal.

Mr Boon was appointed to the Supervisory Board in 2017.

H. (Helle) Valentin (1967)



Mrs Valentin started her career with IBM in 1992 after obtaining a master's degree in engineering at the Technical University of Denmark and has held many international executive positions within IBM. She holds the position of General Manager of Global Business Services, Nordic, at IBM. Since 2018, Mrs Valentin served as Managing Director

within IBM and in that capacity held overall responsibility for one of IBM's global accounts. Prior to this, Mrs Valentin served as Global COO of IBM's Watson Internet of Things, with responsibility for founding the business and designing and building the business structure and product portfolio of this new IBM division. Before that, she was the COO of IBM's Germany/Austria/Switzerland region in the period of 2013-2016, also responsible for strategy and business transformation. Mrs Valentin is a Danish national and did not own any shares in the Company's capital per 31 December 2019.

Other offices: Member of the Supervisory Board of IBM Denmark Aps, Member of the Board of Directors of PFA Holding and PFA Pension.

Mrs Valentin was appointed to the Supervisory Board in 2017.

C.M.C. (Carla) Mahieu (1959)



Mrs Mahieu studied economics at the University of Amsterdam, where she graduated in 1984. She began her career at Royal Dutch Shell, where she held various management positions dealing with human resources, communication and corporate strategy. After several years in consultancy, Mrs Mahieu joined Royal Philips Electronics

as Senior Vice-President of Corporate Human Resources in 2003. She took up her current position as Executive Vice-President and Global Head of Human Resources at Aegon in September 2010. She became a member of Aegon's Management Board in 2016. Mrs Mahieu is a Dutch national and did not own any shares in the Company's capital per 31 December 2019.

Other offices: Member of the Supervisory Board of VodafoneZiggo.

Mrs Mahieu was appointed to the Supervisory Board in 2011 and reappointed in 2015 and 2019.

M.P. (Paul) Sheffield (1961)

Mr Sheffield studied civil engineering at the University of Surrey (United Kingdom). He is a Chartered Engineer and Fellow at the British Institution of Civil Engineers. From 1983 to 2014 he was employed by the Kier Group, a large British construction and property development group, listed on the London stock exchange, where he held

a number of management positions. During the first years of his career, Mr Sheffield worked as an engineer on various projects in New Guinea, Turkey and the United Kingdom. After that he was responsible for the management of projects in the United Kingdom, Saudi Arabia and Hong Kong. In 1998 he became Director of Operations and in 1999 was appointed Managing Director of Kier Group's civil division. In 2005 he joined the Board

of the Kier Group with responsibility for all construction activities and he was appointed as Chief Executive Officer in 2010. In 2014 Mr Sheffield left the Kier Group for Laing O'Rourke, one of the largest private construction companies of the United Kingdom, where he was a member of the Executive Committee until 2017, responsible for their activities in Europe and the Middle East. Mr Sheffield is a British national and did not own any shares in the Company's capital per 31 December 2019.

Other offices: Non-executive Director at Southern Water Services Ltd, Industry Advisor to the Board of Manchester Airport Group and President of the Institution of Civil Engineers.

Mr Sheffield was appointed to the Supervisory Board in 2017.

36 - Retirement schedule for the Supervisory Board

Member	Committees	Date of initial appointment	Year of reappointment	End of current term	End of second term
H.L.J. Noy*	RC, NC	25-04-2012	2016	2020	2020
G. Boon	AC	19-04-2017	-	2021	2025
C.M.C. Mahieu*	RC, NC	20-04-2011	2015	2021	2019
M.P. Sheffield	AC	24-08-2017	-	2021	2025
H. Valentin	RC, NC	19-04-2017	-	2021	2025

* Right of recommendation of Central Works Council.

Biographies of the Executive Board members

R.P. (Rob) van Wingerden (1961), CEO



Mr Van Wingerden graduated as a civil engineer from Delft University of Technology in 1988. He joined the Group as Project Surveyor in 1988 and subsequently worked in a variety of project management and other roles for operating companies in the Netherlands and elsewhere (including Taiwan and

Hong Kong). He completed his MBA cum laude at Twente School of Management in 1994. During this period he attended the Advanced Management Program at Harvard Business School, Boston, USA. He was appointed Director of HBG Bouw en Vastgoed in 2000, became Director at BAM Utiliteitsbouw in 2002 and was appointed Chairman of the Board of BAM Woningbouw in 2005. Mr Van Wingerden has been a member of the Executive Board of Royal BAM Group since 2008. In October 2014 he was promoted to the position of CEO and Chairman of the Executive Board. He is a Dutch national. Information about Mr Van Wingerden's shareholding position is on pages 87-89.

Other offices: Member of the Supervisory Board of Royal Saan, Member of the Board of Governors of the Dutch Construction and Infrastructure Federation (Bouwend Nederland), Member of the Taskforce Bouw, Member of the Advisory Board of DIMI (Delft Deltas, Infrastructures & Mobility Initiative).

Supervisory Board of Royal BAM Group nv has announced - with a press release of 17 February 2020 - that by mutual agreement it has been decided that Rob van Wingerden will not be nominated for a next term as CEO and member of the Executive Board.

L.F. (Frans) den Houter (1974), CFO



Mr Den Houter was trained as a hydrographic surveyor at the Amsterdam University of Applied Sciences. He earned a degree in business economics at the University of Amsterdam and an international master's degree in finance and control. He started his career at Exxon Mobil in

2000, where he worked as Financial Analyst and Controller for the Benelux retail operating company. In 2005 he moved to Shell, where he held consecutive positions as Controller at Shell Global Real Estate, Project Manager at Shell Energy Europe and Financial Manager of Joint Ventures at Shell Upstream International. He joined Heerema Marine Contractors (HMC) in 2010 as its Finance and Control Manager and then held the position of Senior Vice-President of Finance before being appointed as CFO in 2012. Mr Den Houter has been a member of the Executive Board of Royal BAM Group since August 2018. He is a Dutch national. Information about Mr Den Houter's shareholding position is on pages 87-89.

37 - Retirement schedule for the Executive Board

Member	Date of birth	Date of initial appointment	Year of reappointment	End of current term
R.P. van Wingerden, Chairman	21-07-1961	07-05-2008	2012, 2016	2020
L.F. den Houter	20-05-1974	01-08-2018	-	2022

5.4 Executive Committee

In December 2018 it was announced that BAM would change its top structure in 2019 and that the size of the Executive Board would be reduced to two members, being the Chief Executive Officer and the Chief Financial Officer. After a mid-term review of the implementation of the 2016-2020 strategic agenda, it had been decided to establish an Executive Committee to reinforce the implementation of the strategy.

The Executive Committee was subsequently established in April 2019. Besides the members of the Executive Board, R.P. (Rob) van Wingerden and L.F. (Frans) den Houter, it consists of:

- J.G. (Joost) Nelis, Chief Operating Officer (COO) for the business line Construction and Property;
- R. (Roel) Vollebregt, Chief Operating Officer (COO) for the business line Civil engineering;
- S. (Simon) Finnie, Chief Business Excellence Officer (CBEO);
- S.J.J. (Sven) Van de Wynkele, Chief Human Resource Officer (CHRO).

Information about the role and responsibilities of the Executive Committee is included in the Executive Board and Executive Committee rules of procedure, which were updated per 17 April 2019. The relationship and contact with the Supervisory Board is explained in the Supervisory Board rules of procedure, pursuant to which Supervisory Board meetings shall generally be attended by all members of the Executive Committee.

J.G. (Joost) Nelis (1967), COO Construction and Property

Mr Nelis was appointed COO for the business line Construction and Property, effective 1 April 2019. Previously, he held the position of Director at BAM Bouw en Vastgoed Nederland, BAM's Dutch operating company for property development, non-residential and residential construction and M&E services. He joined BAM in 1996 and has held various management positions, including Managing Director of BAM Wonen (residential) from 2008 to 2016. He graduated as a civil engineer from Delft University of Technology.

R. (Roel) Vollebregt (1961), COO Civil engineering

Mr Vollebregt was appointed COO for the business line Civil engineering, effective 1 April 2019. Since 2016, he had been Chairman of the Board of BAM Bouw en Vastgoed, BAM's Dutch operating company for property development, non-residential and residential construction and M&E services. He joined the Group in 1999 and has held positions as Chairman of the Board of BAM Vastgoed and AM respectively since 2005. He obtained a master degree in business administration at Erasmus university Rotterdam, and was also trained as a civil engineer.

S. (Simon) Finnie (1974), CBEO

Mr Finnie was appointed CBEO, effective 15 April 2019. He has over 20 years of experience in designing and delivering sustainable operational transformation and cost efficiency across a wide range of sectors. He joined BAM in 2019. Previously he was Executive Director at both Laing O'Rourke and Kier Group, both large construction companies in the United Kingdom, where he was responsible for driving strategic improvements. He holds a master's degree in business administration (MBA) from Warwick Business School and a bachelor in psychology & philosophy.

S.J.J. (Sven) Van de Wynkele (1969), CHRO

Mr Van de Wynkele was appointed CHRO, effective August 2018. He has extensive international expertise in human resources and in business transformation. He has held global HR leadership roles with General Electric, Philips and TP Vision. Prior to BAM, Mr Van de Wynkele was group HR Vice-President and Transformation Programme Co-leader at the international design and engineering company Khatib & Alami, based in Beirut, Lebanon. He holds a master's degree in military and naval sciences from the Royal Military Academy in Brussels.

From the left: Joost Nelis, Sven Van de Wynkele, Frans den Houter, Rob van Wingerden, Simon Finnie, Roel Vollebregt



6

Supervisory Board

Award-winning flyover of 110 metres
Schuttebusbrug, Zwolle, the Netherlands

A fine example of form and functionality, the flyover to access the new bus station at Zwolle's railway station carries traffic high above the station's six railway tracks. Suspended between two concrete bridges, the S-shaped, one-piece steel bridge spans a length of 110 metres. In September 2019, the bridge was awarded the Thüringer engineering award, a bi-annual German prize for engineers and architects who have made an important contribution to complex building projects. BAM Infra is responsible for the maintenance of the bridge during the coming 15 years.



6.1 Report of the Supervisory Board to shareholders

BAM's 2019 financial results were disappointing. In July, the Company unfortunately had to issue a profit warning due to higher costs on several projects in Germany and a project of BAM International. As a consequence, the outlook for the full year was lowered to an adjusted result before tax margin of around 1 per cent, considerably below the current strategic target range of 2 to 4 per cent. With an adjusted result before tax of €74.1 million and a corresponding margin of 1.0 per cent, the lower outlook has been met.

The profit warning constitutes a serious setback in achieving predictable performance in line with the strategic targets, which is an important goal of BAM's strategy for 2016–2020. We asked management to make an in-depth root cause analysis for the projects involved, including action plans to remediate shortcomings, and discussed this extensively with management. Special attention was paid to BAM Deutschland which was responsible for the biggest part of the profit warning. We agreed with the measures taken by management to de-risk this operating company and replace management.

An important step to accelerate the implementation of BAM's strategy for 2016–2020 was the strengthening of the top structure in April 2019 by the establishment of an Executive Committee and the split of the Company's activities in two clear business lines: construction and property and civil engineering. In addition, the mandate of the functions (Finance, IT and HR) has been strengthened. These changes should lead to more focus on the strategic priorities and effective implementation of the measures aimed at preventing the situation as occurred in 2019.

In the year under review, the economies in BAM's European home markets continued to do well with healthy investment levels in both construction and property and in infrastructure. BAM International still felt the effect of a soft oil and gas market. In the Netherlands, the Company was suddenly confronted with restrictions coming from new regulations regarding soil contamination and nitrogen emissions. Although the impact in 2019 was limited, it will likely influence Dutch construction and infrastructure markets in 2020 and beyond. A more cautious approach is also warranted as Brexit, the trade war between the USA and China and political instability in general may have a negative impact on the global economy. On the other hand, the energy transition that is needed in view of climate change will require major investments in the built environment with a lot of opportunities for BAM.

In our discussions with management, we also paid attention to the financial resilience of the company. Although profitability in 2019 was well below the desired level, business cash flow was positive, particularly due to strong working capital management. At the end of the year, the Company had (again) a healthy net cash position, while during the year the Company did not need to use its revolving credit facilities and stayed well within the covenants agreed with banks. Nevertheless, the capital ratio of 16.5 per cent is below the desired level. Improving this ratio, especially through increased net profits, is an important priority for BAM.

We announced - with a press release of 17 February 2020 - that by mutual agreement it has been decided that Rob van Wingerden will not be nominated for a next term as CEO and member of the Executive Board. The end of the current strategic cycle provides a natural moment for Van Wingerden to transfer the helm. The Supervisory Board has initiated the search for a successor, who will be leading the next stage of BAM's development, including the preparation of a strategic update. Mr Van Wingerden has steered BAM in turbulent times with a clear vision of what is needed to deal with the challenges of the future. By introducing the One BAM concept he provided the basis for the transformation process that the Company is going through. With over thirty years of loyal service to BAM, the Supervisory Board can only be grateful for Rob van Wingerden's contribution, vision and leadership.

2019 Financial statements and dividend

This annual report, which is based on the International Integrated Reporting Framework, includes the 2019 financial statements, duly prepared by the Executive Board. The financial statements have been audited by the external auditor, Ernst & Young Accountants LLP; the unqualified independent auditor's report is included on page 193 of this Integrated Report.

The Audit Committee discussed the draft financial statements with the Chief Executive Officer, the Chief Financial Officer and the external auditor. The Audit Committee also discussed the auditor's report, the management letter and the quality of internal risk management and control systems and had a discussion with the external auditor without BAM's management being present. Subsequently, our full Board discussed this integrated report, including the financial statements with the Executive Board in the presence of the external auditor. We took note of the reporting from the Audit Committee and reviewed the auditor's report and the quality of internal risk management and control systems. We concluded that we agree with the 2019 financial statements.

In establishing the dividend, both BAM's dividend policy which is based on net profit and the capital ratio have to be considered. The Supervisory Board agrees with the proposal of the Executive Board to distribute a dividend of €0.02 per share.

We recommend the Annual General Meeting to be held on 15 April 2020, to adopt the 2019 financial statements. We are of the opinion that the financial statements, the report by the Executive Board and the report by the Supervisory Board provide a solid basis on which to hold the Executive Board accountable for the management policies pursued and the Supervisory Board accountable for its supervision on these policies. The members of the Supervisory Board have signed the financial statements in accordance with their statutory obligations under Article 2:101, paragraph 2 of the Dutch Civil Code.

Strategy and operational plan

BAM's strategy for the period 2016–2020, Building the present, creating the future, aims to prepare the Company for the future while improving performance and increasing predictability of results. The goal is to transform BAM from a fairly traditional, highly decentralised construction company to a much more cohesive company that uses internal synergies and scale to improve its competitiveness and that applies digital innovation and industrialisation as key elements in the construction process.

When we evaluated the profit warning, we also extensively discussed the status of the implementation of the 2016–2020 strategy. We supported management's conclusion that the strategy is still largely valid and that most root causes for the profit warning are covered by existing improvement programs. We agreed that further priority setting was needed and that focus should be on more selective tendering, strengthening of project management processes and capabilities via the Uniform Project Approach for larger projects, strengthening of project controlling across all business units and reinforcement of performance management to enhance a performance culture across the Company. Regarding the business portfolio we agreed with management's intention to bring more focus in the activities of BAM International and to continue focusing BAM Deutschland on five urban regions.

An important element in BAM's strategy is the One BAM concept, introduced to improve management control and to reap the benefits of scale by sharing knowledge, resources, systems, processes and innovations across the Company. Since BAM comes from a highly decentralised organisation with strong local autonomy, this involves a major transformation. The establishment of the Executive Committee and strengthening of the mandate of the corporate functions is aimed at managing this process properly. We agreed with the Executive Committee that priority should be given to those items that contribute to improved and predictable performance in the short term.

As most of the losses in the past years come from large projects, these projects represent a strategic issue for BAM. Most of these projects are in the civil sector for public sector clients and often not only involve the construction, but also the design, financing and maintenance. This type of unique and complex projects should enable BAM to win work through its engineering expertise, thus giving access to higher margin work. These projects are also important to retain high level expertise, attract talented professionals and maintain an internationally competitive construction industry. However, these projects require a better balance between risks and rewards. Management informed us on the ongoing discussions with clients on different approaches to the tendering of such projects. In the meantime, we support management's position that BAM will no longer tender for projects where the rewards are not in line with the risks it is willing to assume.

Based on the BAM strategy, the operating companies and corporate functions prepared operating plans for 2020, which were

consolidated into the operating plan for the Group. We discussed the outlines and 2020 priorities in our meeting in November and approved the 2020 operating plan in our January 2020 meeting. We also discussed the framework and process for developing the strategic agenda for the period 2021–2025.

Risk management

As proper risk management is the key to predictable performance and therefore shareholder value, this continued to be high on our agenda. The tender stage gate process plays a pivotal role in the early identification of potential risks and taking appropriate measures to mitigate these. We closely monitored the continuous development and improvement of this process. We fully supported management's actions to become more critical and selective in the early phase of tendering processes. It must be noted that the tender stage gate process alone cannot prevent all risks from occurring. It does however help to focus on projects where BAM can achieve appropriate margins without running unacceptable risks.

In order to further strengthen operational risk management, the Company has embarked on bringing together and rolling out best practices in tendering for and execution of projects. Management kept us informed about the first eight modules of this Uniform Project Approach or UPA, developed in 2019, which will be mandatory for all large projects as per 1 January 2020. Further modules are being developed and rolled-out gradually once available.

Next to its customary activities and reviews of internal processes, the internal audit team continued with auditing a number of high exposure projects, resulting in recommendations to improve project control. Several large projects in the tender phase were presented to our Board in regular and extra meetings. We reviewed these projects with a main focus on risks, how these were managed and how these impacted the pricing of the projects.

As part of our annual risk management review, we discussed in our November meeting the outcome of the 2019 Enterprise Risk Management assessment in the presence of the Governance, Risk and Compliance officer. This annual assessment provides an overview of the biggest risks the Company is facing in relation to achieving its objectives, both strategic and operational. The top 10 risks and related mitigation measures were discussed. In the 2020 operating plans of the operating companies and corporate functions specific attention is being given to these risks. The Governance, Risk and Compliance officer also informed us about the status of the adherence to the Minimum Requirements Framework, which provides minimum standards regarding (risk) controls throughout the Group.

We concluded that the Group has in place internal risk management and control systems, financial reporting manuals and procedures for drawing up financial reports, as well as an established monitoring and reporting system. We expect that the

new top structure will further strengthen the Company's ability to manage risks properly.

Safety and sustainability

We agree with the Executive Board that safety is a very high priority for BAM and its people. We regret that after no fatalities in 2018 and the first three quarters of 2019, the Group had to report two fatalities in the last quarter of 2019, both in Belgium. We discussed both tragic accidents with management and appreciated how these were handled.

These fatalities, but also the (serious) accidents that occurred, show that safety needs permanent attention. BAM's safety performance as measured by the frequency of incidents, was more or less stable compared to 2018 (IF BAM 2019 of 4.8 compared to 4.2 in 2018). We fully support management in its continuous efforts to further increase safety, not only through guidelines and instructions but especially by giving it consistent management attention and emphasizing the behavioural aspects. We took note of the positive feedback on the worldwide BAM Safety Day which is meant to increase awareness of the importance of safety.

With respect to sustainability, we believe that BAM is a leader in the construction industry. BAM's corporate Sustainability director gave a presentation on progress regarding the relevant key performance indicators included in BAM's strategy. Management informed us on the stakeholder survey performed under clients, partners and suppliers in which important themes in society were addressed, such as the energy transition, digitalisation, the circular economy and smart cities and the impact these will have on BAM and its stakeholders.

Shareholders and investor relations

We are of the opinion that an open and regular dialogue with shareholders and investors is important to explain the Company's strategy and performance and to receive their feedback. We regularly reviewed the Group's investor relations activities and shareholder base and were informed on the feedback given by shareholders, investors and analysts. We also took note of analyst reports regarding the Company.

Together with the Executive Board, we prepared the Annual General Meeting and evaluated it afterwards. We were pleased to note that all proposals were adopted by the General Meeting.

Corporate governance

Following the introduction of the Executive Committee in April 2019, an updated corporate governance compliance overview was published on BAM's website, providing transparency on how BAM complies with the code. We approved the rules of procedure for the Executive Board/Executive Committee and for the Supervisory Board which were updated because of the introduction of the Executive Committee.

The Supervisory Board and the Executive Board are of the opinion that Royal BAM Group's corporate governance is up to standard. Please refer to the corporate governance statement in the Integrated Report.

Discussions with external auditor

In early 2019, we assessed the performance of and relationship with the external auditor, based upon feedback from the Executive Board and the evaluation and recommendation of the Audit Committee. Based on this assessment, our experience with the external auditor and the external auditor's expertise with regard to the construction industry in general and Royal BAM Group in particular, we recommended the General Meeting to re-appoint Ernst & Young Accountants LLP as external auditor responsible for auditing the 2020 financial statements of Royal BAM Group, which the General Meeting subsequently approved. Ernst & Young Accountants LLP attended the Annual General Meeting of 17 April 2019, reported on their 2018 audit and answered questions.

The audit plan for 2019 was presented to and discussed with the Audit Committee and our full Board and subsequently approved. During our review of the 2018 full year results and the 2019 half year results, we met with Ernst & Young Accountants LLP to discuss their reports. We established that the external auditor had received the financial information on which the financial reports were based and noted that the external auditor had discussed the information provided with BAM officers and the Executive Board. We took note of the reports and management letters as prepared by the external auditor.

In our February 2019 meeting, we discussed with the external auditor and the Executive Board the areas of emphasis related to the 2018 annual reporting as identified by the auditor, being: valuation of projects and revenue recognition (including variation orders and claims), valuation of deferred tax assets, valuation of goodwill, capitalisation of development costs, the application of IFRS 16, 9 and 15, accounting and reporting of German joint arrangements and reporting on non-financial information. Several of these topics were also discussed with the external auditor during our meeting in August. In that meeting also the impairment of capitalised development costs, the impact of the de-risking of a UK pension scheme and the implementation process for IFRS 16 (leases) were discussed.

Other activities and meetings

In addition to the items mentioned before, in each of our regular meetings, we discussed with the Executive Committee the state of affairs, the financial performance of the Group and the operating companies, development of critical projects, market developments and order intake, working capital and cash flow, the financial condition of the Group as reflected by the balance sheet, investments and divestments and the quarterly press releases. We also discussed and agreed with the proposal to join forces with Heijmans on asphalt plants. If applicable, our

meetings featured a report on what had been discussed in meetings of the committees of our Board.

Other matters discussed included the integrated report and financial statements for 2018, the 2019 half-year report and interim statements, the reserve and dividend policy and the dividend proposal for 2018, the various effects of changes in the International Financial Reporting Standards (IFRS) on the Group's financial reports, as well as compliance reports and material legal proceedings in which the Group is engaged.

The Executive Committee regularly updated us on the situation regarding a number of critical projects and tenders. In a number of instances, management of operating companies and key staff involved were invited to provide further information. Discussions focused mainly on the risks in these projects and how these are managed.

The new Group Controller presented his initial experiences in BAM and explained his views on the further development of the group control function. With the Governance, Risk and Compliance officer we had a discussion on integrity in the Group and the compliance program to safeguard this. We welcomed the establishment of the Ethics and Compliance Committee, under the leadership of the CFO, which will strengthen the robustness of monitoring and (when necessary) investigation. We also discussed and agreed with the (revised) code of conduct and supported the training program to increase the awareness of (dealing with) dilemmas. We paid attention to the overview of compliance reports and the possibilities for employees to report irregularities (speak-up culture).

In September 2019, we went to Berlin for our annual work visit. During this multiple day event considerable time was spent to evaluate where the Company stands from a strategic and operational perspective, as a starting point for the strategy for the period 2021–2025. The Executive Committee presented for each operating company a 'snapshot', representing an assessment of the condition of that company, including improvements for both the short and the longer term. After this 'inside-out' view, an external consultant gave an 'outside-in' view of important developments in the construction market. He also highlighted the competitive environment. We also received presentations on progress regarding operational excellence and HR. In the discussions, we emphasised the need for prioritisation and focus on performance improvement. This was discussed further in our November meeting.

The second part of our Berlin visit was focused on the German market. We met with management and key staff of BAM Deutschland, Wayss & Freytag Ingenieurbau and BAM PPP and got presentations on market developments, business performance and major projects. We visited a number of projects in Berlin and were impressed with the quality of the work and relationships with clients.

A delegation of our Board met with the Central Works Council on several occasions. In addition, our full Board together with the

Executive Committee met with the Central Works Council in May to discuss developments in BAM.

Our Board actively engages with the Executive Board as well as other senior management in order to ensure we receive the right information. The chairman of our Board had regular contact with the Chief Executive Officer and the chairman of the audit committee with the Chief Financial Officer. The chairman and other members met with senior managers in order to be briefed on specific topics such as HR, finance, corporate governance and internal audit.

We approved the remuneration report prepared by the Remuneration Committee. The remuneration report is included in ► paragraph 6.2 of the integrated report. The remuneration policy was not amended in 2019.

In 2019, we met on seven occasions in the presence of the Executive Board/Executive Committee. In addition, two telephone conference calls took place in relation to the profit warning early July. The attendance rate of the individual members at the meetings was as follows:

38 - The attendance rate of the individual members at the meeting

	SB	AC	RC	NC
Mr H.L.J. Noy	100%		100%	100%
Mr K.S. Wester*	66.6%	100%		
Mr G. Boon	100%	100%		
Mrs C.M.C. Mahieu	100%		100%	100%
Mr M.P. Sheffield	100%	100%		
Mrs H. Valentin	100%		100%	100%

*Mr Wester stepped down at the annual shareholder meeting in April 2019

We also met without management being present, to prepare for and evaluate board meetings. In addition, we met without management to evaluate the functioning of the Executive Board, to perform our self-assessment, to discuss a number of strategic and organisational matters and to discuss the remuneration of the Executive Board, including the determination of the variable portion of their remuneration for 2018 and the targets for 2019.

The Supervisory Board's committees

The Supervisory Board has three permanent committees: an Audit Committee, a Remuneration Committee and a Nomination Committee. It is the task of these committees to support and advise the Supervisory Board concerning items under the committees' responsibility and to prepare the Supervisory Board's decisions regarding those items. The Supervisory Board as a whole remains responsible for the way in which it performs its tasks and for the preparatory work carried out by the committees. The committees submitted reports on their meetings to the Supervisory Board.

The Audit Committee

During 2019 the Audit Committee was composed of Mr Boon (chairman), Mr Wester (until April 2019) and Mr Sheffield. The composition is in line with the relevant provisions of the Code.

The committee met four times. The external auditor was present at all of these meetings. The chairman of the Executive Board, the Chief Financial Officer, Group Controller and the Internal Audit director also attended all Audit Committee meetings.

In addition to its regular tasks and responsibilities, the Audit Committee addressed the following specific matters in 2019: assurance plan 2019 of the external auditor EY, internal audit plan for 2020, impact of new reporting standard IFRS 16, material legal proceedings, development of working capital and cash flow, ROCE and valuation of key projects. In addition, developments relating to tax, IT (including IT general controls), insurance, treasury, compliance, risk management and pensions as well as the progress on the transformation of the IT and finance functions were monitored and reviewed.

The Audit Committee was briefed by the external auditor on relevant developments in the audit profession, especially those related to new IFRS reporting standards. The Committee met with the external auditor without the Executive Board being present and reported to the Supervisory Board on the performance of and the relationship with the external auditor. Furthermore, the chairman of the Committee regularly communicated on a one to one basis with the external auditor and the CFO. The Audit Committee considers the relationship with the external auditor to be effective.

Remuneration Committee

During 2019 the Remuneration Committee was composed of Mrs Mahieu (Chairwoman), Mrs Valentin and Mr Noy. The composition is in line with the relevant provisions of the Code.

One of the tasks of the Remuneration Committee is to make proposals to the Supervisory Board with regard to the remuneration policy, the terms of employment of the members of the Executive Board and the remuneration of the members of the Executive Board and the Supervisory Board. The remuneration of members of the Executive Committee, not being member of the Executive Board, shall also be subject to the approval of the Supervisory Board.

In February 2020, the Remuneration Committee submitted a proposal to the Supervisory Board regarding the short-term incentive for members of the Executive Board, based on the 2019 performance and the applicable criteria. The committee also prepared a proposal for the vesting of the long-term incentive plan 2017-2019. In addition, the committee submitted a proposal for the objective setting for the 2020 short-term incentive and the 2019-2021 long-term incentive.

The Committee evaluated the revised Shareholder Rights Directive and took the required actions to comply with it. This included proposals for the remuneration policies for the Executive Board and Supervisory Board that were subsequently approved by the Supervisory Board and will be submitted for shareholder approval to the AGM of 2020. As part of the preparation of these policies, the Remuneration Committee consulted several major shareholders, organizations representing shareholders and proxy advisors.

Denmark



May 2019 - Copenhagen area

56 fruit trees in small 'fruit tree plantations' at four day care centres. Pear, apple and cherry trees and various berry plants are part of an educational package for the children. With books, posters and planting guides they will learn how to plant and maintain the 'fruit tree plantation'.

Bo Svendsen, Managing Director of BAM in Denmark attended the tree planting festivities at SFO Lundtofte in Kgs. Lyngby and said: 'The enthusiasm of the children underpins our choice to celebrate our 150th anniversary by planting trees.'

The Remuneration Committee prepared the remuneration report which also explains how the remuneration policy has been implemented in practice. The committee met six times. The Chairman of the Executive Board was present during parts of these meetings as was the Chief HR Officer and the Compensation and Benefits officer. The committee members consulted each other a number of times outside the context of a formal meeting.

Nomination Committee

During 2019 the Nomination Committee was composed of Mr Noy (Chairman), Mrs Mahieu and Mrs Valentin. Key task of the Nomination Committee is to make proposals to the Supervisory Board regarding the size and composition of the Supervisory Board and the Executive Board, regarding selection criteria, selection procedures, appointments and reappointments to both Boards as well as regarding assessment of their performance. The committee also monitors the Executive Board's policy on selection criteria and appointment procedures for senior management and holds annual appraisals with the individual members of the Executive Board. Appointments with regard to the Executive Committee, not being Executive Board members, shall also be subject to the approval of the Supervisory Board.

The Nomination Committee met four times and members consulted each other a number of times outside the context of a formal meeting. Items discussed were the composition of the Executive Committee, reappointment of Mrs Mahieu and the vacancies in the Supervisory Board as well as potential candidates to fill these vacancies. The Committee discussed with the Chief Executive Officer and with the Chief HR Officer succession planning for senior management roles and the talent development program.

Composition and functioning of the Executive Board, Executive Committee and the Supervisory Board

Executive Board and Executive Committee

As of April 2019, an Executive Committee was established while the size of the Executive Board was reduced to two members, being the CEO and the CFO. In that context, Mr Bax, who had been re-appointed at the General Meeting of 18 April 2018 as member of the Executive Board for a period of one year, stepped down, effective 1 March 2019. The following persons were appointed to the Executive Committee: Mr J. Nelis as COO Construction and Property, Mr R. Vollebregt as COO Civil engineering, Mr S. Finnie as Chief Business Excellence Officer and Mr van de Wynkele as Chief HR Officer. The CEO and CFO are also members of the Executive Committee.

We reviewed the performance of the Executive Board and Executive Committee and interviewed the individual Executive Committee members. We also consulted some major shareholders and other stakeholders on their views on BAM. Based on our own observations and information received, we gave feedback to the members of the Executive Board.

We established that none of the Executive Board members holds more than two supervisory board positions at large organisations

or a position as chairman of such supervisory body. This is in line with the Management and Supervision (Public and Private Companies) Act and the Code. No conflicts of interest between the Company and members of the Executive Board and/or Executive Committee were reported.

Information about the individual members of the Executive Board is available in ► paragraph 5.3 of the Integrated Report.

Supervisory Board

At the end of the Annual General Meeting on 17 April 2019, the second four-year term of Mrs Mahieu and Mr Wester as members of the Supervisory Board ended. Mrs Mahieu was reappointed for a further period of two years. We considered her reappointment desirable because of her expertise and from a continuity perspective as three of our members were appointed only relatively recently. Mr Wester, who retired, was succeeded as vice chairman of our Board by Mr Boon.

To fill the vacancy that arose due to the retirement of Mr Wester, at an Extraordinary General Meeting of shareholders on 6 November 2019, Mr R Provoost was appointed as member of the Supervisory Board. Unfortunately, Mr Provoost stepped down from the Supervisory Board in December due to personal circumstances. The process to fill the vacancy is ongoing.

Information about the individual members of the Supervisory Board is available in paragraph 5.3 of the Integrated Report.

The Supervisory Board meets the requirements of the Code with regard to independence. In 2019 the Supervisory Board members did not have any other relationships of a business nature with the Company. None of the Supervisory Board members had more than five memberships of Supervisory Boards at Dutch listed companies or other large institutions. The Supervisory Board is not aware of any conflicts of interest between the Company and members of the Supervisory Board.

In February 2020, we performed our annual self-assessment with the support of an external consultant. The assessment consisted of interviews by the consultant with the individual members of our Board and the Executive Board as well as the Company Secretary. The outcome of these interviews was presented by the consultant in an internal session of our board and we discussed the conclusions and suggestions for further improvement. Topics that were discussed included amongst others the financial performance of the Company, long term value creation, the succession for both the Supervisory Board and the Executive Board roles, the Executive Board evaluation process, balancing the agenda with short term and longer term topics and creating more time for reflective dialogue.

Diversity

Both the Supervisory Board as well as the Executive Board and Executive Committee recognise the benefits and importance of diversity in their composition. Diversity is not limited to gender, but also includes (among others) skill, background, experience

and nationality. The profile for our board includes a minimum 30 per cent target for female and male board members. This target applies mutatis mutandis to the Executive Board and the Executive Committee.

Our present composition is in line with the profile for our Board. We meet the specific target on gender diversity and comply with the upcoming legal quota for female representation in supervisory boards of Dutch listed companies.

Neither the Executive Board nor the Executive Committee meet the target regarding gender diversity. In filling the recent vacancies in the Executive Committee, gender diversity got a high priority, without compromising on the other criteria for these roles. However, it appeared difficult to find female candidates with the right profile and those who were on the shortlist had other opportunities and did not choose for BAM. This is probably associated with the traditional overrepresentation of males in the construction sector. However, this is changing and we are confident that in the future this will be reflected in the Executive Committee.

Gender diversity at the top should also come from a more balanced composition in terms of gender at other layers in the organisation. Therefore, the Company pays specific attention to

women in its management development programs to assure that the rise of women to senior management positions is warranted. In addition, external recruitment agencies are specifically instructed to identify and submit diverse candidates for senior management positions. Finally, the Company will take positive action in occurrences of equal suitability. It will however take time before these measures lead to achieving the target on gender diversity at the executive level.

Final comments

We are aware that tendering for work and execution of projects is often hard work. Unfortunately, that hard work was not fully reflected in BAM's 2019 financial results. A better and more predictable performance is critical to strengthen credibility. The One BAM approach will help to increase BAM's competitiveness by sharing knowledge, experience, resources and innovations. The capabilities of BAM's people and their dedication to BAM and its clients, are key to the success of our company. We want to thank management and all employees for their efforts and dedication to BAM.

Bunnik, the Netherlands, 20 February 2020

On behalf of the Supervisory Board,
Harrie Noy, Chairman

Rotterdam's new art icon



The first art storage facility in the world to offer access to a museum's complete collection – 151,000 artworks available for browsing by the public – completed its top levels in September 2019.

This mirror-clad art icon – for which 1,664 mirrored façade panels were used – will also accommodate four professional restoration studios, two film booths, an educational space and a cinema. BAM Bouw en Techniek is set to complete the project in 2020, after which Depot Boijmans van Beuningen will open its doors to the public in 2021.

Sjarel Ex, Director of Museum Boijmans van Beuningen:

'There is nothing in the world that will look like our future depot. Standing in front of it, as it is currently being built, the façade reflects the whole environment. In other words, our new depot will uphold a mirror to Rotterdam. I really like this insight and view. The construction is progressing well and I am already looking forward to the moment that BAM will complete it.'

6.2 Remuneration report

This remuneration report was prepared by the Remuneration Committee of the Supervisory Board and has been adopted by the Supervisory Board in its meeting of 20 February 2020. It contains:

- An overview of the remuneration policy and remuneration elements for the Executive Board;
- The remuneration of the Executive Board in 2019, based on application of the remuneration policy in 2019;
- The internal pay ratio in 2019;
- The terms of appointment of the Executive Board members;
- The share ownership of the Executive Board members;
- The remuneration policy for the Executive Board per 2020;
- The remuneration policy for the Supervisory Board per 2020;
- The remuneration of the Supervisory Board in 2019.

This report takes into account the revised Shareholders' Rights Directive published in May 2017 as implemented into Dutch law per 1 December 2019. Any reporting requirements arising from the new Guidelines for Standardised Presentation of the Remuneration Report, which are expected to be released by the European Commission in 2020, will be incorporated after they have been released.

Remuneration policy

The Supervisory Board draws up the remuneration policy for the Executive Board based on advice from its Remuneration Committee. The General Meeting adopts the remuneration policy. Once the remuneration policy has been adopted, the Supervisory Board determines the remuneration for the individual members of the Executive Board, again on the basis of recommendations of its Remuneration Committee.

The Supervisory Board will regularly review the remuneration package to ensure that it complies with the assumptions underlying the remuneration policy. The policy will also be evaluated regularly and – in line with the new Shareholders' Rights Directive – be put forward for adoption at the General Meeting at least every four years. The current remuneration policy was adopted by the General Meeting on 22 April 2015 and is applicable as of 2015.

The remuneration policy, which is unchanged compared to the current policy, will be put forward for adoption by the General Meeting on 15 April 2020.

Design principles

The remuneration policy is geared to attract and retain highly qualified executives, including those from other industries, and motivate them to achieve Royal BAM Group's objectives. Particular emphasis is placed on experience with the Group's (international) activities and the necessary management qualities. The policy also aims to stimulate profitable growth and long-term value creation. It is transparently communicated and safeguards fairness and consistency within BAM and externally. Variable remuneration is an important part of the total package. The policy supports both short and long-term objectives, whereas the emphasis is on long-term value creation for Royal BAM Group and its stakeholders. It contributes to this long-term value creation by not only focussing on financial targets but also on non-financial targets such as sustainability.

In designing the policy and to determine the remuneration of the Executive Board, the Remuneration Committee uses external benchmark information to assess market comparability. Remuneration levels are aimed at the median of a labour market reference group. In addition, the internal pay differentials are taken into account, as well as scenario analyses which are used to determine possible outcomes of the variable remuneration elements, including the maximum value of the long-term incentive. The remuneration structure and elements take into account that risk-taking beyond the risk profile of the Company should not be encouraged. The Remuneration Committee has taken note of the Executive Board members' view on their remuneration.

Labour market reference group

The labour market reference group that originally was used as benchmark for designing the remuneration policy, consisted of sixteen companies. Corporate events (delisting of TNT Express and liquidation of Carillion) in the past years have led to a decrease of the number of companies in the reference group. Therefore, the reference group was reviewed and expanded beginning of 2019, based on industry, ownership structure, geographical business scope and size parameters. Table 39 shows the twenty companies of which the labour market reference group consists after the review.

39 - Labour market reference group

Arcadis	Kier Group ¹
Balfour Beatty	NCC
Bauer	PostNL
Besix	SBM Offshore ¹
Boskalis	Signify ¹
Eiffage	Skanska
Fugro	Strabag
Galliford Try ¹	TKH ¹
Heijmans	VolkerWessels
Hochtief	Vopak ¹

¹ Added to labour market reference group as of 2019.

Fixed remuneration

The Supervisory Board determines the fixed remuneration of the individual members of the Executive Board based on advice of the Remuneration Committee. Once a year, the Supervisory Board evaluates whether and if so, to what extent the base salaries will be adjusted. This annual evaluation generally takes place per 1 January of each year and takes into account personal performance, the results of the past year, the extent to which the current fixed remuneration deviates from the benchmark and general changes in the market.

Short-term incentive (STI)

The STI depends on the realisation of predetermined measurable objectives. 70 per cent of the STI is based on financial objectives and 30 per cent is linked to non-financial objectives which are relevant for the Group's (long-term) success. Within this framework, each of

40 - The remuneration of the Executive Board consists of four elements

Remuneration elements	Description	Strategic role
Fixed remuneration	Fixed cash compensation	Provide base compensation
Short-term incentive (STI)	<p>Cash incentive expressed as a percentage of fixed remuneration</p> <p>Value at</p> <ul style="list-style-type: none"> • Threshold performance: 35% • Target performance: 55% • Excellent performance: 75% <p>Objective setting</p> <ul style="list-style-type: none"> • Financial objectives: 70% • Non-financial objectives: 30% 	<p>Reward annual performance</p> <p>Incentivise achievement of agreed objectives</p> <p>Align Executive Board and shareholder interests</p>
Long-term incentive (LTI)	<p>Share-based incentive</p> <p>Award value expressed as a percentage of fixed remuneration</p> <ul style="list-style-type: none"> • CEO: 70% • CFO: 60% <p>Three-year vesting period</p> <p>Vesting of awarded shares:</p> <ul style="list-style-type: none"> • Threshold performance: 50% • Target performance: 100% • Excellent performance: 150% <p>Value at vesting is capped at 2.5 x award value</p> <p>Two-year lock-up period after vesting plus minimum share ownership requirement:</p> <ul style="list-style-type: none"> • CEO: 100% annual fixed remuneration • CFO: 75% annual fixed remuneration 	<p>Reward long-term value creation</p> <p>Retention</p> <p>Align Executive Board and shareholder interests</p>
Pensions	In line with sector regulations	Provide for retirement

the financial objectives is given a certain weight and for each of these objectives performance incentive zones are defined. The non-financial objectives are evaluated together and do not have individual weights or performance incentive zones. Payout gradually increases with performance, starting with a payout of 35 per cent of the fixed annual remuneration at threshold performance, 55 per cent at target performance and potentially going up to 75 per cent when performance is excellent. Below threshold there will be zero payout.

To ensure continued alignment of the STI with BAM's strategy and to enable adequate responses to the challenges the Group is facing, flexibility with respect to the STI objectives is important. Therefore, at the beginning of each financial year, based upon a proposal from the Remuneration Committee, the Supervisory Board determines

the financial and non-financial STI objectives as well as the relative weighting and the performance incentive zones (threshold, at target and excellent performance levels) for the financial objectives.

After the end of the financial year, the Remuneration Committee determines to what extent the STI targets for the selected objectives have been met. The Supervisory Board, following a proposal from the Remuneration Committee, will decide upon the STI to be awarded over the past financial year. Specific attention is given to the non-financial objectives to evaluate in detail what has concretely and measurably been delivered.

Per 2020 the financial objectives and weighting are disclosed at the beginning of the financial year. Due to this additional disclosure, the existing list of seven possible financial objectives has been rendered

superfluous. After the end of the financial year the Supervisory Board will disclose the performance on each of the objectives as a percentage of target performance. The performance incentive zones (threshold, at target and excellent performance levels) qualify as sensitive information and will not be disclosed.

In cases in which the variable remuneration is awarded on the basis of inaccurate (financial) data, the Supervisory Board has the right to adjust the STI accordingly, and BAM is entitled to reclaim (any part of) the STI paid to a member of the Executive Board on the basis of incorrect (financial) information.

Long-term incentive (LTI)

Executive Board members participate in a performance share plan. Each year, performance shares are conditionally awarded. These shares vest after a vesting period of three years subject to the relevant performance over this period. The number of annually awarded performance shares is calculated by dividing the award value by the average closing price of the BAM share on Euronext Amsterdam on the five days after the General Meeting in the year of award. The award value is 70 per cent of fixed remuneration for the CEO and 60 per cent of fixed remuneration for the CFO.

Performance is based on two financial objectives, being relative total shareholder return (TSR) and return on capital employed (ROCE) and one non-financial objective, being sustainability. TSR is defined as the share price increase, including dividends and measured over a three year period based on the three month average share price before the start and the end of the three year performance period. The relative position within the peer group determines the vesting percentage. The TSR peer group comprises of Balfour Beatty, Boskalis, Eiffage, Heijmans, Hochtief, PORR, NCC, Skanska, Strabag, Vinci (and BAM). The composition of the TSR peer group is evaluated on a periodic basis, among other things, in light of corporate events. Due to expected delisting, the Supervisory Board decided on 20 February 2020 to replace VolkerWessels by PORR, retrospectively as of the 2018-2020 LTI plan.

At the beginning of each financial year, based upon a proposal from the Remuneration Committee, the Supervisory Board determines the performance incentive zones (threshold, at target and excellent performance levels) for ROCE and sustainability. After the three year performance period, the Supervisory Board, based on a proposal by the Remuneration Committee, will assess the extent to which the performance objectives have been achieved. This results in a vesting percentage for each of the three performance objectives, each determining one third of the vesting of the conditionally awarded performance shares. For excellent performance, the number of performance shares that vests may amount to a maximum of 150 per cent of the 'at target' number of performance shares. This percentage may be reduced to 50 per cent (on a sliding scale) for threshold performance and to zero below that. The performance incentive zones are presented in table 41. The TSR objective will also operate as a 'circuit breaker' for the vesting linked

to the other two performance objectives: in case BAM ranks at the bottom two places of the TSR peer group, the other two objectives will not result in vesting regardless of the performance. The value of the performance shares – as the combined result of the number of performance shares that will vest and the share price at the moment of vesting – that will become unconditional to a participant will at vesting never exceed two and a half times the award value in order to avoid inappropriate payouts.

In accordance with the Code the three-year vesting period will be followed by a two-year lock-up period. In addition, there is a minimum share ownership requirement, which amounts to 100 per cent of fixed remuneration for the CEO and to 75 per cent of fixed remuneration for other members of the Executive Board. The members 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 required to meet any tax obligations and social security premiums (including any other duties and levies) as a consequence of the vesting.

The authority to implement the long-term incentive plan for the Executive Board lies with the Supervisory Board, who has the right to change or terminate the scheme at any time. If the Supervisory Board decides to terminate or make material changes to the long-term incentive plan for Executive Board members, the General Meeting will be asked to adopt a resolution to that effect.

Upon a decision of the Supervisory Board, following a proposal from the Remuneration Committee, the Company has the discretionary power to fully or partially reclaim from the participant who is member of the Executive Board the conditionally awarded performance shares as well as vested shares (or any benefit resulting therefrom) where those have been awarded on the basis of incorrect information concerning:

- The achievement of the performance objectives concerned; or
- Events or conditions on which the shares were conditionally awarded.

At the discretionary request of the Supervisory Board, the Company's independent auditor will check the calculations carried out and conclusions reached in connection with the long-term incentive plan, in which case the independent auditor's assessment will be binding.

In drafting the remuneration policy, the Supervisory Board has taken into consideration the mix between fixed remuneration and variable remuneration in various scenarios. See tables 42 and 43. The maximum relative value of the variable remuneration elements, taking into account an unchanging share price, is between 62% and 64% of the total, with the higher value being awarded through the long-term incentive plan. This incentivises achievement and (long-term) value creation while at the same time guarding against inappropriate outcomes.

41 - Performance incentive zones

(in %)

Relative TSR		ROCE		Sustainability	
TSR ranking ¹	Vesting ^{1,2}	Score	Vesting ^{1,2}	Score	Vesting ^{1,2}
1	150	Excellent and above	150	Excellent and above	150
2	125	Target	100	Target	100
3	100	Threshold	50	Threshold	50
4	75	Below threshold	0	Below threshold	0
5	50				
6	25				
7	0				
8	0				
9	0				
10	0				
11	0				

¹ Vesting is expressed as a percentage of the conditionally awarded number of shares.

² If TSR would be at position 10 or 11, no vesting can occur for the other parts.

Post-employment benefits and fringe benefits

With respect to pensions, as of 2016 new Executive Board members receive an annual gross allowance equal to the employer's contribution for the Dutch pension scheme according to sector regulations calculated over a maximum fixed remuneration of €450,000 gross per annum.

Mr Van Wingerden has remained participant in the Company's Dutch pension schemes for regular employees: the pension scheme for the construction industry, a supplementary defined contribution pension scheme and an uncapped annual gross compensation which can be used to participate in a net pension scheme or to make own retirement savings. The pension schemes include a surviving dependent's pension.

As for employees, the Group has a competitive package of fringe benefits for the members of the Executive Board. This package includes such matters as healthcare and disability insurance, personal accident insurance, a car scheme and reimbursement of business expenses. The Group does not offer loans, warrants and the like to members of the Executive Board or to employees, except for the following indemnities and insurances.

Current and former members of the Supervisory Board and Executive Board are covered by the indemnity, under the Articles of Association, against claims made against them in respect of actions or omissions in the performance of the duties of their position, unless said actions or omissions constituted willful, deliberately reckless or seriously culpable misconduct and/or consisted of traffic offences. This facility also applies to all employees and former employees of BAM. The Company has taken out directors' and officers' liability insurance under standard market terms and conditions for the members of the Supervisory Board, Executive Board and Executive Committee, as well as for the management team members of operating company and all other directors and officers within BAM.

Remuneration Executive Board in 2019

The members of the Executive Board received remuneration in the past financial year in line with the remuneration policy adopted by the General Meeting on 22 April 2015.

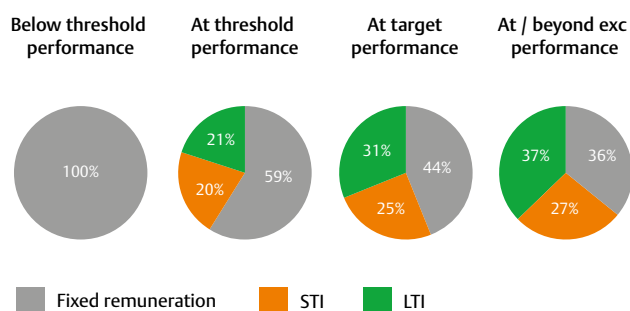
Fixed remuneration

At the beginning of 2019, the Remuneration Committee benchmarked the remuneration of the Executive Board against the median of the labour market reference group. Based on this benchmark, the fixed remuneration of Mr Van Wingerden was increased by 2 per cent to €700,000 per year as of 1 January 2019.

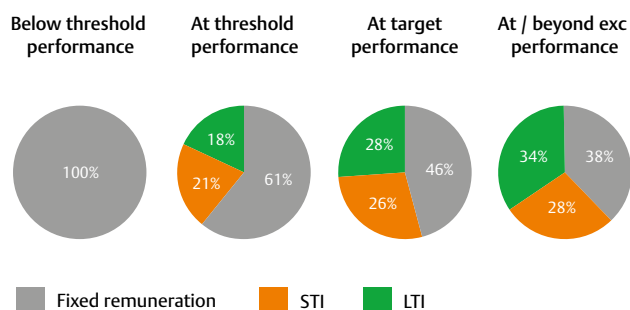
Short-term incentive

Based on input from the Remuneration Committee, the Supervisory Board evaluated the performance of the Executive Board in 2019 in relation to the objectives that had been set for the year. The financial objectives that had been selected were: adjusted result before tax (weight 40 per cent), trade working capital (weight 20 per cent) and business cash flow (weight 10 per cent). The non-financial objectives (weight 30 per cent) were related to the implementation of the One BAM strategy, the uniform project approach (UPA) and the minimum requirements framework as well as to the roll-out of a leadership development programme. These criteria have all been made concrete and measurable for this purpose. The evaluation of the performance of the Executive Board in relation to these objectives resulted in an incentive of 32.8 per cent of the 2019 fixed remuneration. More details can be found in table 46. Mr Bax was not entitled to a short-term incentive over 2019, since he stepped down from the Executive Board per 1 March 2019 at his own request.

42 - Target pay mix¹ CEO



43 - Target pay mix¹ CFO



¹ LTI is based on the assumption of an unchanged share price and presented at face value.

Long-term incentive

Before 2015, the Company had a phantom share plan in place for the members of the Executive Board. Under that plan Executive Board members received each year so-called phantom shares which – depending on the TSR performance – became unconditional after three years and resulted in a payout of the unconditional phantom shares two years later against the share price at that moment. In 2019, the lock-up period for the vested phantom shares awarded under the 2014-2016 plan ended, resulting in a payout that is shown in table 47.

As of 2015, the remuneration policy for Executive Board members has been adjusted. This policy now includes a long-term incentive plan under which Executive Board members receive an annual award of conditional performance shares vesting after three years, depending on Company performance as defined in the remuneration policy. The conditionally awarded and vested performance shares are stated in table 50.

The conditional performance shares that were granted under the performance share plan 2016-2018 vested on 28 April 2019. The vesting percentage of the shares was determined at zero per cent. Reason for this was that Royal BAM Group ranked 10th in the TSR peer group, which functions as a circuit breaker nullifying the performance on the other objectives (ROCE and sustainability). More details can be found in table 50.

Mr Bax stepped down from the Executive Board per 1 March 2019 and without severance payment. The lock-up period and minimum share ownership requirements for the vested performance shares ended per 1 March 2019. In line with the Company’s insider dealing policy, Mr Bax was not allowed to sell the vested performance shares during closed periods up until 1 September 2019. By Supervisory Board discretion, the performance share awards of Mr Bax for the periods 2017-2019 and 2018-2020 have been decreased pro rata the number of months not providing management services during the relevant performance periods. The remaining shares will vest against the vesting percentage determined by the Supervisory Board at the applicable vesting dates.

Remuneration overview

A summary of the remuneration of the individual members of the Executive Board can be found in table 45.

BAM has not awarded any options to members of the Executive Board, members of management teams of operating company or employees. The remuneration of the Executive Board members is not affected by a change of control at the Company. No loans were issued to them.

The Supervisory Board did not see any reason during the financial year to use its extraordinary powers to adjust or reclaim variable or long-term remuneration that was awarded previously.

BAM has no other remuneration provisions, beyond the remuneration package mentioned in the remuneration report, nor are there any other rights to one-time payments.

Internal pay ratio

The Dutch Corporate Governance Code (2016) states that the remuneration policy should take into account the internal pay ratio within the organisation and that this pay ratio should be reported in the remuneration report. Additionally, the revised Shareholders’ Rights Directive, as implemented into Dutch Law, requires the Company to perform a five-year analysis of Board remuneration versus average employee remuneration and Company performance.

For these purposes BAM applies a methodology based on the employee benefits according to the financial statements and the Executive Board remuneration according to table 45 of this report.

BAM’s internal pay ratio is calculated as the total annual CEO remuneration divided by the average employee remuneration (employee benefit expenses excluding restructuring costs and termination benefits divided by the average number of FTE). Consequently, BAM’s calculated internal pay ratio in 2019 is 17 (2018: 23), implying that the CEO pay is 17 times the average pay within the organisation. The decrease of the ratio is explained through the fact that the LTI award for 2016-2018 has not vested and through an increase of the average employee remuneration.

The required five-year analysis of Board remuneration versus average employee remuneration and Company performance can

be found in table 49. It reflects the same definitions for Executive Board and average employee remuneration. Additionally it contains the performance measure adjusted result before tax which we believe is a crucial reflection of the success of the Company.

Term of appointment and management services agreements

Members of the Executive Board are appointed for a term of four years and deliver their services under a management services agreement. The notice period for these members can be found in table 48. If the Company terminates the management services agreement of a member of the Executive Board, the maximum severance payment will be one year's fixed remuneration.

Securities rules

The Company has rules relating to the possession of and trading in BAM securities. These rules are published on the Company's website. BAM also has regulations for members of the Executive Board and the Supervisory Board relating to the trading in securities other than those issued by the Company.

Share ownership members of the Executive Board

Per 31 December 2019 Mr Van Wingerden held 64,787 BAM shares and Mr Den Houter held 25,000 BAM shares. This includes both shares that have vested under the LTI plan and shares that were acquired privately.

Remuneration policy for the Executive Board per 2020

The Remuneration Committee has evaluated the remuneration policy for the Executive Board. Based on that evaluation and taking into account the condition of the Company as well as the feedback from major stakeholders, the Supervisory Board has agreed with the advice of the Remuneration Committee not to change the remuneration policy. In line with the revised Shareholders' Rights Directive published in May 2017 as implemented into Dutch law per 1 December 2019, the existing unchanged remuneration policy for the Executive Board as adopted in 2015 is subject to shareholder approval and is now re-submitted to the General Meeting on 15 April 2020.

The following derogation clause is however added to the policy to safeguard that the Supervisory Board can use its discretion to ensure that the short-term and long-term incentive plans continue to support the interests of the Company even in exceptional circumstances and retains the option to intervene when required: 'In exceptional circumstances the Supervisory Board may decide to temporarily deviate from the remuneration policy of the Executive Board based on a proposal of its Remuneration Committee, when this is necessary to serve the long-term interests and sustainability of the Company as a whole or to assure its viability. The derogations can concern the objective setting and payout of the short-term and long-term incentive plans.'

In evaluating the remuneration policy, the Remuneration Committee concluded that the policy still strongly supports BAM's business strategy and Company objectives as described in the design principles underlying the policy. It is also considered to be well aligned with the external environment in which the Company operates as well as with all applicable rules, regulations and best practices. To reconfirm this, the Remuneration Committee has conducted a series of discussions with major shareholders, proxy advisors and representatives of Dutch institutional and retail investors. In addition, the Central Works Council in the Netherlands was invited to offer its opinion.

During these discussions it became clear that there is strong support for the policy. It is considered to be straightforward, aligned with shareholder interests, aligned with market practice and prudently applied. There is however a call to disclose more information on the objectives of the incentive plans and on the achievements per objective. Additionally it is also clear that shareholders consider it very important that the CEO and CFO build up share ownership to align their interests with those of shareholders. They appreciate the measures that are in place to support this. Specifically the Central Works Council supports the remuneration policy including the added derogation clause. As follow-up to its discussions with stakeholders, the Supervisory Board has decided to start disclosing the specific financial objectives and relevant weighting for the short-term incentive plan at the beginning of the financial year. For 2020 these are: adjusted result before tax (weight 45 per cent), trade working capital (weight 15 per cent) and business cash flow (weight 10 per cent). After the end of the financial year the Supervisory Board will disclose the performance on each of the objectives as a percentage of target performance. For 2019, this can be found in table 46.

Additionally, the Supervisory Board has decided to start disclosing the specific criteria that underly the sustainability objective of the long-term incentive plan at the start of the performance period. As mentioned before the sustainability objective determines one third of the vesting of the conditionally awarded performance shares. From the 2018-2020 LTI plan onwards the sustainability objective comprises of three criteria of equal weight, being: BAM's ranking on CDP's climate change A list, carbon intensity reduction and construction and office waste intensity reduction. Each year the Remuneration Committee proposes the criteria to measure the sustainability objective to the Supervisory Board. After the end of the performance period, it is determined to what extent the criteria have been met. This is reviewed by the Company's independent auditor.

Remuneration policy for the Supervisory Board per 2020

On the basis of the revised Shareholders' Rights Directive published in May 2017 as implemented into Dutch law per 1 December 2019, the remuneration policy for the Supervisory Board as stated below is subject to shareholder approval and will therefore be submitted to the General Meeting on 15 April 2020.

The Supervisory Board draws up the Supervisory Board remuneration policy based on advice from its Remuneration Committee. The remuneration policy will be evaluated regularly and will be put forward for adoption at the General Meeting at least every four years.

In exceptional circumstances, when a significant increase in time investment by its members is necessary to serve the long-term interests and sustainability of the Company as a whole or to assure its viability the Supervisory Board may decide to temporarily deviate from the remuneration policy of the Supervisory Board based on a proposal of its Remuneration Committee. In such circumstances the Supervisory Board may decide to award members an additional remuneration of €1,500 per half-day. This can, for example, occur when a Supervisory Board member is temporarily delegated to support the Executive Committee in an advisory role.

The Supervisory Board remuneration policy is geared to attract and retain members that contribute to the desired composition with regard to expertise, experience, diversity and independence, as set out in the profile of the Supervisory Board. The policy aims to reward Supervisory Board members for time spent and the responsibilities of their role, including but not limited to the responsibilities imposed by the Civil Code, Dutch Corporate Governance Code and the Articles of Association. On this basis, the remuneration for Supervisory Board members consists of the following elements:

- A fixed remuneration and a committee fee, which varies for the Chairman, Vice-Chairman and members, to reflect the time spent and the responsibilities of the role;
- An attendance fee per meeting for non-Dutch members to compensate these members for additional time spent to attend meetings;
- A reimbursement of actual costs in the performance of the duties for BAM.

Committee impact and responsibility is deemed to be comparable. Hence BAM does not differentiate in committee fees. The amounts can be found in table 44.

The Supervisory Board uses external benchmark information to assess market comparability of the remuneration. Remuneration levels are aimed at the median of Dutch listed companies with a two-tier board structure comparable in size and scope.

Given the nature of the responsibilities of the Supervisory Board the remuneration is not tied to the Group's results, nor impacted by any change of control at the Group. As a policy BAM does not award any options or shares to members of the Supervisory Board. If and in so far as a Supervisory Board member holds shares in the Group, these should be long-term investments. No loans are issued to members of the Supervisory Board nor are they eligible to participate in any benefits programme offered by BAM to its employees.

The proposed remuneration policy for the Supervisory Board reflects the standing remuneration levels since April 2017 with the exception of the remuneration for the chairman which is proposed to be increased from €70,000 to €90,000 based on the time spent, the

limitations regarding the number of board positions for chairpersons and the bigger difference in pay between chairpersons and members as noted in external benchmarks.

44 - Remuneration

Fixed remuneration	Chairman €90,000 per annum Vice-chairman €55,000 per annum Member €50,000
Committee fee	Chairman €10,000 per annum Member €7,000 per annum
Attendance fee for non-Dutch residents	€1,500 per meeting
Expenses	Reimbursement of actual incurred costs

No additional remuneration, such as sign-on bonuses, is paid upon recruiting new Supervisory Board members. The Supervisory Board members are not eligible to any severance, claw-back or change of control provisions.

When the Remuneration Committee consulted stakeholders regarding the remuneration policy for the Executive Board, the remuneration policy for the Supervisory Board was discussed as well.

Remuneration of the Supervisory Board in 2019

The members of the Supervisory Board received remuneration in the past financial year in line with the remuneration as adopted by the General Meeting on 19 April 2017: an annual fixed remuneration of €70,000 for the chairman, €55,000 for the vice-chairman and €50,000 for the other members of the Supervisory Board, with an additional annual fixed remuneration of €10,000 (chairman) or €7,000 (member) for membership of one or more Supervisory Board committees. Non-Dutch members received an attendance fee of €1,500 per meeting. Actual costs in the performance of the duties for BAM were reimbursed.

No options or shares were awarded to members of the Supervisory Board and no loans were issued to them.

Bunnik, the Netherlands, 20 February 2020
Supervisory Board

45 - Executive Board remuneration

Fixed remuneration, short-term incentive, post-employment benefits and long-term incentive
(x €1,000)

	Fixed remuneration		Short-term incentive		Post-employment benefits		Long-term incentive ¹	
	2019	2018	2019	2018	2019	2018	2019	2018
R.P. van Wingerden	700	686	230	343	154	151	125	361
L.F. den Houter ²	486	203	159	101	30	10	-	-
E.J. Bax ³	81	486	-	243	17	101	125	151

¹ The amount shown under Long-term incentive consists of the phantom share plans and performance share plans that form taxable income for the Executive Board member in the respective financial year. The value for the phantom share plan is the amount paid out at the payout date. The value for the performance share plan is the value of the vested shares at the vesting date.

² Appointed as a member of the Executive Board with effect from 1 August 2018.

³ Mr Bax has stepped down from the Executive Board with effect from 1 March 2019.

46 - Performance on incentive plan objectives

(in %)

	Objective	Weight	Achievement (% of target)	STI as % of fixed remuneration	
STI 2019	Adjusted result before tax	40	-	-	
	Trade working capital	20	115	12.6	
	Business cash flow	10	89	4.9	
	Non-financial	30	93	15.3	
	Overall achievement			60	32.8
LTI 2016-2018	Relative TSR	33.3	-		
	ROCE	33.3	nr ¹		
	Sustainability	33.3	nr ¹		
	Overall achievement			-	

¹ Not relevant since relative TSR acts as circuit breaker and nullifies the achievement on the other LTI plan objectives.

47 - Phantom share plan 2014-2016¹

(value in €)

	At the award date		At the payout date			
	Number	Value	Number	Vesting	Vested shares	Value ²
R.P. van Wingerden	60,072	235,000	64,900	45%	29,205	125,096
E.J. Bax	60,072	235,000	64,900	45%	29,205	125,096

¹ Award became unconditional on 1 May 2017; the lock-up period ended as per 1 May 2019, leading to the payout of the award.

² The value is based on the average share price of BAM on the five trading days before the end of the lock-up period as per 1 May 2019 (€4.2834) and on the number of vested shares three years after the award. The number of (vested) shares at the payout date include dividend up until the payout date. The long-term remuneration will never exceed one and a half times the annual fixed remuneration of the Executive Board member on the day of the payout.

48 - Appointment and contractual arrangements

	Date of first appointment	Start date current appointment	Period of appointment	Notice period for the Company	Notice period for Executive Board member	Severance
R.P. van Wingerden	7 May 2008	20 April 2016	4 years	6 months	3 months	1 year's fixed remuneration
L.F. den Houter	1 August 2018	1 August 2018	4 years ¹	3 months	3 months	1 year's fixed remuneration

¹ Appointed until the General Meeting in 2022.

49 - Five-year analysis Board remuneration and Company performance

(x €1,000, unless otherwise stated)

		2014 2015	2015 2016	2016 2017	2017 2018	2018 2019	Actual 2019
Executive Board remuneration¹							
CEO	actual change	692	(54)	(95)	295	(332)	1,209
	relative change (%)	98.4	(3.9)	(7.1)	23.7	(21.5)	
CFO	actual change	539	(137)	(222)	66	(79)	675
	relative change (%)	106.1	(13.1)	(24.4)	9.5	(10.4)	
Company performance							
Adjusted result before tax ²	actual change	26,000	14,500	(39,400)	89,900	(79,100)	74,100
	relative change (%)	41.8	16.4	(38.4)	142.0	(51.6)	
Average employee remuneration	actual change	(0.8)	0.3	3.3	1.6	5.3	71.4
	relative change (%)	(1.3)	0.4	5.4	2.5	8.1	
Supervisory Board remuneration³							
H.L.J. Noy, Chairman			45	45	69	80	80
G. Boon, Vice-Chairman			-	-	42	60	63
C.M.C. Mahieu			45	45	55	60	60
M.P. Sheffield			-	-	23	69	68
H. Valentin			-	-	44	68	68
K.S. Wester, former Vice-Chairman			45	45	57	62	18
R. Provoost, former member			-	-	-	-	8
P.A.F.W. Elverding, former Chairman			55	55	17	-	-
H. Scheffers, former Vice-Chairman			50	50	17	-	-
J.P. Hansen, former member			45	45	14	-	-
Total			285	285	336	399	365

¹ The Board remuneration is based on the total Executive Board remuneration as reported in table 45. For 2014, the crisis levy has been excluded. The actual remuneration for the CEO in 2014 has been annualised since Mr Van Wingerden was appointed per October 2014. No STI and LTI was included, since there was no payout or vesting that year also for the previous incumbent. The actual remuneration for the CFO in 2018 has been annualised since Mr Den Houter was appointed per August 2018. No LTI was included, since nothing vested that year.

² As from 2018 the adjusted result before tax has been impacted by the implementation of IFRS15.

³ All amounts excluding (fixed) expense allowance.

50 - Performance share plan

(value in €)

	Award date	Number of conditionally awarded shares ¹	Value of conditionally awarded shares at award date	Vesting date	Number of shares at vesting date ²	End of lock-up period ³	Value at year-end 2019 ⁴
R.P. van Wingerden	29/04/2019	114,926	490,000	29/04/2022	na	29/04/2024	308,691
	26/04/2018	122,469	480,200	26/04/2021	na	26/04/2023	328,952
	27/04/2017	94,651	476,000	27/04/2020	na ⁵	27/04/2022	254,233
	28/04/2016	112,711	476,000	28/04/2019	-	28/04/2021	-
	30/04/2015	114,319	434,000	30/04/2018	59,939	30/04/2020	160,996
L.F. den Houter	29/04/2019	68,393	291,600	29/04/2022	na	29/04/2024	183,704
E.J. Bax	26/04/2018	28,921	113,400	26/04/2021	na	na	77,682
	27/04/2017	41,360	208,000	27/04/2020	na ⁵	na	111,093
	28/04/2016	68,195	288,000	28/04/2019	-	na	-
	30/04/2015	74,281	282,000	30/04/2018	38,947	na	151,504

¹ This is the 'at target' number of conditionally awarded performance shares. For Mr Bax, the awarded shares in 2017 and 2018 have been decreased pro rata the number of months not providing management services during the relevant performance periods. The number of performance shares that vests may vary between 0 (in case of performance below threshold) and 150 per cent (in case of performance at or above excellent) of the 'at target' number of performance shares.

² The number of vested shares at vesting date before tax and including dividend up until vesting date.

³ No lock-up period applies for Mr Bax since he has left the Company per 1 March 2019.

⁴ The value for the awards in 2015 and 2016 is based on the actual number of vested shares on the vesting date before tax. The value for the awards in 2017, 2018 and 2019 is based on the 'Number of conditionally awarded shares' in this table (since the vesting percentage is not yet known at year-end 2019) multiplied by the closing share price of BAM at year-end 2019 (€2.686). For Mr Bax the value of the award for 2015 is based on the opening share price of BAM at the day of vesting.

⁵ Since BAM ranks 10th of the TSR peer group for this performance share plan the circuit breaker is applicable. Therefore the Supervisory Board has decided on 20 February 2020 that the conditional shares will be forfeited at the vesting date of this plan (27 April 2020).

Office building with minimal energy usage

A unique and inspiring office building for the UK Hydrographic Office (UKHO) represents a cultural shift within UKHO's way of working, prioritising collaborative and agile workspaces for the 850 staff. The new office building of 11,000 square metres takes a robust approach to sustainability adopting natural ventilation wherever possible. Outstanding levels of natural daylight are owed to the glazed atrium and generous 3.5-metre floor-to-ceiling heights, helping to reduce the need for artificial lighting. The building is on course to achieve BREEAM Excellent. The whole project was modelled to BIM Level 2 with detailed inputs from the BAM supply chain. A simple palette of materials (brickwork and larch cladding) along with early input of the supply chain has resulted in a well-detailed building that delivers exceptional quality throughout.

Johanna Funnell, UKHO New Build Project Manager: 'The UK Hydrographic Office recognised the need for a new office to allow itself to develop and grow as a leading hydrographic and marine geospatial agency. The alignment of values around digitalisation, innovation and sustainability was key in the selection of BAM as part of the team to provide UKHO with a high-quality finished building that it is flexible and adaptable to



its future needs for years to come. From the outset BAM operated in an open and collaborative fashion, bringing a depth of experience of similar projects from around the world. BAM engaged with all key stakeholders to identify and solve the challenges and delivered the project on time and on budget.

The project has been an outstanding success with the UKHO benefiting from a building that does exactly what is required with minimal energy usage, a digital model and high user satisfaction bringing the cultural and operational changes required to grow the business.'



Financial statements

Reductions in travel times M11 Gorey to Enniscorthy Motorway, Ireland

Three new sections of road combine to create the M11 Gorey to Enniscorthy Public Private Partnership Scheme, the M11/N11 mainline (27 kilometres), the N30 dual carriageway (4 kilometres) and the N30 mainline (8 kilometres). The scheme will result in reductions in travel times on the Dublin to Wexford route of approximately 15 minutes during off-peak times and 30 minutes during peak times.

The PPP contract was awarded to BAM PPP PGM Iridium in October 2015. The design and construction activities were delivered by a joint venture between BAM Civil Ltd and Dragados Ireland Ltd. The combined 39 kilometres of the M11 motorway and associated roads have been with 1,850,000 person-hours completed on-site during the construction period.



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Consolidated income statement

(x €1,000)

	Notes	2019	2018
Continuing operations			
Revenue	5	7,209,089	7,207,751
Raw materials and consumables used		(1,549,000)	(1,683,145)
Subcontracted work and other external charges		(3,786,475)	(3,746,381)
Employee benefit expenses	26	(1,391,905)	(1,338,319)
Depreciation and amortisation charges*	7,8,9	(159,561)	(69,776)
Impairment charges	27	(21,178)	(20,628)
Other operating expenses		(271,020)	(281,530)
Exchange rate differences		5,087	1,417
		<u>(7,174,052)</u>	<u>(7,138,362)</u>
Share of result of investments in associates and joint ventures	11	14,639	38,947
Share of impairment charges in investments in associates and joint ventures	11,27	2,655	(3,122)
		<u>17,294</u>	<u>35,825</u>
Operating result		<u>52,331</u>	<u>105,214</u>
Finance income	30	17,465	21,221
Finance expense*	30	(19,178)	(11,894)
		<u>(1,713)</u>	<u>9,327</u>
Result before tax		<u>50,618</u>	<u>114,541</u>
Income tax	31	(38,651)	(90,125)
Result for the year from continuing operations		<u>11,967</u>	<u>24,416</u>
Discontinued operations			
Result for the year from discontinued operations	37	-	-
Net result		<u>11,967</u>	<u>24,416</u>
Attributable to:			
Shareholders of the Company		11,846	23,773
Non-controlling interests		121	643
		<u>11,967</u>	<u>24,416</u>
Earnings per share (x €1)			
Basic			
Continuing operations	32	0.04	0.09
Discontinued operations		-	-
Total		<u>0.04</u>	<u>0.09</u>
Diluted			
Continuing operations	32	0.04	0.09
Discontinued operations		-	-
Total		<u>0.04</u>	<u>0.09</u>

*As from 2019 the Group has recognized depreciation and interest costs, instead of operating lease expense, due to the implementation of IFRS 16. See paragraph 2.1.1.

The notes on pages 97 to 179 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(x €1,000)

	Notes	2019	2018
Net result		11,967	24,416
<i>Items that may be subsequently reclassified to the income statement</i>			
Fair value movement of cash flow hedges		(710)	(1,123)
Tax on fair value of cashflow hedge		120	(108)
Cash flow hedges	21	(590)	(1,231)
Fair value movement of cash flow hedges in joint ventures		(38,854)	(3,876)
Tax on fair value movement cash flow hedges in joint ventures		8,668	687
Share of fair value movement cash flow hedges of investment in joint ventures	21	(30,186)	(3,189)
Exchange rate differences		22,946	(6,421)
<i>Items that will not be subsequently reclassified to the income statement, net of tax</i>			
Movement in remeasurements of post-employment benefit obligations		(78,601)	25,862
Tax on movement in remeasurements of post-employment benefit obligations		10,476	(3,889)
Remeasurements of post-employment benefit obligations	22	(68,125)	21,973
Other comprehensive income		(75,955)	11,132
Total comprehensive income		(63,988)	35,548
Attributable to:			
Shareholders of the Company		(64,160)	34,795
Non-controlling interests		172	753
		(63,988)	35,548
Total comprehensive income attributable to the shareholders of the Company arises from:			
Continuing operations		(64,160)	34,795
Discontinued operations		-	-
		(64,160)	34,795

The notes on pages 97 to 179 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December

(x €1,000)

	Notes	31 December 2019	31 December 2018
Non-current assets			
Property, plant and equipment *	7	277,144	289,607
Right-of-use assets *	8	312,191	-
Intangible assets	9	400,081	407,988
PPP receivables	10	73,653	85,298
Investments in associates and joint ventures	11	135,063	109,555
Other financial assets	12	109,653	101,332
Derivative financial instruments	21	-	1
Employee benefits	22	68,929	111,219
Deferred tax assets	24	136,468	165,557
		<u>1,513,182</u>	<u>1,270,557</u>
Current assets			
Inventories	13	545,909	577,991
Trade and other receivables	14	1,612,049	1,972,040
Income tax receivable		5,791	4,564
Derivative financial instruments	21	704	641
Cash and cash equivalents	15	854,023	743,674
		<u>3,018,476</u>	<u>3,298,910</u>
Assets held for sale	37	8,516	8,516
		<u>3,026,992</u>	<u>3,307,426</u>
Total assets		<u>4,540,174</u>	<u>4,577,983</u>
Equity attributable to the shareholders of Company			
Share capital and premium	16	839,311	839,311
Reserves	17	(183,647)	(164,966)
Retained earnings		(27,220)	54,686
		<u>628,444</u>	<u>729,031</u>
Non-controlling interests		5,470	5,857
Total Equity		<u>633,914</u>	<u>734,888</u>
Non-current liabilities			
Borrowings *	19	193,779	280,019
Lease liabilities *	20	221,365	-
Derivative financial instruments	21	9,741	9,691
Employee benefits	22	128,220	119,950
Provisions	23	163,363	141,803
Deferred tax liabilities	24	18,495	39,722
		<u>734,963</u>	<u>591,185</u>
Current liabilities			
Borrowings *	19	77,747	62,758
Lease liabilities *	20	90,226	-
Trade and other payables	25	2,882,469	3,081,135
Derivative financial instruments	21	772	272
Provisions	23	111,654	95,837
Income tax payable	31	8,429	11,908
		<u>3,171,297</u>	<u>3,251,910</u>
Liabilities directly associated with the assets held for sale	37	-	-
		<u>3,171,297</u>	<u>3,251,910</u>
Total equity and liabilities		<u>4,540,174</u>	<u>4,577,983</u>
Capital base			
	18	748,895	846,668

*As from 2019 lease contracts have been capitalised (former operational and finance leases) as right-of use assets, due to the implementation of IFRS 16. Accordingly, lease liabilities have been separately included under non-current and current liabilities. In 2018 the lease liabilities were included in borrowings and only related to finance leases. See paragraph 2.1.1.

The notes on pages 97 to 179 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(x €1,000)

	Notes	Attributable to the shareholders of the Company				Non-controlling interests	Total equity
		Share capital and premium	Reserves	Retained earnings	Total		
As at 1 January 2018		839,311	(152,815)	34,760	721,256	5,556	726,812
Cash flow hedges	21	-	(4,541)	-	(4,541)	121	(4,420)
Remeasurements of post-employment benefit obligations	22	-	-	21,973	21,973	-	21,973
Exchange rate differences		-	(6,410)	-	(6,410)	(11)	(6,421)
Other comprehensive income, net of tax		-	(10,951)	21,973	11,022	110	11,132
Net result		-	-	23,773	23,773	643	24,416
Total comprehensive income		-	(10,951)	45,746	34,795	753	35,548
Dividends	33	-	-	(11,429)	(11,429)	(451)	(11,880)
Repurchase of ordinary shares	16	-	-	(15,492)	(15,492)	-	(15,492)
Share based payments		-	-	(95)	(95)	-	(95)
Development cost		-	(1,200)	1,200	-	-	-
Other movements		-	-	(4)	(4)	(1)	(5)
		-	(1,200)	(25,820)	(27,020)	(452)	(27,472)
As at 31 December 2018		839,311	(164,966)	54,686	729,031	5,857	734,888
Cash flow hedges	21	-	(30,745)	-	(30,745)	(31)	(30,776)
Remeasurements of post-employment benefit obligations	22	-	-	(68,125)	(68,125)	-	(68,125)
Exchange rate differences		-	22,864	-	22,864	82	22,946
Other comprehensive income, net of tax		-	(7,881)	(68,125)	(76,006)	51	(75,955)
Net result		-	-	11,846	11,846	121	11,967
Total comprehensive income		-	(7,881)	(56,279)	(64,160)	172	(63,988)
Dividends	33	-	-	(19,456)	(19,456)	(559)	(20,015)
Repurchase of ordinary shares	16	-	-	(16,889)	(16,889)	-	(16,889)
Share based payments		-	-	(46)	(46)	-	(46)
Development cost		-	(10,800)	10,800	-	-	-
Other movements		-	-	(36)	(36)	-	(36)
		-	(10,800)	(25,627)	(36,427)	(559)	(36,986)
As at 31 December 2019		839,311	(183,647)	(27,220)	628,444	5,470	633,914

The notes on pages 97 to 179 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(x €1,000)

	Notes	2019	2018
Net result		11,967	24,416
Adjustments for:			
- Income tax	31	38,651	90,125
- Depreciation of property, plant and equipment	7	54,017	63,772
- Depreciation of right-of-use assets *	8	99,656	-
- Amortisation of intangible assets	9	5,888	6,004
- Impairment of other financial assets	12,27	-	(1,292)
- Impairment of intangible assets	9,27	10,337	-
- Impairment of inventories	13,27	10,841	21,920
- Share of impairment charges in investments	11,27	(2,655)	3,122
- Result on sale of PPP projects		(1,100)	(4,400)
- Result on sale of property, plant and equipment		(2,788)	(2,045)
- Share based payments	39	(46)	(95)
- Share of result of investments in associates and joint ventures	11,12	(14,639)	(38,947)
- Finance income	30	(17,465)	(21,221)
- Finance expense	30	19,178	11,894
Interest received		11,975	15,817
Dividends received from investments	11,12	26,836	34,851
Changes in provisions and pensions	22,23	(23,044)	5,701
Changes in working capital (excluding cash and cash equivalents)		169,505	19,606
Cash flow from operations		397,114	229,228
Interest paid		(21,622)	(16,426)
Income tax paid		(16,364)	(13,335)
Net cash flow from ordinary operations		359,128	199,467
Investments in PPP receivables	10	(21,362)	(16,774)
Repayments of PPP receivables	10	27,611	26,047
Net cash flow from operating activities		365,377	208,740
Purchases of property, plant and equipment	7,19	(82,349)	(66,503)
Proceeds from sale of property, plant and equipment	7	17,414	12,959
Purchases of intangible assets	9	(4,774)	(13,705)
Proceeds from disposal of intangible assets	9	-	402
Investments in non-current receivables (loans)	12	(30,250)	(25,433)
Repayments of non-current receivables (loans)	12	14,684	13,657
Investments in associates, joint ventures and other financial assets	11,12	(34,790)	(15,799)
Proceeds from disposal of associates, joint ventures and other financial assets	11,12	2,752	1,563
Proceeds from sale of PPP projects		13,077	18,700
Net cash flow from investing activities		(104,236)	(74,159)
Proceeds from borrowings	19	56,165	41,146
Repayments of borrowings	19	(93,475)	(80,752)
Repayments of principal portion of lease liabilities *	20	(98,403)	-
Dividends paid to shareholders of the Company	33	(19,456)	(11,429)
Dividends paid to non-controlling interests		(559)	(451)
Repurchase of ordinary shares		(16,889)	(15,492)
Net cash flow from financing activities		(172,617)	(66,978)
Change in cash and cash equivalents		88,524	67,603
Cash and cash equivalents at beginning of year	15	743,674	695,779
Changes in cash and cash equivalents as a result of change in accounting policy		(890)	(16,289)
Exchange rate differences on cash and cash equivalents		22,715	(3,419)
Net cash position at end of year	15	854,023	743,674

* See note 2.30 and paragraph 2.1.1.

The notes on pages 97 to 179 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Royal BAM Group nv ('the Company' or 'BAM'), its subsidiaries (together, 'the Group') and the Group's participations in joint operations and investments in associates and joint ventures offers its clients a substantial package of products and services in the sectors Construction and property, Civil engineering and Public Private Partnerships ('PPP'). The Group is mainly active in the Netherlands, Belgium, the United Kingdom, Ireland and Germany. The Group is also involved in specialist construction and civil engineering projects in niche markets worldwide.

The Company is a public limited company, which is listed on Euronext Amsterdam, with its registered seat and head office in Bunnik, the Netherlands.

On 20 February 2020 the Executive Board and the Supervisory Board authorised the financial statements for issue. The financial statements as presented in this report are subject to the adoption by the Annual General Meeting on 15 April 2020.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, as far as applicable.

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Changes in accounting policies and disclosures

(a) Application of new and revised standards

IFRS 9, 'Prepayment Features with Negative Compensation'

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

IFRS 16, 'Leases'

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

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

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

Adoption IFRS 16

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

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

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

Transition method

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

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

The Group:

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

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

The Group:

- used the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets');
- has not separated non-lease components from lease components and instead each lease component and any associated non-lease components are accounted for as a single lease component. Variable lease payments such as petrol for cars or variable maintenance fees for buildings are excluded from the measurement of the lease liability;
- used a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group determined incremental borrowing rates that are currency specific and vary with the length of the contract. The Group has used a more high-level method to determine the incremental borrowing rate. The Group has assessed the impact of the incremental borrowing rate determined using this method on the value of the lease liabilities using a sensitivity analysis. Based upon this analysis, the Group concludes that the impact of using this method to determine the incremental borrowing rate has no material impact on the value of the lease liabilities.

New accounting principles

The new accounting principles regarding the recognition of a right-of-use asset have been included in paragraph 2.6 Right-of-use assets and the accounting principles regarding the lease liabilities in 2.21 Lease liabilities.

IFRS 16 leases

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

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

<i>(x € million)</i>	2019
Operating lease commitments disclosed as at 31 December 2018	236
Discounted using the incremental borrowing rate of at the date of initial application	(19)
Add: Additional lease contracts identified	46
Add: finance lease liabilities recognised as at 31 December 2018	25
(Less): short-term lease commitments recognised on a straight-line basis as expense	(2)
Add/(Less): non-lease components	3
Add/(Less): adjustments as a result of different treatment of extension and termination options	7
Lease liability recognised as per 1 January 2019	296

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

- right-of-use assets of €295 million were recognised and presented separately in the statement of financial position. This includes lease assets recognised previously under finance leases of €30 million that were reclassified from property, plant and equipment;
- lease liabilities of €296 were recognised of which €25 million were previously finance lease liabilities that were reclassified from interest bearing loans and borrowings;
- amounts related to onerous leases and leasehold improvement incentive of €6 million were derecognised.

In relation to the leases under IFRS 16, the Group in 2019 has recognized depreciation (€100 million) and interest costs (€7 million), instead of operating lease expense. Therefore also performance measures like EBIDTA are affected. In the statement of cash flows the interest paid related to these leases is presented as part of the cash flow from operating activities (€7 million), while the repayments are presented as part of the cash flows from financing activities (€98 million).

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

'Annual Improvements to IFRSs - 2015-2017 Cycle'

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

IFRIC 23, 'Uncertainty over Income Tax Treatment'

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

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

(b) New standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following set out below:

IFRS 3, 'Business combinations – Definition of a business'

The narrow-scope amendments clarify how to determine whether an acquired set of activities and assets is a business or not.

The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

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

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

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in the income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in the income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, accompanying a shareholding of between 20 and 50 per cent of the voting rights or based on the representation on the board of directors. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the income statement, where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Profits and losses resulting from transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary amounts reported by associates have been adjusted to conform with the Group's accounting policies.

(e) Joint arrangements

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

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

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

Joint operations are joint arrangements whereby the Group and other parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the joint operation. The Group recognises its share in the joint operations' individual revenues and expenses, assets and liabilities and includes it on a line-by-line basis with corresponding items in the Group's financial statements.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board. The Executive Board considers the business from a sector perspective and identifies Construction and Property, Civil engineering and PPP as operating segments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'euro' (€), which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within 'exchange rate differences', except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) Group companies

The results and financial position of the group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange rate differences are recognised separately in equity in 'other comprehensive income'.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange rate differences arising are recognised in 'other comprehensive income'.

(d) Exchange rates

The following exchange rates of the euro against the pound sterling (£) have been used in the preparation of these financial statements:

	2019	2018
Closing exchange rate		
Pound sterling	0.85332	0.90025
Average exchange rate		
Pound sterling	0.87758	0.88692

2.5 Property, plant and equipment

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land improvements	10%-25%
Buildings	2%-10%
Equipment and installations	10%-25%
IT equipment	10%-25%
Furniture and fixtures	10%-25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating expenses' in the income statement.

2.6 Right-of-use assets

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

Land and buildings	1 to 99 years
Cars	1 to 10 years
Equipment	1 to 8 years
IT equipment	1 to 10 years
Other	1 to 11 years

The majority of the lease contracts in land and buildings has a useful life up to 40 years.

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

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

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

The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. See note 4.

For further details regarding the transition method applied, see paragraph 2.1.1.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in business combinations is allocated, at acquisition date, to the cash-generating units (CGUs) or groups of CGUs expected to benefit from that business combination. Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Non-integrated software

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 (between four and ten years). The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

(c) Other

Other intangible assets relate to market positions (including brand names) and development cost and are stated at cost less accumulated amortisation and impairment losses.

Research cost are expensed as incurred. Development cost on an individual project are recognised as an intangible asset when the following can be demonstrated:

- technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Additional recognition of cost of development may apply when development continues. It is amortised over the period of expected future benefit. Amortisation is recorded in depreciation and amortisation charges. During the period of development, the asset is tested for impairment annually.

Amortisation on other intangible assets is calculated over their estimated useful lives (generally between two and ten years). The assets' useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.9 Assets and liabilities held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the asset's carrying amount and the fair value less costs to sell. Depreciation or amortisation of an asset ceases when it is classified as held for sale. Equity accounting ceases for an investment in a joint venture or associate when it is classified as held for sale.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Results from discontinued operations that are clearly identifiable as part of the component disposed of and that will not be recognised subsequent to the disposal are presented separately as a single amount in the income statement. Results and cash flows from discontinued operations are reclassified for prior periods and presented in the financial statements so that the results and cash flows from discontinued operations relate to all operations that have been discontinued as of the balance sheet date for the latest period presented.

2.10 Financial assets

2.10.1 Classification

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

The Group classifies its financial assets in the classes 'debt instruments at amortized costs', 'financial assets at fair value through profit and loss' and 'derivative financial instruments' (note 2.13). debt instruments at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period which are classified as non-current assets. Debt instruments that do not meet Solely Payments of Principal and Interest (SPPI) criterion (for which the test is performed at instrument level) are classified at other financial assets at fair value through profit or loss.

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement, which also applicable for net changes in fair value after initial recognition. Trade receivables that do not contain a significant financing component are initially measured at the transaction price determined under IFRS 15. (See note 2.26 for revenue recognition).

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

- the debt 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 Group has transferred substantially all risks and rewards of ownership. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.11 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.

2.12 Impairment of financial assets

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

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

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

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

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

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

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

2.13 Derivative financial instruments and hedging activities

Derivatives are only used for economic hedging purposes and not as speculative investments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates the derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of the unrecognised Group's commitment.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve in other comprehensive income are shown in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

The effective portion of changes in the fair value of cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'finance income/expense'.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance income/expense'. The gain or loss relating to the effective portion of forward foreign exchange contracts is recognised in profit or loss within 'operating result'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'finance income/expense'.

2.14 Inventories

Land, building rights and property developments are recorded at the lower of cost and net realisable value. The Group capitalises interest on finance raised to facilitate the development of specific projects once development commences and until practical completion, based on the total actual finance cost incurred on the borrowings during the period. When properties are acquired for future redevelopment, interest on borrowings is recognised in the income statement until redevelopment commences. Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost is determined using the 'first-in, first-out (FIFO) method'. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Construction contracts

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

For further guidelines regarding construction contracts see paragraph 2.26 revenue recognition under (a).

2.16 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within 'borrowings' in current liabilities.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. When share capital is repurchased in order to prevent dilution as a result of the share-based compensation plan, the consideration paid, including directly attributable costs, net of tax, is deducted from equity. Repurchased shares (treasury shares) are presented as a deduction from total equity. When treasury shares are sold or re-issued subsequently, any amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

2.19 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method (in case not attributable to property development projects).

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The subordinated convertible bonds are separated into liability and equity components based on the terms of the contract. On issuance of the subordinated convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity (after tax). The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are deducted from equity, net of associated income tax. Transaction costs are apportioned between the liability and equity components of the subordinated convertible bonds, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

2.21 Lease liabilities

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

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

The Group has applied judgement to determine the lease term, which significantly affects the amount of right-of-use assets and lease liabilities recognised. See note 4 and note 20 Lease liabilities.

For further details regarding the transition method applied, see paragraph 2.1.1.

2.22 Current and deferred income 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred

income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

Current service costs of defined benefit plans are recognised immediately in the income statement, as part of 'employee benefit expenses', and reflect the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in the income statement. Interest expenses are included in the 'employee benefit expenses'.

For defined contribution plans, the Group pays contributions to administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other employment obligations

Other employment obligations comprise jubilee benefits, retirement gifts, temporary leaves and similar arrangements and have a non-current nature. These obligations are stated at present value.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee

accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.24 Share-based payments

(a) Performance Share Plan

The Group operates an equity-settled share-based compensation plan.

The fair value of the employee services received in exchange for the grant of the shares is recognised as cost with a corresponding credit entry of equity. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including a market performance condition based on the Company's share price;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement within 'personnel expenses', with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

These shares contain a dividend right, to which the same conditions apply as to the performance shares and are re-invested.

(b) Phantom Share Plan

The Group used to operate a cash-settled share-based compensation plan, for which the last payment occurred in May 2019.

2.25 Provisions

Provisions for warranties, restructuring costs, rental guarantees, associates and joint ventures and onerous contracts are recognised when: (a) the Group has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Restructuring provisions are recognised when a detailed formal plan has been approved, and the restructuring has either commenced or has been announced publicly. Restructuring provisions comprise lease termination penalties and employee termination payments. Future operating losses are not recognised.

If the Group's share in losses exceeds the carrying amount of the investment (including separately presented goodwill and other uninsured receivables), further losses will not be recognised, unless the Group has provided securities to the associate or joint venture, committed to liabilities or payment on behalf of the associate and joint venture. In that case, the excess will be provided for.

2.26 Revenue recognition

(a) Construction contracts

IFRS 15 follows a 5-step approach to recognise for revenue, which is set out below. Certain specific topics have been included or referred to the applicable note.

The core principle of IFRS 15 is a 5-step model to distinguish each distinct performance obligation within a contract that the Group has with its customer and to recognise revenue on the level of the performance obligations, reflecting the consideration that the Group expects to be entitled for, in exchange for those goods or services.

The following five steps are identified within IFRS 15:

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

Step 1 'Identify the contract with the client'

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

The achievement of the preferred bid status is not considered as a contract. As from the achievement of the preferred bid status, costs will be capitalised as an asset if enforceability of right to payment exists. This mainly concerns costs to fulfil the contract. See note 14 for further details.

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

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

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

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

Step 2 'Identify the performance obligations'

The purpose of this step is to identify all promised goods or services that are included in the contract. Examples of performance obligations are the construction of a building, the delivery of an apartment, the maintenance of a road and so on.

At contract inception, the Group assesses the goods or services promised to a customer, and identifies each promise as either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Promises in a contract can be explicit, or implicit if they create a valid expectation that the Group will provide a good or service based on the Group's customary business practices, published policies or specific statements.

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

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

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

Onerous contracts:

IFRS 15 does not include specific guidance about the accounting for project losses. For the accounting of provisions for onerous contracts, IFRS 15 refers to the guidance relating to provisions in IAS 37. Based on IAS 37, a provision for an onerous contract has to be accounted for on the level of the contract as a whole. This is not necessarily the same as if evaluated on project level, because a contract may include more performance obligations.

The provision for onerous construction contracts only relates to the future loss on the performance to be delivered under the contract. In determining a provision for an onerous contract, the inclusion of variable considerations in the expected economic benefits is based on the same principles as included in step 3 hereafter, including the application of the highly probable constraint for the expected revenue. The provision for onerous contracts is presented separately in the balance sheet.

Step 3 'Determine the transaction price'

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

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

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

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

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

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

For considering the effects of constraining estimates of variable considerations, the Group makes a distinction between claims and variation orders. Variation orders are changes that are clearly instructed by the client creating enforceable rights to payment but for which the price change is not yet determined. Claims however relate to events for which the Group considers to have enforceable rights to a compensation from the client but these are not yet approved by the client. The uncertainty relating to claims is usually higher, because of the absence of an instruction of the client for a change. As a result the risk of a significant reversal of revenue relating to claims is considered to be higher and it might be more difficult to prove that a claim amount meets the IFRS 15 'highly probable' criterion. See note 4 b) for the related criteria.

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

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

Step 4 'Allocate the transaction price'

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

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

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

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

Step 5 'Recognise revenue'

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

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

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

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

In general, the Group is building on the land of the customer or improving an asset of the customer, which results in creating an asset that the customer controls as the asset is created. This leads to recognising revenue over time. The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period for a performance obligation. The stage of completion is measured by reference to the contract costs of fulfilling the performance obligation incurred up to the end of the reporting period as a percentage of total expected 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 Group's standard payment term states 60 days.

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

Uninstalled materials:

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

Capitalised cost:

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

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

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

Costs of inefficiencies:

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

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

(b) Property development

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

Further the accounting policies for property development are the same as mentioned under (a).

(c) Service concession arrangements and other

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

The financial assets relating to service concession arrangements ('PPP receivables') are subsequently measured at amortised cost.

Interest is calculated using the effective interest method and is recognised in the income statement as 'finance income'.

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

Other revenue includes, among other items, rental income and (sub)lease of property, plant and/or equipment. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.27 Finance income and expenses

Finance income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Finance income on impaired loan and receivables is recognised using the original effective interest rate.

Finance expenses comprise interest expenses on borrowings, deposits, cash positions, lease liabilities, finance lease expenses, gains and losses relating to hedging instruments and other financial expenses. Interest expenses on borrowings and lease liabilities are recognised in the income statement using the effective interest method.

2.28 Government grants

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

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

2.29 Exceptional items

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

2.30 Statement of cash flows

The statement of cash flows is prepared using the indirect method. The net cash position in the statement of cash flows consists of cash and cash equivalents, net of bank overdrafts.

Cash flows in foreign exchange currencies are converted using the average exchange rate. Exchange rate differences on the net cash position are separately presented in the statement of cash flows. Payments in connection with interest and income tax are included in the cash flow from operations. Cash flows in connection with PPP receivables are included in the cash flow from operating activities. Paid dividend is included in cash flows from financing activities. The purchase price of acquisitions of subsidiaries are included in the cash flow from investing activities as far as payments have taken place. Cash and cash equivalents in the subsidiaries are deducted from the purchase price.

Cash flows from PPP's (private partnership projects) are presented under operating activities since these projects are part of regular construction and recurring maintenance revenue for BAM's business lines and include concessions for roads, rail, education, health care and government buildings.

As from 2019 lease contracts have been capitalised (former operational and finance leases) as right-of use assets, due to the implementation of IFRS 16. Accordingly, lease liabilities have been separately included under non-current and current liabilities. In 2018 the lease liabilities were included in property, plant and equipment and borrowings and only related to finance leases. See paragraph 2.1.1. In the statement of cash flows the interest paid related to leases is presented as part of the cash flow from operating activities, while the repayments are presented as part of the cash flows from financing activities.

Non-cash transactions are not included in the statement of cash flows.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Risk is inherent to any business venture and the risk to which the Group is exposed is not unusual or different from what is considered acceptable in the industry. The Group's risk management system is designed to identify and manage threats and opportunities. Effective risk management enables BAM to capitalise on opportunities in a carefully controlled environment. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to limit potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Group treasury under policies approved by the Executive Board, which has the overall responsibility for risk management in the Group and the Enterprise Risk Management Framework. Group treasury identifies, evaluates and hedges financial risks in close collaboration with the group companies. The Executive Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

A substantial part of the Group's activities takes place in the United Kingdom and, to a limited extent, in other non-euro countries. The Group's results and shareholders' equity are therefore affected by foreign exchange rates. Generally, the Group is active in these non-euro countries through local subsidiaries. The exchange risk is therefore limited, because transactions are denominated largely in the functional currencies of the subsidiaries. The associated translation risk is not hedged. Due to the translation effect the increase of exchange rate of the pound sterling in 2019 has on Group level increased the reported revenue, results, equity and closing order book for the UK companies. Based on the value per end of 2019 of the Group's UK subsidiaries, an increase or decrease of 10 per cent of the exchange rate of the pound sterling, will have an effect on the Group's equity of approximately €40 million.

A limited number of group companies are active in markets where contracts are denominated in a different currency than their functional currency. Group policy is that costs and revenues from these projects are mainly expressed in the same currency, thus limiting foreign exchange risks. The Group hedges the residual exchange risk on a project-by-project basis, using forward exchange contracts. This involves hedging of unconditional project related exchange risks in excess of €1 million as soon as these occur. The Group reports these hedges by means of cash flow hedge accounting. Additional exchange risks in the tender stage and arising from contractual amendments are assessed on a case-by-case basis.

Procedures have been established for proper recording of hedge transactions. Systems are in place to ensure the regular performance and analysis of the requisite hedge effectiveness measurements for hedge accounting.

(ii) Interest rate risk

The Group's interest rate risk is associated with interest-bearing receivables and cash and cash equivalents, on the one hand and interest-bearing borrowings, on the other. If the interest is variable, it presents the Group with a cash flow interest rate risk. If the interest rate is fixed, there is a fair value interest rate risk.

The Group mitigates the cash flow interest rate risk to the extent possible through the use of interest rate swaps, under which interest liabilities based on a variable rate are converted into fixed rates. The Group does not use interest rate swaps under which fixed-rate interest liabilities are converted into variable rates in order to hedge the fair value interest rate risk.

The analysis of the cash flow interest rate risk takes into account cash and cash equivalents, the debt position and the usual fluctuations in the Group's working capital requirements. In addition, alternatives are being studied, hedges are being considered and lease liabilities are excluded. Under Group policy, cash flow interest rate risks with regard to long-term borrowings (mainly PPP loans) are largely hedged by interest swaps. As a result of the small non-hedge component of these borrowings in combination with negative interest on part of the Groups credit positions, the Group is not entirely insensitive to movements in interest rates. At year-end 2019, 63 per cent (2018: 71 per cent) of the interest on the Group's debt position was fixed. The part not covered consists almost entirely of property financing.

If the interest rates (Euribor and Libor) had been an average of 100 basis points higher or lower during 2019, the Group's net result after tax (assuming that all other variables remained equal) would have been approximately €0.4 million higher or approximately €0.7 million

lower (2018: approximately €0.1 million higher or approximately €0.8 million higher). If the interest rates (Euribor and Libor) had been 100 basis points higher or lower during 2019, the Group's cash flow hedge reserves in Group equity (assuming that all other variables remained equal) would have been approximately €2.1 million higher or approximately €2.1 million lower (2018: approximately €2.4 million higher or approximately €2.4 million lower).

(iii) Price risk

The price risk run by the Group relates to the procurement of land and materials and subcontracting of work and consists of the difference between the market price at the point of tendering or offering on a contract and the market price at the time of actual performance.

The Group's policy is to agree a price indexation reimbursement clause with the client at the point of tendering or offering on major projects. The Group also endeavours to manage the price risk by using framework contracts, suppliers' quotations and high-value sources of information. If the Group is awarded a project and no price indexation reimbursement clause is agreed with the client, the costs of land and materials, as well as the costs for subcontractors, are fixed at an early stage by establishing prices and conditions in advance with the main suppliers and subcontractors.

While it is impossible to exclude the impact of price fluctuations altogether, the Group takes the view that its current policy reflects the optimum economic balance between decisiveness and predictability. The Group occasionally uses financial instruments to hedge the (residual) price risks.

(b) Credit risk

The Group has credit risks with regard to financial assets including 'PPP receivables', 'non-current receivables', 'derivative financial instruments', 'trade receivables – net', 'contract assets', 'contract receivables', 'other receivables' and 'cash and cash equivalents'.

Regarding the above mentioned financial assets, the Group assessed the credit risk and concluded that no ECL provision is deemed necessary.

'PPP receivables' and a substantial part of the 'trade receivables – net' consist of contracts with governments or government bodies. Therefore, credit risk inherent in these contracts is limited. Furthermore, a significant part of 'trade receivables – net' is based on contracts involving prepayments or payments proportionate to progress of the work, which limits the credit risks, in principle, to the balances outstanding.

The credit risk arising from 'PPP receivables', 'trade receivables – net', 'contract assets' and 'contract receivables' is monitored by the relevant subsidiaries. Clients' creditworthiness is analysed in advance and then monitored during the performance of the project. This involves taking account of the client's financial position, previous collaborations and other factors. Group policy is designed to mitigate these credit risks through the use of various instruments, including retaining ownership until payment has been received, prepayments and the use of bank guarantees. The credit risk of the portfolio is further mitigated by broad spectrum of clients.

The Group's 'cash and cash equivalents' are held in various banks. The Group limits the associated credit risk as a result of the Group's policy to work only with respectable banks and financial institutions. This involves 'cash and cash equivalents' in excess of €10 million being held at banks and financial institutions with a minimum rating of 'A'. The Group's policy aims to limit any concentration of credit risks involving 'cash and cash equivalents'.

The carrying amounts of the financial assets exposed to a credit risk are as follows:

	Notes	2019	2018
Non-current assets			
PPP receivables	10	73,653	85,298
Non-current receivables	12	108,176	99,858
Derivative financial instruments	21	-	1
Current assets			
Trade receivables – net	14	683,979	858,946
Contract assets	14	503,694	595,684
Contract receivables	14	217,521	284,135
Other receivables	14	82,887	82,212
PPP receivables	10,14	4,938	4,348
Other financial assets	12	596	621
Derivative financial instruments	21	704	641
Cash and cash equivalents	15	854,023	743,674
		<u>2,530,171</u>	<u>2,755,418</u>

Non-current receivables predominantly concern loans granted to property and PPP associates and joint ventures. These loans are in general not past due at the balance sheet date. Triggering events for impairments are identified based on the financial position of these associates and joint ventures, which also include the value of the underlying property development positions. For a part of these loans property developments positions are held as securities generally subordinated to the providers of the external financing.

Impairments, if applicable, are included in ‘non-current receivables’ and ‘trade receivables – net’ (notes 12 and 14). None of the other assets were overdue at year-end 2019 or subject to impairment. The maximum credit risk relating to financial instruments equals the carrying amount of the financial instrument.

(c) Liquidity risk

Liquidity risks may occur if the procurement and performance of new projects stagnate and less payments (and prepayments) are received, or if investments in land or property development would have a significant effect on the available financing resources and/or operational cash flows.

The size of individual transactions can cause relatively large short-term fluctuations in the liquidity position. The Group has sufficient credit and current account facilities to manage these fluctuations.

Partly to manage liquidity risks, subsidiaries prepare monthly detailed cash flow projections for the ensuing twelve months. The analysis of the liquidity risk takes into account the amount of cash and cash equivalents, credit facilities and the usual fluctuations in the Group’s working capital requirements. This provides the Group with sufficient opportunities to use its available liquidities and credit facilities as flexible as possible and to indicate any shortfalls in a timely manner.

The first possible expected contractual cash outflows from financial liabilities and derivative financial instruments as at the end of the year and settled on a net basis, consist of (contractual) repayments and (estimated) interest payments.

The composition of the expected contractual cash flows is as follows:

	Carrying amount	Contractual cash flows	< 1 year	1 – 5 years	> 5 years
2019					
Subordinated convertible bonds	120,451	131,563	4,375	127,188	-
Non-recourse PPP loans	42,620	47,009	4,674	20,107	22,228
Non-recourse property financing	53,807	55,597	40,367	12,031	3,199
Other non-recourse financing	4,442	4,935	1,334	2,801	800
Recourse PPP loans	-	-	-	-	-
Recourse property financing	48,361	49,860	33,099	14,892	1,869
Other recourse financing	1,845	1,910	1,910	-	-
Lease liabilities*	311,591	326,675	90,400	180,474	55,801
Derivatives (forward exchange contracts)	242	711	797	(79)	(7)
Derivatives (interest rate swaps)	9,567	11,102	1,910	6,553	2,639
Other current liabilities	836,758	836,758	836,758	-	-
	1,429,684	1,466,120	1,015,624	363,967	86,529
2018					
Subordinated convertible bonds	117,637	135,938	4,375	131,563	-
Non-recourse PPP loans	43,467	48,661	5,843	18,278	24,540
Non-recourse property financing	79,227	82,032	23,892	58,140	-
Other non-recourse financing	4,469	4,865	2,460	1,325	1,080
Recourse PPP loans	13,984	15,176	973	14,203	-
Recourse property financing	53,447	55,448	24,316	31,132	-
Other recourse financing	5,550	5,758	3,849	1,909	-
Finance lease liabilities *	24,995	26,571	7,428	18,402	741
Derivatives (forward exchange contracts)	(370)	(2,728)	(2,728)	-	-
Derivatives (interest rate swaps)	9,691	10,305	1,975	5,100	3,230
Other current liabilities	981,671	981,671	981,671	-	-
	1,333,768	1,363,697	1,054,054	280,052	29,591

* As from 2019 lease liabilities have been separately presented in the consolidated statement of financial position (former operational and finance leases), due to the implementation of IFRS 16. In 2018 the lease liabilities were included in borrowings and were only related to finance leases. See note 20. Lease liabilities and paragraph 2.1.1.

The expected cash outflows are offset by the cash inflows from operations and (re-)financing. In addition, the Group has committed syndicated and bilateral credit facilities of €400 million (2018: €400 million) respectively €138 million in bilateral credit facilities and €25 million intraday facilities (2018: €163 million) available.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's aim is for a financing structure that ensures continuing operations and minimises cost of equity. For this, flexibility and access to the financial markets are important conditions. As usual within the industry, the Group monitors its financing structure using a capital ratio, among other factors.

Capital ratio is calculated as the capital base divided by total assets. The Group's capital base consists of equity attributable to the shareholders of the Company and the subordinated instruments (notes 18 and 19). At year-end 2019, the capital ratio was 16.5 per cent (2018: 18.5 per cent). The impact of the implementation of IFRS 16 had a downward effect of 1 per cent, due to the increased total assets. For the strategic objectives regarding the capital ratio, see chapter 3.1 Financial performance of the Executive Board Report.

Under the terms of our borrowings facilities the group is required to comply with financial covenants. For information on these financial covenants see note 19.

3.3 Financial instruments by categories

The Group has three categories of financial instruments. A significant number of these are inherent to the Group's business activities and are presented in various other balance sheet items. The following summary indicates the values for which financial instruments are included for each relevant balance sheet item:

	Notes	Financial instruments			Non-financial instruments	Total
		Receivables	Financial liabilities	Hedging		
2019						
PPP receivables	10	73,653	-	-	-	73,653
Other financial assets ¹	12	109,653	-	-	-	109,653
Derivative financial instruments	21	-	-	704	-	704
Trade and other receivables	14	813,024	-	-	799,025	1,612,049
Cash and cash equivalents	15	854,023	-	-	-	854,023
Borrowings	19	-	271,526	-	-	271,526
Lease liabilities ²	20	-	311,591	-	-	311,591
Derivative financial instruments	21	-	-	10,513	-	10,513
Trade and other payables	25	-	836,759	-	2,045,710	2,882,469
		1,850,353	1,419,876	11,217	2,844,735	6,126,181
2018						
PPP receivables	10	85,298	-	-	-	85,298
Other financial assets ¹	12	101,332	-	-	-	101,332
Derivative financial instruments	21	-	-	642	-	642
Trade and other receivables	14	980,011	-	-	992,029	1,972,040
Cash and cash equivalents	15	743,674	-	-	-	743,674
Borrowings ²	19	-	342,777	-	-	342,777
Derivative financial instruments	21	-	-	9,963	-	9,963
Trade and other payables	25	-	981,671	-	2,099,464	3,081,135
		1,910,315	1,324,448	10,605	3,091,493	6,336,861

¹ The other financial assets consist of several types of financial assets. See note 12 for the specification of receivables based on fair value through profit or loss, receivables based on amortised cost and other.

² As from 2019 lease liabilities have been included (former operational and finance leases), due to the implementation of IFRS 16. In 2018 the lease liabilities were included in borrowings and only related to finance leases. See note 20. Lease liabilities and paragraph 2.1.1.

All financial instruments are valued at amortised cost, with the exception of a part of the other financial assets (note 12) and the derivative financial instruments (note 21), not designated in hedge accounting relationship, which are valued at fair value through profit or loss.

3.4 Fair value estimation

The fair value of financial instruments not quoted in an active market is measured using valuation techniques. The Group uses various techniques and makes assumptions based on market conditions on balance sheet date. The valuation also includes (changes in) the credit risk of the counter party and the credit risk of the Group in conformity with IFRS 13.

One of these techniques is the calculation of the net present value of the expected cash flows (discounted cash flow projections). The fair value of the interest rate swaps is calculated as the net present value of the expected future cash flows. The fair value of the forward exchange contracts is measured based on the 'forward' currency exchange rates on balance sheet date. In addition, valuations from banks are requested for interest rate swaps.

Financial instruments valued at fair value consist of interest rate swaps, foreign exchange contracts and a portion of the other financial assets. In line with the current accounting policies the derivatives are classified as level 2.

It is assumed that the nominal value (less estimated adjustments) of 'borrowings' (current part), 'trade and other receivables' and 'trade and other payables' approximate to their fair value.

3.5 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

A master netting agreement is applicable to a part of 'cash and cash equivalents'. At 31 December 2019 a positive balance of €446 million has been offset against a negative balance of €0.1 million (2018: positive balance of €404 million offset against a negative balance of nil).

4. Critical accounting judgements and key sources of estimation uncertainties

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical judgements including those involving estimations assumptions concerning the future, that the Group has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements are addressed below.

(a) Contract revenue and costs

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

In determining the stage of completion the Group has efficient, coordinated systems for cost estimating, forecasting and revenue and costs reporting. The system also requires a consistent judgment (forecast) of the final outcome of the project, including variance analyses of divergences compared with earlier assessment dates. Estimates are an inherent part of this assessment and actual future outcome may deviate from the estimated outcome, specifically for major and complex construction contracts. However, historical experience has also shown that estimates are, on the whole, sufficiently reliable. See paragraph 2.26 for further explanation regarding the recognition of revenue for construction contracts.

(b) Claims receivable

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

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

Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed. See paragraph 2.26 for further explanation regarding the recognition of variable considerations.

(c) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised for tax losses carry-forwards, temporary differences and tax credits to the extent that the realisation of the related tax benefit through future taxable profits is probable. Estimates are an inherent part of this process and they may differ from the actual future outcome. Additional information is disclosed in note 24.

(d) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group 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 Group 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.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 22.

(e) Impairment of land and building rights and property development

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

(f) Impairment of goodwill

Goodwill is tested annually for impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are determined using discounted cash flow projections and require estimates in connection with the future development of revenues, profit before tax margins and the determination of appropriate discount rates. An impairment loss is recognised if the carrying amount of an asset of CGU exceeds its recoverable amount.

(g) Determining the lease term

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

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

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

Leases regarding land and buildings mainly include office spaces and are leased for longer periods of time (10-25 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The length of the period when certainty can be achieved, differs and is dependent on the contract negotiations with the lessor and the required office space. Usually, the Group is able to be reasonably certain if an option is exercised around two years before the lease term ends.

The renewal options for leases of cars are not included as part of the lease term because the Group typically leases cars for not more than six years and, hence, is not exercising any renewal options. These cars are used both by office as project management employees.

Lease terms for equipment and installation may vary and are generally connected to the execution of projects or to housing in the offices buildings. The other leases are insignificant to the total leased asset portfolio.

See note 20. Lease liabilities for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

5. Segment information

The segment information reported to the Executive Board is measured in a manner consistent with the financial statements.

	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
Revenue and results					
2019					
Construction contracts	3,410,001	2,947,509	-	-	6,357,510
Property development	644,721	-	-	-	644,721
Service concession arrangements and other	138,293	23,061	45,136	368	206,858
Revenue from external customers	4,193,015	2,970,570	45,136	368	7,209,089
Sector revenue	32,876	41,648	-	(74,524)	-
Revenue	4,225,891	3,012,218	45,136	(74,156)	7,209,089
Operating result ³	36,396	(7,620)	17,715	5,840	52,331
Finance result ³	(26)	(2,344)	9,513	(8,856)	(1,713)
Result before tax	36,370	(9,964)	27,228	(3,016)	50,618
Exceptional items ²	(9,916)	(13,564)	-	-	(23,480)
Adjusted result before tax	46,286	3,600	27,228	(3,016)	74,098
2018					
Construction contracts	3,336,044	3,134,424	-	-	6,470,468
Property development	541,326	-	-	-	541,326
Service concession arrangements and other	132,989	27,608	34,676	684	195,957
Revenue from external customers	4,010,359	3,162,032	34,676	684	7,207,751
Sector revenue	32,967	60,594	-	(93,561)	-
Revenue	4,043,326	3,222,626	34,676	(92,877)	7,207,751
Operating result	77,133	14,753	11,323	2,005	105,214
Finance result	3,163	269	8,907	(3,012)	9,327
Result before tax	80,296	15,022	20,230	(1,007)	114,541
Exceptional items ²	(34,391)	(4,288)	-	-	(38,679)
Adjusted result before tax	114,687	19,310	20,230	(1,007)	153,220

¹ Including non-operating segments.

² For further explanation see note 28.

³ As from 2019 the Group has recognized interest costs (part of finance result), instead of operating lease expense (part of operating result), due to the implementation of IFRS 16. The total interest expenses amount to €7 million which relate to Construction and Property (€2 million), Civil engineering (€3 million), and non-operating (€2 million). See paragraph 2.1.1.

Balance sheet disclosures	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
2019					
Assets	2,427,912	2,030,700	197,372	(250,873)	4,405,111
Investments	<u>113,774</u>	<u>61,857</u>	<u>13,975</u>	<u>(54,543)</u>	<u>135,063</u>
Total assets	2,541,686	2,092,557	211,347	(305,416)	<u>4,540,174</u>
Liabilities	2,227,201	1,596,854	127,022	(44,817)	3,906,260
Group equity	<u>314,485</u>	<u>495,703</u>	<u>84,325</u>	<u>(260,599)</u>	<u>633,914</u>
Total equity and liabilities	2,541,686	2,092,557	211,347	(305,416)	<u>4,540,174</u>
2018					
Assets	2,591,504	1,976,254	211,642	(310,972)	4,468,428
Investments	<u>90,966</u>	<u>65,994</u>	<u>10,523</u>	<u>(57,928)</u>	<u>109,555</u>
Total assets	2,682,470	2,042,248	222,165	(368,900)	<u>4,577,983</u>
Liabilities	2,400,521	1,519,757	116,580	(193,763)	3,843,095
Group equity	<u>281,949</u>	<u>522,491</u>	<u>105,584</u>	<u>(175,136)</u>	<u>734,888</u>
Total equity and liabilities	2,682,470	2,042,248	222,164	(368,899)	<u>4,577,983</u>

¹ Including non-operating segments.

Other disclosures	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
2019					
Additions to property, plant and equipment, right-of-use assets and intangible assets	55,277	129,521	466	19,918	205,182
Depreciation and amortisation charges ³	46,827	90,873	336	21,525	159,561
Share of result of investments in operating result	(13,461)	21,877	8,880	-	17,296
Average number of FTE ²	8,053	10,981	97	304	19,433
Number of FTE at year-end	8,237	10,861	98	321	19,517
2018					
Additions to property, plant and equipment and intangible assets	24,625	54,766	19	17,432	96,843
Depreciation and amortisation charges ³	15,476	43,801	21	10,478	69,776
Share of result of investments in operating result	24,219	2,644	8,962	-	35,825
Average number of FTE ²	9,262	10,535	95	264	20,156
Number of FTE at year-end	9,300	10,510	99	285	20,194

¹ Including non-operating segments.

² Fulltime equivalent.

³ From 2019, depreciation also includes depreciation of right-of-use assets due to the implementation of IFRS 16.
The comparative numbers have not been adjusted.

Revenues from external customers by country, based on the location of the projects	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
2019					
Netherlands	1,590,449	1,296,391	7,154	(39,436)	2,854,558
United Kingdom	1,060,485	945,640	19,588	(9,245)	2,016,468
Belgium	445,018	222,737	9,813	(22,663)	654,905
Germany	406,903	291,448	5,524	(2,811)	701,064
Ireland	543,425	24,750	3,057	-	571,232
Other countries	179,611	231,252	-	(1)	410,862
	<u>4,225,891</u>	<u>3,012,218</u>	<u>45,136</u>	<u>(74,156)</u>	<u>7,209,089</u>
2018					
Netherlands	1,391,385	1,340,840	11,543	(31,870)	2,711,898
United Kingdom	1,070,272	921,136	16,638	(9,809)	1,998,237
Belgium	503,115	240,442	969	(41,841)	702,685
Germany	414,644	401,451	5,170	(1,547)	819,718
Ireland	434,337	46,937	356	(7,689)	473,941
Other countries	229,573	271,820	-	(122)	501,272
	<u>4,043,326</u>	<u>3,222,626</u>	<u>34,676</u>	<u>(92,878)</u>	<u>7,207,751</u>

¹ Including non-operating segments.

Revenues from the individual countries included in 'other countries' are not material.

Total assets and capital expenditures in connection with property, plant and equipment and intangible assets by country are stated below:

Total assets ¹	2019	2018
Netherlands	1,544,596	1,605,223
United Kingdom	1,078,964	1,011,640
Belgium	697,428	681,282
Germany	614,493	622,804
Ireland	310,127	323,809
Other countries	450,788	502,709
Other including eliminations	(156,222)	(169,484)
Total assets	<u>4,540,174</u>	<u>4,577,983</u>
Additions²	2019	2018
Netherlands	109,518	51,508
United Kingdom	29,171	8,170
Belgium	23,793	16,019
Germany	23,144	9,598
Ireland	8,208	7,475
Other countries	11,348	4,073
Total assets	<u>205,182</u>	<u>96,843</u>

¹ Geographical allocations based on the location of the assets.

² Gross investments in tangible and intangible assets based on geographical location. As from 2019 lease contracts have been capitalised (former operational and finance leases) as right-of-use assets, due to the implementation of IFRS 16. See paragraph 2.1.1.

6. Projects

Construction contracts and property development

A major part of the Group's activities concerns construction contracts and property development which are reflected in various balance sheet items. An overview of the balance sheet items attributable to construction contracts and property development is stated below:

	Construction contracts	Property development	Total
2019			
Land and building rights	-	319,434	319,434
Property development	-	211,644	211,644
Capitalised contract cost	744	-	744
Amounts due from customers	<u>368,829</u>	<u>15,901</u>	<u>384,730</u>
Project assets	369,573	546,979	916,552
Non-recourse property financing	-	(53,807)	(53,807)
Recourse property financing	-	(48,361)	(48,361)
Amounts due to customers	(518,536)	(107,761)	(626,297)
Provision for onerous contracts	<u>(118,837)</u>	<u>-</u>	<u>(118,837)</u>
Project liabilities	(637,373)	(209,929)	(847,302)
As at 31 December	<u>(267,800)</u>	<u>337,050</u>	<u>69,250</u>
2018			
Land and building rights	-	353,586	353,586
Property development	-	210,029	210,029
Capitalised contract cost	159	-	159
Amounts due from customers	<u>464,607</u>	<u>14,521</u>	<u>479,128</u>
Project assets	464,766	578,136	1,042,902
Non-recourse property financing	-	(79,227)	(79,227)
Recourse property financing	-	(53,447)	(53,447)
Amounts due to customers	(559,194)	(95,018)	(654,212)
Provision for onerous contracts	<u>(135,899)</u>	<u>-</u>	<u>(135,899)</u>
Project liabilities	(695,093)	(227,692)	(922,785)
As at 31 December	<u>(230,327)</u>	<u>350,444</u>	<u>120,117</u>

The breakdown of the balance sheet items 'amounts due from customers' and 'amounts due to customers' is as follows:

	Construction contracts	Property development	Total
2019			
Revenue	14,258,045	106,543	14,364,588
Progress billings	<u>(13,889,216)</u>	<u>(90,642)</u>	<u>(13,979,858)</u>
Amounts due from customers	<u>368,829</u>	<u>15,901</u>	<u>384,730</u>
Revenue	10,616,494	1,125,814	11,742,308
Progress billings	<u>(11,135,030)</u>	<u>(1,233,575)</u>	<u>(12,368,605)</u>
Amounts due to customers	<u>(518,536)</u>	<u>(107,761)</u>	<u>(626,297)</u>
2018			
Revenue	13,079,542	159,510	13,239,052
Progress billings	<u>(12,614,935)</u>	<u>(144,989)</u>	<u>(12,759,924)</u>
Amounts due from customers	<u>464,607</u>	<u>14,521</u>	<u>479,128</u>
Revenue	10,610,165	681,030	11,291,195
Progress billings	<u>(11,169,359)</u>	<u>(776,048)</u>	<u>(11,945,408)</u>
Amounts due to customers	<u>(559,194)</u>	<u>(95,018)</u>	<u>(654,212)</u>

As at 31 December 2019 advance payments (as included in amounts due to customers) in connection with construction contracts and property development amount to €193 million (2018: €172 million) respectively nil (2018: nil).

PPP

The joint venture BAM PPP PGGM Infrastructure Coöperatie U.A. ('joint venture BAM PPP/PGGM') invests in PPP markets for social and transport infrastructure in the Netherlands, Belgium, the United Kingdom, Ireland, Germany and Switzerland. BAM PPP continues to be fully responsible for issuing new project tenders, rendering services with regard to asset management for the joint venture and representing the joint venture in transactions. PGGM provides the majority of capital required for existing projects.

An overview of the balance sheet items attributable to PPP projects (excluding joint ventures) is stated below:

	Non-current	Current	Total
2019			
PPP receivables	73,653	4,938	78,591
(Non-)recourse PPP loans	<u>(38,772)</u>	<u>(3,849)</u>	<u>(42,621)</u>
	34,881	1,089	35,972
Net assets and liabilities	<u>(5,852)</u>	<u>8,217</u>	<u>2,365</u>
As at 31 December	<u>29,029</u>	<u>9,306</u>	<u>38,335</u>
2018			
PPP receivables	85,298	4,348	89,647
(Non-)recourse PPP loans	<u>(52,437)</u>	<u>(5,014)</u>	<u>(57,451)</u>
	32,861	(666)	32,196
Net assets and liabilities	<u>(5,817)</u>	<u>8,176</u>	<u>2,359</u>
As at 31 December	<u>27,044</u>	<u>7,510</u>	<u>34,555</u>

Other revenue disclosures

The consideration received that was included in the project contract liability balance at the beginning of the period, has been fully recognised as revenue in the current year. Within the construction business, regular installments will take place but within the Group never leading to significant pre-financing longer than a year. Except for PPP projects, however these are disclosed in the finance assets.

The revenue recognised from performance obligations satisfied in previous periods amounts to €54 million (2018: €75 million). Performance obligations could be satisfied once the technical completion is final and control has been fully transferred to the client. It is common however to finalise the last pricing discussions regarding variable considerations, of which claims, after the control has been transferred. Due to the higher threshold to value variable considerations, claims that are settled for a higher amount than valued, might lead to revenue from previously satisfied performance obligations.

Projects within the construction business might run for a period longer than one year, or might transfer from one calendar year to the other. The revenue expected related to unsatisfied performance obligations (running or won projects) are as follows:

(x € million)

	2019	2018
Up to 1 year	5,733	5,850
2 to 5 years	<u>6,926</u>	<u>6,842</u>
	12,659	12,692
Over 5 years	<u>1,583</u>	<u>1,924</u>
Total	14,242	14,616

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

7. Property, plant and equipment

	Land and buildings	Plant and equipment	Construction in progress	Other assets	Total
As at 1 January 2018					
Cost	193,821	574,191	10,731	126,021	904,764
Accumulated depreciation and impairments	<u>(97,231)</u>	<u>(426,429)</u>	<u>(442)</u>	<u>(98,788)</u>	<u>(622,280)</u>
	<u>96,590</u>	<u>147,762</u>	<u>10,289</u>	<u>27,233</u>	<u>281,874</u>
Additions	13,501	42,720	8,068	18,849	83,138
Disposals	(3,836)	(6,936)	(18)	(124)	(10,914)
Reclassifications	3,111	1,533	(9,164)	3,996	(524)
Depreciation charges	(6,984)	(40,994)	-	(15,794)	(63,772)
Exchange rate differences	401	(150)	(5)	(441)	(195)
	<u>102,783</u>	<u>143,935</u>	<u>9,170</u>	<u>33,719</u>	<u>289,607</u>
As at 31 December 2018					
Cost	185,744	575,275	9,172	141,733	911,924
Accumulated depreciation and impairments	<u>(82,961)</u>	<u>(431,340)</u>	<u>(2)</u>	<u>(108,014)</u>	<u>(622,317)</u>
	<u>102,783</u>	<u>143,935</u>	<u>9,170</u>	<u>33,719</u>	<u>289,607</u>
<i>Finance leases reclassified to right-of-use assets *</i>					
Cost	-	(54,289)	-	(3,857)	(58,146)
Accumulated depreciation and impairments	-	<u>28,160</u>	-	<u>223</u>	<u>28,383</u>
As at 1 January 2019 (after adjustment)	<u>102,783</u>	<u>117,806</u>	<u>9,170</u>	<u>30,085</u>	<u>259,844</u>
Additions	6,540	42,412	5,958	27,439	82,349
Disposals	(8,150)	(4,191)	(1,161)	(1,124)	(14,626)
Reclassifications	1,339	3,042	(4,528)	2,757	2,610
Depreciation charges	(7,501)	(28,056)	-	(18,460)	(54,017)
Exchange rate differences	236	557	14	177	984
	<u>95,247</u>	<u>131,570</u>	<u>9,453</u>	<u>40,874</u>	<u>277,144</u>
As at 31 December 2019					
Cost	180,147	526,955	9,453	159,034	875,589
Accumulated depreciation and impairments	<u>(84,900)</u>	<u>(395,385)</u>	<u>-</u>	<u>(118,160)</u>	<u>(598,445)</u>
	<u>95,247</u>	<u>131,570</u>	<u>9,453</u>	<u>40,874</u>	<u>277,144</u>

* Finance leases have been included in the right-of-use assets as per 1 January 2019 due to the implementation of IFRS 16. No adjustments to the comparative figures have been made. See paragraph 2.1.1.

Asset construction in progress mainly comprises plant and equipment. Land and buildings and plant and equipment are not pledged as a security for borrowings.

8. Right-of-use assets

	Land and buildings	Equipment and installation	IT equipment	Cars	Other	Total
As at 1 January 2019 *	<u>114,207</u>	<u>45,306</u>	<u>1,516</u>	<u>133,175</u>	<u>451</u>	<u>294,655</u>
Additions	44,573	19,495	67	53,605	319	118,059
Disposals	(215)	(230)	-	(1,787)	-	(2,232)
Depreciation charges	(28,261)	(19,680)	(588)	(50,895)	(232)	(99,656)
Exchange rate differences	<u>763</u>	<u>381</u>	<u>20</u>	<u>192</u>	<u>9</u>	<u>1,365</u>
	16,860	(34)	(501)	1,115	96	17,536
As at 31 December 2019	<u>131,067</u>	<u>45,272</u>	<u>1,015</u>	<u>134,290</u>	<u>547</u>	<u>312,191</u>

* Finance leases for a total of €29.8 million were previously included in the property, plant and equipment and have been reclassified to right-of-use assets as per 1 January 2019 due to the implementation of IFRS 16. No adjustments to the comparative figures have been made. Other amount included as per 1 January 2019 concern the former operational leases. See paragraph 2.1.1.

See note 20. Lease liabilities for the corresponding lease liabilities.

9. Intangible assets

	Goodwill	Non-integrated software	Other	Total
As at 1 January 2018				
Cost	672,414	32,656	20,342	725,412
Accumulated amortisation and impairments	<u>(297,783)</u>	<u>(18,399)</u>	<u>(5,512)</u>	<u>(321,694)</u>
	<u>374,631</u>	<u>14,257</u>	<u>14,830</u>	<u>403,718</u>
Additions	-	10,687	3,018	13,705
Disposals	-	(401)	(1)	(402)
Reclassifications	-	92	(1,183)	(1,091)
Impairment charges	-	-	-	-
Amortisation charges	-	(4,135)	(1,869)	(6,004)
Exchange rate differences	<u>(1,862)</u>	<u>-</u>	<u>(76)</u>	<u>(1,938)</u>
	<u>372,769</u>	<u>20,500</u>	<u>14,719</u>	<u>407,988</u>
As at 31 December 2018				
Cost	670,451	40,514	22,092	733,057
Accumulated amortisation and impairments	<u>(297,682)</u>	<u>(20,014)</u>	<u>(7,373)</u>	<u>(325,069)</u>
	<u>372,769</u>	<u>20,500</u>	<u>14,719</u>	<u>407,988</u>
Additions	-	4,714	60	4,774
Disposals	-	-	1	1
Reclassifications	-	(1,054)	(2,772)	(3,826)
Impairment charges	-	-	(10,337)	(10,337)
Amortisation charges	-	(5,089)	(799)	(5,888)
Exchange rate differences	<u>7,229</u>	<u>-</u>	<u>140</u>	<u>7,369</u>
	<u>379,998</u>	<u>19,071</u>	<u>1,012</u>	<u>400,081</u>
As at 31 December 2019				
Cost	678,069	39,799	16,017	733,885
Accumulated amortisation and impairments	<u>(298,071)</u>	<u>(20,728)</u>	<u>(15,005)</u>	<u>(333,804)</u>
	<u>379,998</u>	<u>19,071</u>	<u>1,012</u>	<u>400,081</u>

The impairment charges within the category others relate to the impairment of the capitalised development cost for the patented Gravity Based Foundations for offshore wind power. Due to the lack of backlog, risk profile of the projects (cost price uncertainty), size of the projects (number of GBFs per wind park) and market potential (prospects), significant (positive) cash flows were no longer expected regarding the GBFs, leading to a value in use of nihil. Therefore, the Group strategically decided not to further pursue the offshore wind market. Consequently, the Group has reassessed the valuation of the capitalised development costs for GBFs, and fully impaired the remaining amount of €10.3 million, recognised as per 30 June 2019 within the Civil engineering business line.

Goodwill acquired in business combinations is allocated, at acquisition date, to the cash-generating units (CGUs) or groups of CGUs expected to benefit from that business combination. The carrying amount of total goodwill is €380 million (2018: €373 million).

The increase of goodwill fully relates to the exchange rate effect. The change in exchange rate of the pound sterling compared to the prior year had an upward effect of €7.2 million.

CGUs to which goodwill has been allocated are tested for impairment annually or more frequently if there are indications that a particular CGU might be impaired. The recoverable amount of each CGU was determined based on value-in-use calculations. Value-in-use was determined using discounted cash flow projections that cover a period of five years and are based on the financial plans approved by management. The key assumptions for the value-in-use calculations are those regarding discount rate, revenue growth rate and profit before tax margin. The discount rate has been determined excluding the effects of IFRS 16, consistent with the other parameters of the impairment test, as this provided the most reliable manner of determining an appropriate discount rate using available market data.

Goodwill relates to 15 CGUs, of which BAM Construct UK €63 million (2018: €61 million) and BAM Nuttall €76 million (2018: €73 million) are deemed significant in comparison with the Group's total carrying amount of goodwill. For each of these CGUs the key assumptions used in the value-in-use calculations are as follows:

	BAM Construct UK		BAM Nuttall	
	2019	2018	2019	2018
Discount rate (post-tax)	7.9%	8.3%	7.9%	8.3%
Growth rate:				
- In forecast period (average)	0.5%	2.5%	1.8%	1.6%
- Beyond forecast period	0.0%	1.1%	0.0%	1.1%
Profit before tax margin:				
- In forecast period (average)	2.2%	2.9%	2.3%	3.3%
- Beyond forecast period	2.4%	3.0%	2.4%	3.5%

Growth rate used to estimate future performance in the forecast period is the average annual growth rate based on past performance and management's expectations of BAM's market development referenced to external sources of information. The profit before tax margin in the forecast period is the average margin as a percentage of revenue based on past performance and the expected recovery to a normalised margin deemed achievable by management in the concerning market segment.

The recoverable amounts for BAM Construct UK and BAM Nuttall exceed the carrying amounts of these CGUs with significant headroom.

The sensitivity analysis indicated that if the growth rate is reduced by 50 basis points, the profit before tax margin is reduced by 50 basis points or the discount rate is raised by 50 basis points in the forecast period, all changes taken in isolation, the recoverable amounts of the other CGUs would still be in excess of the carrying amounts with sufficient and reasonable headroom, except for BAM's CGUs BAM International, Kairos and BAM Contractors nv representing a goodwill amount of €55 million, with a limited headroom.

The WACC forms a crucial underlying assumption for calculating the recoverable amount of each CGU. If and when this underlying assumption would change in future, this could have significant impact on the CGU's recoverable amount (based on value in use), which might give rise that the recoverable amount would equal the carrying amount of the CGU.

10. PPP receivables

	2019	2018
As at 1 January	89,647	249,098
Receivables issued	21,770	16,774
Finance income	5,490	5,446
Disposals	(14,252)	(154,683)
Progress billings	(27,611)	(26,047)
Exchange rate differences	3,547	(941)
As 31 December	78,591	89,647

	Note	2019	2018
Non-current		73,653	85,298
Current	14	<u>4,938</u>	<u>4,349</u>
		<u>78,591</u>	<u>89,647</u>

The decrease in receivables is mainly related to the divestment of one project to BAM PPP PGGM joint venture.

The average duration of PPP receivables is 12 years (2018: 15 years). Approximately €47 million of the non-current part has a duration of more than five years (2018: €65 million).

The interest rates on PPP receivables are virtually the same as the interest rates (after hedging) of the related non-recourse PPP loans. The contractual interest percentages are fixed for the entire duration. The average interest rate on PPP receivables is 7 per cent (2018: 7.4 per cent). At year-end 2019, the fair value of the non-current part is approximately €83 million (2018: approximately €95 million). The fair value of the non-current part is based on the value of the hedge of the corresponding loan.

There are no renewal and/or termination options, the assets will flow to the Grantor at the end of the concession period. PPP receivables are pledged as a security for the corresponding (non-)recourse PPP loans included under 'borrowings'.

11. Investments in associates and joint ventures

The amounts recognised in the balance sheet are as follows:

	2019	2018
Associates	26,343	26,661
Joint ventures	<u>108,720</u>	<u>82,894</u>
As at 31 December	<u>135,063</u>	<u>109,555</u>

11.1 Investment in associates

Set out below is the associate of the Group as at 31 December 2019 that is individually material to the Group.

Nature of investment in associate in 2019 and 2018:

	Principal activity	Country of incorporation	% Interest	
			2019	2018
Infraspeed (Holdings) bv	Exploitation of rail infrastructure	Netherlands	10.54%	10.54%

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

	Infraspeed (Holdings) by	
	2019	2018
Current assets	61,902	66,249
Non-current assets	721,507	759,193
Current liabilities	(20,175)	(22,909)
Non-current liabilities	(728,405)	(775,949)
Net assets	34,829	26,584
Revenue	32,965	25,109
Net result	9,706	9,317
Share in result	10.54%	10.54%
Share in result	1,023	982
Net assets	34,829	26,584
Share in equity	10.54%	10.54%
Carrying amount	3,671	2,802

Infraspeed (Holdings) bv is classified as an associate based on significant influence by the Group through board membership.

Reconciliation with net result of the Group's share in associates, as recognised in the consolidated financial statements, is as follows:

	2019	2018
Share in net result associate that is material to the Group	1,023	982
Share in net result associates that are not individually material to the Group	1,898	7,986
	<u>2,921</u>	<u>8,968</u>

In 2019 the Group's share in the net result of associates included an impairment charge amounting to €0.0 million (2018: €0.0 million).

Reconciliation with the carrying amount of the Group's share in associates, as recognised in the consolidated financial statements, is as follows:

	2019	2018
Share in equity associate that is material to the Group	3,671	2,802
Share in equity associates that are not individually material to the Group	22,655	22,847
	26,326	25,649
Recognised as provision for associates	17	105
Recognised as impairment of non-current receivables	0	907
	<u>26,343</u>	<u>26,661</u>

Dividend received from associates amounts to €1.9 million in 2019 (2018: €11.6 million). Cash and cash equivalents of a number of associates are subject to restrictions. These restrictions mainly concern the priority of loan repayments over dividend distribution.

11.2 Investment in joint ventures

Set out below is the joint venture of the Group as at 31 December 2019 that is individually material to the Group.

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

	Principal activity	Country of incorporation	% Share	
			2019	2018
BAM PPP PGGM Infrastructure Coöperatie U.A.	Asset management	Netherlands	50.00%	50.00%

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

	2019	2018
BAM PPP PGGM Infrastructure Coöperatie U.A.		
Current assets	152,329	151,132
Non-current assets	2,002,158	1,580,874
Current liabilities	(367,836)	(356,311)
Non-current liabilities	<u>(2,131,628)</u>	<u>(1,653,549)</u>
Net assets	<u>(344,977)</u>	<u>(277,854)</u>
Of which:		
Cash and cash equivalents	109,772	104,377
Current financial liabilities	(51,277)	(53,079)
Non-current financial liabilities	<u>(1,711,680)</u>	<u>(1,666,297)</u>
Revenue	75,677	59,016
Net result	(10,100)	13,032
Other comprehensive income	(58,875)	3,179
Of which:		
Finance income	124,060	125,205
Finance expense	(108,889)	(114,410)
Income tax	6,387	(3,700)
Net result	(10,100)	13,032
Share in profit rights	<u>10% /20%</u>	<u>10% /20%</u>
Share in net result	<u>1,376</u>	<u>2,618</u>
Net assets	(344,977)	(277,854)
Share in profit rights	<u>10% /20%</u>	<u>10% /20%</u>
Carrying amount	(45,161)	(38,478)
Negative cash flow hedge reserve not recognised	<u>25,805</u>	<u>17,532</u>
	<u>(19,356)</u>	<u>(20,946)</u>

The Group's share in BAM PPP PGGM joint venture is based on its share in the members' capital. Contractually, the Group predominantly has a 20 per cent share in profit rights. The Group has a 10 per cent share in profit rights within two joint ventures, resulting in a carrying amount of €24 million negative. In addition, the Group bears the risks in the operational phase until completion of the projects which are acquired by the joint venture.

If the Group's share in losses exceeds the carrying amount of the joint venture, further losses will not be recognised, unless the Group has a legal or constructive obligation. In 2019 €8 million (2018: €1 million reversal) was not recognised. At year-end 2019 unrecognised losses amounted to €26 million (2018: €18 million).

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

	2019	2018
Share in net result BAM PPP PGGM joint venture	1,376	2,618
Share in net result property development joint ventures that are not material to the Group	17,989	18,584
Share in net result other joint ventures that are not individually material to the Group	<u>(4,992)</u>	<u>5,655</u>
	<u>14,373</u>	<u>26,857</u>

In 2019 the Group's share in the net result of joint ventures included an impairment reversal amounting to €2.7 million (2018: charge €3.1 million).

Share in equity BAM PPP PGGM joint venture	(19,356)	(20,946)
Share in equity property development joint ventures that are not material to the Group	71,920	45,336
Share in equity other joint ventures that are not individually material to the Group	<u>(103,519)</u>	<u>(51,746)</u>
	(50,955)	(27,356)
Recognised as provision for joint ventures	77,449	23,962
Recognised as impairment of non-current receivables	<u>82,227</u>	<u>86,288</u>
	<u>108,721</u>	<u>82,894</u>

Revenue of property development joint ventures amounts to €101 million (2018: €101 million) and property development recognised in the balance sheet amounts to €204 million (2018: €130 million) of which an amount of €91 million (2018: €45 million) externally financed (share of the Group).

Dividend received from joint ventures amounts to €24.9 million in 2019 (2018: €23.3 million).

The financial years of many joint ventures run from 1 December up to and including 30 November to ensure timely inclusion of the financial information in the Group's financial statements.

Classification of German Argen and presentation of share in result of investments:

Until 31 December 2018, the Argen were classified as Joint Operations. As from 31 December 2018, on a prospective basis, the Group has classified the Argen as Joint Ventures to fully align with interpretations from German Audit Profession. This regarded a change in accounting policy. In the consolidated statement of cash flows, the change in Cash and cash equivalents with respect to this presentation change is separately presented.

Based on the limited impact, no changes have been made in the consolidated income statement for 2018. This means that the revenue and costs from these Argen are included in the consolidated income statement for 2018 on a gross basis (2018: €117 million revenue). As from 1 January 2019, the revenue and costs from the German Argen have been included on a net basis in the result from joint ventures.

12. Other financial assets

	Note	Receivables valued on fair value through profit or loss	Receivables valued at amortised cost	Other	Total
As at 1 January 2018		-	91,708	1,921	93,629
Reclassified to financial assets at fair value through profit or loss		48,452	(48,452)	-	-
Additions		-	-	82	82
Loans granted		11,496	13,937	-	25,433
Loan repayments		(11,448)	(2,209)	-	(13,657)
Disposals		-	-	(457)	(457)
Fair value changes		1,292	-	-	1,292
Net result for the year		-	-	(42)	(42)
Dividend received		-	-	(30)	(30)
Reclassifications		(3,867)	(351)	-	(4,218)
Exchange rate differences		-	(79)	-	(79)
		45,925	54,554	1,474	101,953
Of which current:		(300)	(321)	-	(621)
As at 31 December 2018		45,625	54,233	1,474	101,332
Additions		-	-	18	18
Loans granted		11,901	23,318	-	35,219
Loan repayments		(13,670)	(1,014)	-	(14,684)
Disposals		-	-	(15)	(15)
Reclassifications		-	(12,645)	-	(12,645)
Exchange rate differences		-	403	-	403
		44,156	64,616	1,477	110,249
Of which current:		(300)	(296)	-	(596)
As at 31 December 2019		43,856	64,320	1,477	109,653

The fair value of non-current receivables at year-end 2019 amounts to €130 million (2018: €128 million). The effective interest rate is 5.5 per cent (2018: 5.0 per cent).

Category 'Other' mainly comprises shares in (unlisted) investments over which the Group has no significant influence.

13. Inventories

	2019	2018
Land and building rights	319,434	353,586
Property development	<u>211,644</u>	<u>210,029</u>
	531,078	563,615
Raw materials	14,275	13,306
Finished products	<u>556</u>	<u>1,070</u>
	<u>545,909</u>	<u>577,991</u>

Land and building rights are to be presented as current on the balance sheet within the ordinary course of business, however by its nature, the realisation will be non-current. The majority of the investments in property development is considered to be current by nature.

The impairments during 2019 relating to the property portfolio are as follows:

	Note	2019	2018
Impairment charges		20,816	22,341
Reversal of impairment charges		<u>(9,975)</u>	<u>(421)</u>
	27	<u>10,841</u>	<u>21,920</u>

The impairment and reversals for the net amount of €10.8 million relates to several property developments in the Netherlands which have been reported at their net realisable value.

Property development includes the following completed and unsold property:

	2019		2018	
	Number/m ²	Carrying amount	Number/m ²	Carrying amount
Unsold and finished property				
Commercial property - rented	17,494	26,060	8,873	10,242
Commercial property - unrented	24,859	<u>36,868</u>	11,031	<u>8,302</u>
		<u>62,928</u>		<u>18,544</u>

The increase in carrying amount in 2019 mainly relates to the completion unsold commercial property in progress.

Other inventories were not subject to write-down in 2019 nor 2018.

14. Trade and other receivables

	Notes	2019	2018
Trade receivables		694,716	869,743
Less: Provision for impairment of receivables		<u>(10,737)</u>	<u>(10,797)</u>
Trade receivables - net		683,979	858,946
Amounts due from customers	6	384,730	479,128
Capitalised contract cost	6	744	159
Retentions		<u>118,220</u>	<u>116,397</u>
Contract assets		503,694	595,684
Amounts to be invoiced work completed		43,647	81,915
Amounts to be invoiced work in progress		<u>173,874</u>	<u>202,220</u>
Contract receivables		217,521	284,135
Amounts due from related parties	38	21,396	30,699
PPP receivables	10	4,938	4,348
Other financial assets		606	619
Other receivables		82,887	82,212
Prepayments		<u>97,028</u>	<u>115,397</u>
		<u>1,612,049</u>	<u>1,972,040</u>

Trade and other receivables are due within one year, except for approximately €10 million (2018: €25 million). The fair value of this non-current part is approximately €10 million (2018: approximately €25 million) using an effective interest rate of 0.4 per cent negative (2018: 0.1 per cent negative).

The concentration of credit risk with respect to trade receivables is limited, as the Group's customer base is large and geographically spread. As at 31 December 2019 a part of the trade receivables amounting to €100 million (2018: €123 million) is past due over one year but partly impaired. These overdue receivables relate to a number of customers, predominantly in the public sector outside the Netherlands where a limited default risk exists. The duration to reach final agreement, including legal proceedings, on invoiced variation orders and claims with these customers remains long. Trade receivables are shown net of impairment losses which amount to €11 million (2018: €11 million) arising mainly from identified doubtful receivables from customers. Trade receivables were impaired taking into account the historical credit loss experience, adjusted forward looking factors of the debtors and the economic environment. See paragraph 2.12 regarding expected credit losses.

The significant change in contract assets is due to normal activity in the construction business. Other changes as mentioned in IFRS 15 (paragraph 118) are not relevant.

With regard to the capitalised contract cost, as at 31 December 2019, no cost to obtain the contract or set-up cost are applicable. This is caused due to the timing of financial close compared to the moment a project has reached preferred bidder stage. This timing difference is insignificant and, together with The Group's applied threshold, no cost to obtain the contract or set-up cost had to be capitalised. The amount shown as capitalised contract cost relates fully to cost to fulfil the contract. No impairments have taken place. The total amortisation for the year 2019 amounts to nil (2018: nil).

Retentions relate to amounts retained by customers on progress billings. In the United Kingdom and Ireland in particular, it is common practice to retain a previously agreed percentage until completion of the project.

Amounts to be invoiced work completed and in progress represent the gross amounts expected to be collected for contract work performed to date but awaiting confirmation from customer before actual billing.

The ageing analysis of these trade receivables is as follows:

	2019		2018	
	Trade receivables	Provision for impairment	Trade receivables	Provision for impairment
Not past due	455,526	(1,330)	544,871	(327)
Up to 3 months	101,847	(1,063)	137,656	(2,684)
3 to 6 months	19,841	(4,387)	26,574	(320)
6 to 12 months	17,026	(221)	37,826	(1,729)
1 to 2 years	10,110	(794)	35,414	(1,513)
Over 2 years	90,366	(2,942)	87,402	(4,224)
	<u>694,716</u>	<u>(10,737)</u>	869,743	(10,797)
Less: Provision for impairment of receivables		<u>(10,737)</u>		<u>(10,797)</u>
Trade receivables - net		<u>683,979</u>		<u>858,946</u>

Apart from trade receivables none of the other assets were subject to impairment.

Movements in the provision for impairment of trade receivables are as follows:

	2019	2018
As at 1 January	10,797	11,984
Provision for impairment	8,916	5,028
Release	(2,245)	(2,473)
Receivables written off during the year as uncollectable	(6,799)	(3,030)
Disposals	-	-
Reclassifications	8	(697)
Exchange rate differences	60	(15)
As at 31 December	<u>10,737</u>	<u>10,797</u>

As of 31 December 2019, trade receivables of €11 million (31 December 2018: €11 million) were impaired and provided for. The individually impaired trade receivables mainly relate to customers where limited default risk is in place. It was assessed that a portion of the receivables is expected to be recovered. The provision in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off directly against the provision. The changes in the aforementioned balances contributed to changes in the provision.

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

15. Cash and cash equivalents

	2019	2018
Cash at bank and in hand	842,426	738,232
Short-term bank deposits	<u>11,597</u>	<u>5,442</u>
Cash and cash equivalents (excluding bank overdrafts)	<u>854,023</u>	<u>743,674</u>

Cash and cash equivalents include the Group's share in cash of joint operations and in PPP entities as part of the conditions in project specific funding agreements and amount to €226 million (2018: €173 million) respectively €9 million (2018: €7 million). Other cash and cash equivalents are at the free disposal of the Group.

The average effective interest on short-term bank deposits is 5.4 per cent (2018: 4.5 per cent). The deposits have an average remaining term to maturity of approximately 21 days (2018: approximately 10 days).

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash at bank and in hand and short-term bank deposits, net of bank overdrafts. Cash and cash equivalents at the end of the reporting period as reported in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	2019	2018
Cash and cash equivalents	854,023	743,674
Bank overdrafts	<u>-</u>	<u>-</u>
Net cash position	<u>854,023</u>	<u>743,674</u>

16. Share capital and premium

	Number of ordinary shares	Number of treasury shares	Number of ordinary shares in issue	Ordinary shares	Share premium	Total
As at 1 January 2018	274,925,419	1,712,085	273,213,334	27,493	811,818	839,311
Repurchase of ordinary shares	-	3,940,956	(3,940,956)	-	-	-
Awarded LTI shares	-	(170,039)	170,039	-	-	-
Dividends	3,853,600	-	3,853,600	386	(386)	-
As at 31 December 2018	278,779,019	5,483,002	273,296,017	27,879	811,432	839,311
Repurchase of ordinary shares	-	4,482,030	(4,482,030)	-	-	-
Awarded LTI shares	-	-	-	-	-	-
Dividends	628,430	(3,853,600)	4,482,030	62	(62)	-
As at 31 December 2019	279,407,449	6,111,432	273,296,017	27,941	811,370	839,311

16.1 General

At year-end 2019, the authorised capital of the Group was 400 million ordinary shares (2018: 400 million) and 600 million preference shares (2018: 600 million), all with a nominal value of €0.10 per share (2018: €0.10 per share). All issued shares have been paid in full (only ordinary shares).

The Company granted Stichting Aandelenbeheer BAM Groep ('the Foundation') a call option to acquire class B cumulative preference shares in the Company's share capital on 17 May 1993. This option was granted up to such an amount as the Foundation might require, subject to a maximum of a nominal amount that would result in the total nominal amount of class B cumulative preference shares in issue and not held by the Company equalling no more than ninety-nine point nine per cent (99.9 per cent) of the nominal amount of the issued share capital in the form of shares other than class B cumulative preference shares and not held by the Company at the time of exercising of the right referred to above. The Executive Committee of the Foundation has the exclusive right to determine whether or not to exercise this right to acquire class B cumulative preference shares. Additional information has been disclosed in section Other information.

16.2 Ordinary shares

To prevent dilution as a result of the (equity-settled) share-based compensation plan introduced in 2015, the Company's own shares were repurchased as follows:

	Note	Repurchased shares	Price (in €)	Total consideration (x €1,000)
4 December 2015		302,488	5,10	1,543
5 December 2015		302,487	5,11	1,546
28 April 2016		588,170	4,27	2,512
28 April 2017	16.1	345,000	5,17	1,784
2 May 2017	16.1	173,940	5,23	909
26 April 2018	16.1	87,356	3,88	339

In 2019 no shares have been bought back for the share-based compensation plan.

In 2019 the number of issued ordinary shares increased by 628,430 due to dividend payment in shares. To prevent dilution all these shares were then repurchased.

17. Reserves

	Hedging	Translation	Development cost	Total
As at 1 January 2018	(59,648)	(105,167)	12,000	(152,815)
Reclassification to the income statement due to divestment				
- Fair value of forward foreign exchange contracts	-	-	-	-
- Fair value of interest rate swaps	2,279	-	-	2,279
- Tax on fair value of cash flow hedge	(285)	-	-	(285)
Cash flow hedges				
- Fair value movement of forward foreign exchange contracts	(1,876)	-	-	(1,876)
- Fair value movement of interest rate swaps	(5,548)	-	-	(5,548)
- Tax on fair value movement	889	-	-	889
Legal reserve for development cost				
- Reclassification	-	-	(1,200)	(1,200)
Exchange rate differences	-	(6,410)	-	(6,410)
	(4,541)	(6,410)	(1,200)	(12,151)
As at 31 December 2018	(64,189)	(111,577)	10,800	(164,966)
Reclassification to the income statement due to divestment				
- Fair value of forward foreign exchange contracts	-	-	-	-
- Fair value of interest rate swaps	-	-	-	-
- Tax on fair value of cash flow hedge	-	-	-	-
Cash flow hedges				
- Fair value movement of forward foreign exchange contracts	(814)	-	-	(814)
- Fair value movement of interest rate swaps	(38,719)	-	-	(38,719)
- Tax on fair value movement	8,788	-	-	8,788
Legal reserve for development cost				
- Reclassification	-	-	(10,800)	(10,800)
Exchange rate differences	-	22,864	-	22,864
	(30,745)	22,864	(10,800)	(18,681)
As at 31 December 2019	(94,934)	(88,713)	-	(183,647)

The legal reserves consist of hedging reserves and translation reserve.

The negative movement in the hedge reserve in 2019 of €30.7 million was predominantly caused by the fact that the long-term interest in 2019 was lower than in 2018.

The hedging reserve will in due course be subsequently reclassified to the income statement. Based on the remaining duration of the derivative financial instruments, reclassification will take place between 1 and 30 years. A negative amount of €79 million (2018: €52 million negative) in the hedging reserve relates to joint ventures.

The reclassification of the legal reserve amounts to €10.8 million and relates to amortisation and impairment of the patented Gravity Based Foundations for the offshore wind power sector. See note 9.

The positive movement in the translation reserve in 2019 is linked to the increase in the value of the pound sterling.
The negative movement in the translation reserve in 2018 is linked to the decrease in the value of the pound sterling.

18. Capital base

	2019	2018
Equity attributable to the shareholders of the Company	628,444	729,031
Subordinated convertible bonds	<u>120,451</u>	<u>117,637</u>
	<u>748,895</u>	<u>846,668</u>

19. Borrowings

	As at 1 January 2019	Changes from financing cash flows		Other changes			As at 31 December 2019	
		Proceeds from borrowings	Repayments of borrowings	Effective interest method	Transfers to/ from joint ventures	Other movements		Exchange rate differences
Non-recourse PPP loans	43,468	2,395	(5,467)	-	-	-	2,224	42,620
Non-recourse property financing	79,227	32,419	(57,839)	-	-	-	-	53,807
Recourse PPP loans	13,984	-	-	-	(13,984)	-	-	-
Recourse property financing	53,447	18,545	(23,631)	-	-	-	-	48,361
Subordinated convertible bonds	117,637	-	-	2,814	-	-	-	120,451
Other non-recourse financing	4,469	2,806	(2,833)	-	-	-	-	4,442
Other recourse financing	5,550	-	(3,705)	-	-	-	-	1,845
Bank overdrafts	-	-	-	-	-	-	-	-
	<u>317,782</u>	<u>56,165</u>	<u>(93,475)</u>	<u>2,814</u>	<u>(13,984)</u>	<u>-</u>	<u>2,224</u>	<u>271,526</u>

	As at 1 January 2018	Changes from financing cash flows		Other changes				As at 31 December 2018	
		Proceeds from borrowings	Repayments of borrowings	Effective interest method	Transfers to/ New from joint leases ventures	Other movements	Exchange rate differences		
Non-recourse PPP loans	189,965	1,409	(4,370)	-	-	(142,928)	-	(608)	43,468
Non-recourse property financing	68,942	27,179	(18,891)	-	-	1,997	-	-	79,227
Recourse PPP loans	29,454	-	(16,064)	594	-	-	-	-	13,984
Recourse property financing	75,288	12,558	(35,399)	-	-	1,000	-	-	53,447
Subordinated convertible bonds	114,987	-	-	2,650	-	-	-	-	117,637
Finance lease liabilities *	12,988	-	(4,581)	-	16,635	-	-	(47)	24,995
Other non-recourse financing	5,916	-	(1,447)	-	-	-	-	-	4,469
Other recourse financing	5,550	-	-	-	-	-	-	-	5,550
Bank overdrafts	-	-	-	-	-	-	-	-	-
	<u>503,090</u>	<u>41,146</u>	<u>(80,752)</u>	<u>3,244</u>	<u>16,635</u>	<u>(139,931)</u>	<u>-</u>	<u>(655)</u>	<u>342,777</u>

* As from 2019 lease liabilities have been separately stated (former operational and finance leases), due to the implementation of IFRS 16. The opening balance as per 1 January 2019 has been reclassified to lease liabilities. See note 20. Lease liabilities and paragraph 2.1.1. In 2018 the lease liabilities were included in borrowings and only related to finance leases.

19.1 Non-recourse PPP loans

These relate to PPP projects in the United Kingdom. Of the non-current part, €21 million has a term to maturity of more than five years (2018: €23 million). The average term to maturity of the PPP loans is 8.8 years (2018: 9.9 years).

The interest rate risk on the non-recourse PPP loans is hedged by interest rate swaps. The average interest rate on PPP loans is 6.4 per cent (2018: 4.2 per cent). Interest margins of these loans do not depend on market fluctuations during the term of these loans.

The related PPP receivables amount to €66 million in total (2018: €67 million) and represent a security for lenders. These loans will be payable on demand if the agreed qualitative and quantitative conditions regarding interest coverage, solvency, among other things, are not met.

19.2 Non-recourse property financing

These loans are contracted to finance land for property development and ongoing property development projects. The average term of non-recourse property financing is approximately 1.7 years (2018: approximately 1.4 years).

Interest on these loans is based on Euribor/EONIA plus a margin. Interest margins of these loans do not depend on market fluctuations during the term of these loans. For several property financing loans, the interest is (partially) fixed. The balance of these financing loans is €0.8 million (2018: €34 million).

The carrying amount of the related assets is approximately €155 million at year-end 2019 (2018: approximately €164 million). The assets are pledged as a security for lenders. These loans will be payable on demand if the agreed qualitative and quantitative conditions relating to interest and capital repayments, among other things, are not met.

19.3 Recourse PPP loans

Equity bridge loans relating to PPP contracts are recognised under recourse PPP loans. The interest rate risk on the recourse PPP loans is hedged by interest rate swaps.

Recourse PPP loans relate directly to the accompanying assets, but also have an additional security in the form of a guarantee provided by the Group, in several cases supplemented by a bank guarantee. During 2019 the existing recourse PPP loan was transferred to a Joint Venture.

19.4 Recourse property financing

Recourse property financing is contracted to finance land and building rights and property development. The average term of recourse property financing is approximately 1.7 years (2018: approximately 1.2 years). Interest on these loans is based on Euribor/EONIA plus a margin. Interest margins of these loans do not depend on market fluctuations during the term of these loans. For several property financing loans, the interest is (partially) fixed. The balance of these financing loans is €2 million (2018: €6 million).

Recourse property financing relates directly to the accompanying assets, that constitute a security for lenders. The carrying amount of the accompanying assets amounts to approximately €135 million at year-end 2019 (2018: approximately €105 million). Additional securities exist in the form of a guarantee provided by the Group, in some cases supplemented by a bank guarantee. These loans will be repayable on demand if the agreed qualitative and quantitative conditions relating to interest and capital repayments, among other things, are not met.

19.5 Subordinated convertible bonds

In June 2016, the Group placed €125 million subordinated unsecured convertible bonds. The bonds have an annual coupon of 3.50 per cent, an initial conversion premium of 32.5 per cent and are convertible into ordinary shares of Royal BAM Group nv with a nominal value of €0.10 each. The coupon is payable semi-annually in arrear in equal instalments on 13 June and 13 December. The Bonds were issued at 100 per cent of their principal amount and, unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at their principal amount on or around 13 June 2021. Upon exercise of their conversion rights, holders will receive shares at the then prevailing conversion price. At 31 December 2019 the conversion price is €4.8334 (31 December 2018: €4.9997). The Group has the option to call all but not some of the outstanding bonds at their principal amount plus accrued but unpaid interest since 28 June 2019, if the value of the shares underlying a bond exceeds €130,000 for a specified period of time. The bonds are trading on the Open Market (Freiverkehr) segment of the Frankfurt Stock Exchange.

All payment obligations to the bondholders are subordinated to the payment obligations towards our senior debt holders.

At 31 December 2019 the fair value of the liability component of the subordinated convertible bonds amounts to €124 million (31 December 2018: €115 million). The fair value is estimated by discounting future cash flows using a market rate for an equivalent non-convertible instrument.

More details of the subordinated convertible bonds are published on the website.

The reconciliation of the subordinated convertible bonds to the consolidated statement of financial position and the consolidated statement of changes in equity is as follows:

	Face value	Allocated to:	
		Liability component	Equity component
Gross proceeds	125,000	114,253	10,747
Transaction costs ¹	<u>(3,233)</u>	<u>(2,955)</u>	<u>(278)</u>
Net proceeds	121,767	111,298	10,469
Tax effect equity component		-	(2,617)
Effective interest method		<u>1,193</u>	<u>-</u>
As at 31 December 2016		<u>112,491</u>	<u>7,852</u>
Effective interest method		<u>2,496</u>	<u>-</u>
As at 31 December 2017		<u>114,987</u>	<u>7,852</u>
Effective interest method		<u>2,650</u>	<u>-</u>
As at 31 December 2018		<u>117,637</u>	<u>7,852</u>
Effective interest method		<u>2,814</u>	<u>-</u>
As at 31 December 2019		<u>120,451</u>	<u>7,852</u>

¹ Transaction costs include fees and commissions paid to advisors, bankers and lawyers.

19.6 Committed syndicated credit facility

In November 2016 the Group renewed its committed revolving credit facility agreement for an amount of €400 million. The facility agreement was extended with one year in 2018 and has a remaining term to maturity of 3.3 years and runs until 31 March 2023.

The facility can be used for general corporate purposes, including the usual working capital financing. As a result of this flexible use, the level of draw-downs fluctuates throughout the year. At year-end 2019, the Group did not use the facility (year-end 2018: not used).

As at 30 June 2019 the Group did not use the facility (30 June 2018: not used). Variable interest rates apply to the draw-downs on this facility with a margin between 150 and 275 basis points. As at 31 December 2019 the margin was 150 basis points (2018: 150 basis points).

19.7 Finance lease liabilities

See note 20. Lease liabilities.

19.8 Other financing

Other loans relate to financing of property, plant and equipment.

19.9 Bank overdrafts

In addition to the non-current committed syndicated credit facility (note 19.6), the Group holds €138 million in bilateral credit facilities and €25 million intraday facilities (2018: €163 million). At year-end 2019 as well as 2018 these facilities were not utilised.

19.10 Covenants

With regard to the various finance arrangements, the Group is bound by terms and conditions, both qualitative and quantitative and including financial ratios, in line with the industry's practice.

Following the finance arrangement of the €400 million Revolving Credit Facility (RCF), the financial covenant calculation should be based on financial figures which are in line with the International Financial Reporting Standards (IFRS) as applicable on the closing date (i.e. 29 November 2016). Under the documentation it is also agreed that changes in the IFRS standards after the closing date, can be reversed for covenant calculation purposes, often referred to as 'frozen GAAP'.

Since the closing date of the RCF, IFRS 15 and 16 came into force. Initially BAM calculated the covenants on a frozen GAAP basis, but during 2019 BAM agreed with the lenders to update the financial documentation for both standards. The Group agreed to continue to reverse the initial IFRS 15 impact on transition date, however to be phased out to nil in six quarters starting from the third quarter of 2019 onwards. With regard to IFRS 16, it has been agreed to leave all leases out of scope for covenant testing.

Terms and conditions for project financing, being (non-) recourse PPP loans, (non-) recourse property financing loans, are directly linked to the respective projects. A relevant ratio in property financing arrangements is the loan to value, i.e. the ratio between the financing arrangement and the value of the project. In PPP loans and recourse property financing arrangements the debt service cover ratio is applicable. This ratio relates the interest and repayment obligations to the project cash flow. No early payments were made in 2019 as a result of not adhering to the financing conditions of project related financing.

Terms and conditions for the committed syndicated credit facility are based on the Group as a whole, excluding non-recourse elements. The ratios for this financing arrangement (all recourse) are the leverage ratio, the interest cover, the solvency ratio and the guarantor covers. The Group complied with all ratios in 2019.

The set requirements and realisation of the recourse ratios described above, can be explained as follows:

	Calculation	Requirement	2019	2018
Leverage ratio	Net borrowings/EBITDA	≤ 2.50	(6.35)	(2.70)
Interest cover	EBITDA/net interest expense	≥ 4.00	9.56	27.48
Solvency ratio	Capital base/total assets	≥ 15%	28.5%	27.0%
Guarantor covers	EBITDA share of guarantors	≥ 60%	120%	75%
	Assets share of guarantors	≥ 70%	90%	88%

An increased recourse leverage ratio of a maximum of 2.75 is permitted under the terms and conditions and applies to the second and third quarters of the year. The capital base in our financial covenants (as part of the solvency ratio) is adjusted for the hedging reserve and remeasurements of post-employment benefits, among other things.

19.11 Other information

The Group's subordinated convertible bonds are part of the capital base. Repayment obligations are subordinated to not subordinated obligations.

The non-recourse PPP loans relate directly to the associated receivables from government bodies. Therefore, the interest rates are influenced marginally by market adjustments applying to companies. The terms of property loans are relatively short, as a consequence of which interest margins are in line with the markets. Therefore, the carrying amounts of these loans do not differ significantly from their fair values.

The effective interest rates (including hedging instruments) are as follows:

	2019		2018	
	Euro	Pound sterling	Euro	Pound sterling
Subordinated convertible bonds	6.1%	-	6.1%	-
Committed syndicated credit facility	-	-	1.6%	-
Non-recourse PPP loans	-	6.4%	-	6.8%
Non-recourse property financing	2.6%	-	2.8%	-
Recourse PPP loans	-	-	2.8%	-
Recourse property financing	3.0%	-	3.2%	-
Other non-recourse financing	4.1%	-	3.4%	-
Other recourse financing	3.5%	-	3.1%	-

The Group contracted interest rate swaps to mitigate the exposure of borrowings to interest rate fluctuations and contractual changes in interest rates.

The Group's unhedged position is as follows:

	Up to 1 year	1 to 5 years	Over 5 years	Total
Total borrowings	77,847	167,146	26,533	271,526
Fixed interest rates	(6,038)	(122,987)	(733)	(129,758)
Hedged with interest rate swaps	<u>(3,848)</u>	<u>(15,577)</u>	<u>(20,800)</u>	<u>(40,225)</u>
As at 31 December 2019	<u>67,961</u>	<u>28,582</u>	<u>5,000</u>	<u>101,543</u>
Total borrowings	62,758	255,736	24,282	342,776
Fixed interest rates	(16,763)	(182,760)	(1,741)	(201,264)
Hedged with interest rate swaps	<u>(4,962)</u>	<u>(15,586)</u>	<u>(22,541)</u>	<u>(43,089)</u>
As at 31 December 2018	<u>41,033</u>	<u>57,390</u>	<u>-</u>	<u>98,423</u>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2019	2018
Euro	231,301	296,375
Pound sterling	<u>40,225</u>	<u>46,401</u>
	<u>271,526</u>	<u>342,776</u>

20. Lease liabilities

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

As from 2019 the lease liabilities in the balance sheet include leases that were formerly classified as operational and finance leases less exempted leases (i.e. short term leases and low value leases). In 2018 the lease liabilities were included in borrowings and only referred to finance leases. The operational lease liabilities in 2018 were shown as off-balance lease commitments.

During 2018 the financial lease liabilities were included in Borrowings. See note 19 for the repayments from the financial lease liabilities in 2018. See note 8. Right-of-use assets for the corresponding right-of-use assets.

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

	Lease liabilities 2019
As at 1 January 2019	295,931
Additions	113,538
Accretion of interest*	6,689
Payments*	(105,092)
Exchange rate difference	525
As at 31 December 2019	311,591
Current	90,226
Non-current	221,365
As at 31 December 2019	311,591

* See consolidated statement of cash flows

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

	Lease liabilities 2019	Finance lease liabilities 2018
Up to 1 year	90,400	7,428
1 to 5 years	180,474	18,402
Over 5 years	55,801	741
	<u>326,675</u>	26,571
Future finance charges on leases / financial leases		(1,575)
Present value of lease liabilities / finance lease liabilities		<u>24,995</u>

In addition to the identified lease liabilities above, an amount of €37 million of lease commitments exist regarding the short-term leases. Given the applied practical expedient, these leases have not been included in the lease liabilities and are therefore not stated in the table above.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see note 4).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within five years	More than five years	Total
Potential cash options not included in the leaseterm:			
- Extension options, if the options are exercised	9,844	46,776	56,620
- Termination options, if the options are not exercised	1,792	296	2,088

Expenses

The following are the amounts recognised in profit or loss:

	Note	2019
Depreciation expense of right-of-use assets	8	99,656
Interest expense on lease liabilities	30	6,689
Rent expenses – short term leases		60,702
Rent expenses – leases of low-value assets		1,813
Rent expenses – variable lease payments		17,717
Total		186,577

The group has lease contracts for cars that contains variable payments related to fuel and insurance.

Cash flows

Amounts recognised in the consolidated statement of cash flows:

	2019
Payments	105,092
Interest	6,689
Repayments of principal portion of lease liabilities	98,403

The Group also had non-cash additions to right-of-use assets and lease liabilities of €113.5 million in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in note 35.

21. Derivative financial instruments

	2019			2018		
	Assets	Liabilities	Fair value	Assets	Liabilities	Fair value
Interest rate swaps	-	9,567	(9,567)	-	9,691	(9,691)
Forward exchange contracts	704	946	(242)	642	272	370
	<u>704</u>	<u>10,513</u>	<u>(9,809)</u>	<u>642</u>	<u>9,963</u>	<u>(9,321)</u>
Of which current:	704	772	(68)	641	272	369

21.1 Interest rate swaps

At year-end 2019, interest rate swaps are outstanding to hedge the interest rate risk on the (non-) recourse PPP loans with a variable interest rate. Total borrowings amount to €272 million (2018: €343 million), of which an amount of €142 million (2018: €141 million) carries a variable interest rate. Of the borrowings with a variable interest rate an amount of €40 million (2018: €43 million) is hedged by interest rate swaps. All interest rate swaps are classified as hedge instruments. The fair value of the outstanding interest rate swaps amounts to €10 million negative (2018: €10 million negative). At year-end 2019 all interest rate swaps have a duration that exceeds one year. The maximum duration of the derivative financial instruments is 12 years.

The fixed interest rates of these swaps vary from 4.9 per cent to 6.3 per cent at year-end 2019 (2018: between 1.5 per cent and 6.3 per cent). The variable interest rates of the corresponding loans are based on Euribor or Libor plus a margin.

At year-end 2019, all derivative financial instruments of the Group provide an effective compensation for movements in cash flows from the hedged positions. Therefore, the movements in 2019 are accounted for in other comprehensive income. The change in fair value of outstanding derivative financial instruments which do not provide an effective compensation are accounted for in the income statement within 'finance income/expense'.

The composition of the expected contractual cash flows is disclosed in note 3.1 to the consolidated financial statements.

21.2 Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2019 were €241 million (2018: €53 million). The fair value amounts to €0.2 million negative (2018: €0.4 million positive).

The terms to maturity of these contracts are up to a maximum of one year for the amount of €238 million (2018: €53 million), between one and two years for the amount of €2.3 million (2018: nil) and between two to four years €0.2 million (2018: nil).

The average forward rates of the foreign exchange contracts outstanding are:

	2019	2018
EURGBP	0.8513	0.8940
EURUSD	1.1271	1.1774
EURAUD	4.0940	4.1868
EURCHF	-	1.1300
EURDKK	-	7.4640
EURAUD	1.6203	-
EURNOK	10.1619	-
EURCAD	1.4675	-

22. Employee benefits

	2019	2018
Defined benefit asset	<u>68,929</u>	<u>111,219</u>
Defined benefit liability	98,081	91,740
Other employee benefits obligations	<u>30,139</u>	<u>28,210</u>
	<u>128,220</u>	<u>119,950</u>

The Group operates defined contribution plans in the Netherlands, United Kingdom, Belgium, Germany and Ireland under broadly similar regulatory frameworks. The legacy defined benefit pension plans in all countries are closed for new entrants. The pension risks in the plans have been decreased.

A further description of the post-employment benefit plans per country is as follows:

The Netherlands

In the Netherlands, the Group makes contributions to defined benefit schemes as well as defined contribution schemes.

The pension schemes in the Netherlands are subject to the regulations as stipulated in the Pension Act. Due to the Pension Act the pension plans need to be fully funded and need to be operated outside the Company through a separate legal entity. Several multi-employer funds and insurers operate the various pension plans. The Group has no additional responsibilities for the governance of these schemes.

The basic pension for every employee is covered by multi-employer funds in which also other companies participate based on legal obligations. These funds have an indexed average salary scheme and are therefore defined benefit schemes. Specifically, these are the industry pension funds for construction, metal & technology and railways. As these funds are not equipped to provide the required information on the Group's proportionate share of pension liabilities and plan assets, the defined benefit plans are accounted for as defined contribution plans. The Group is obliged to pay the predetermined premium for these plans. The Group may not reclaim any excess payment and is not obliged to make up any deficit, except by way of the adjustment of future premiums. The part exceeding the basic pension amount (top-up part), which is not covered by multi-employer funds, is carried out by external parties and relates to defined contribution schemes.

At year-end 2019, the (twelve-month average) coverage rate of the industry pension fund for construction is 112 per cent (2018: 118 per cent). The industry pension fund for metal & technology has a coverage rate of 99 per cent at year-end 2019 (2018: 102 per cent). The coverage rate of the industry pension fund for railways is 108 per cent (2018: 115 per cent).

With effect from 2006, the defined benefit scheme is closed for new entrants. The build-up of future pension entitlements for these employees is covered by the multi-employer funds or external insurance companies. Defined benefit schemes are closed for future accumulation and index-linked to the industry pension fund for Construction. Future build-up is solely possible for the top-up pension scheme of BAM, which terminates in 2020; it is financed by the employer based on a percentage of the pensionable salaries of the employees.

In the context of accountability for the Group's pension policy (to be) implemented, with regard to, inter alia, supplements and investment performance, the Group has established an accountability committee, with representation from the Central Works Council (CWC) and the Socio-Economic Committee of the BAM pensioners association (SEC).

United Kingdom

In the United Kingdom, the Group makes contributions to defined benefit plans as well as defined contribution plans. The Group is responsible for making supplementary contributions to recover the historical financing deficits. The plan for supplementary contributions was last revised after the most recent actuarial valuations of the funds in March 2016 and led to supplementary contributions in 2019 to the amount of approximately €7 million (2018: approximately €10 million). During 2019, the Group revalued the scheme's assets and pension obligations with the support of the actuary experts. This revaluation led to an actuarial loss of €35 million, mainly caused by the buy-in insurance policy, decrease of discount rate and change in demographic assumptions. The loss is partly offset by €6 million deferred tax assets. The Group recognises a net defined benefit asset because it is entitled to a return of surplus at the end of the plans' lives.

The Group replaced the closed defined benefit pension schemes with defined contribution schemes, which are executed by an outside insurance company. Following the closure of future accumulation in defined benefit pension schemes in 2010, employees who participated in these schemes were invited to participate in the defined contribution schemes.

In addition, several defined benefit schemes are accounted for as defined contribution schemes due to the fact that external parties administering them are not able to provide the required information. These schemes have limited numbers of members. The Group is obliged to pay the predetermined premium for these plans. The Group may not reclaim any excess payment and is not obliged to make up any deficit, except by way of the adjustment of future premiums. The Group did not make any material contributions in 2019 nor 2018.

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 equalisation affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. Under IAS 19/FRS 101, the additional liability was immediately recognised in 2018 as a plan amendment. The additional liability for the Group in 2018 amounted to €11.1 million.

Belgium

In Belgium, the Group makes contributions to a relatively small defined benefit scheme that is executed by an external insurance company. The Group has also made arrangements for employees to participate in a defined contribution scheme.

Belgian defined contribution plans are subject to the Law of 28 April 2003 on occupational pensions, due to changes in the law in December 2015 defined contribution should be classified and accounted for as defined benefit plans under IAS 19 'Employee Benefits'.

Germany

In Germany, the Group operates one defined benefit pension scheme financed by the employer.

The Group closed two schemes to new participants and since 2006, the Group operates a defined contribution scheme, into which employees have the opportunity to contribute on an individual basis.

Ireland

The Group has a defined benefit scheme in Ireland, executed by a company pension fund. The multi-employer pension scheme was fully converted from a defined benefit scheme to a defined contribution scheme with effect from 1 January 2006 for new entrants.

The Group is responsible for making supplementary contributions to recover the historical financing deficits. The plan for supplementary contributions was last revised after the most recent actuarial valuations of the funds in 2017. This has led to a yearly supplementary contribution of approximately €2 million (2018: €1 million).

Movements in the defined benefit pension plans over the year is as follows:

	Netherlands	United Kingdom	Belgium	Germany	Ireland	Total
As at 31 December 2019						
Defined benefit liability	13,692	-	3,289	57,408	23,692	98,081
Defined benefit asset	-	68,929	-	-	-	68,929
	<u>13,692</u>	<u>(68,929)</u>	<u>3,289</u>	<u>57,408</u>	<u>23,692</u>	<u>29,152</u>
<i>Present value of obligation</i>						
As at 1 January 2019	376,746	874,653	25,321	70,528	95,371	1,442,619
Service cost	832	66	1,361	17	1,853	4,129
Interest expense	6,631	25,060	442	1,232	1,996	35,361
Remeasurements	47,171	108,120	1,366	7,220	16,268	180,145
Plan participants contributions	-	-	596	-	386	982
Benefit payments	(12,643)	(34,628)	(1,338)	(4,335)	(9,687)	(62,631)
Changes and plan amendments	-	-	-	-	-	-
Settlements	(4,000)	-	(53)	-	-	(4,053)
Disposals	-	-	(174)	-	-	(174)
Exchange rate differences	-	50,915	-	-	-	50,915
As at 31 December 2019	<u>414,737</u>	<u>1,024,186</u>	<u>27,521</u>	<u>74,662</u>	<u>106,187</u>	<u>1,647,293</u>
<i>Fair value of plan assets</i>						
As at 1 January 2019	357,996	985,872	22,745	17,691	77,794	1,462,098
Interest income	6,346	28,402	418	305	1,654	37,125
Remeasurements	41,318	51,463	338	71	8,354	101,544
Employer contributions	12,358	7,664	1,735	3,517	3,994	29,268
Plan participants contributions	-	-	596	-	386	982
Benefit payments	(12,643)	(34,628)	(1,338)	(4,335)	(9,687)	(62,631)
Administration cost	(330)	(1,353)	(34)	5	-	(1,712)
Settlements	(4,000)	-	(53)	-	-	(4,053)
Disposals	-	-	(175)	-	-	(175)
Exchange rate differences	-	55,694	-	-	-	55,694
As at 31 December 2019	<u>401,045</u>	<u>1,093,114</u>	<u>24,232</u>	<u>17,254</u>	<u>82,495</u>	<u>1,618,140</u>
Present value of obligation	414,737	1,024,186	27,521	74,662	106,187	1,647,293
Fair value of plan assets	401,045	1,093,114	24,232	17,254	82,495	1,618,140
As at 31 December 2019	<u>13,692</u>	<u>(68,929)</u>	<u>3,289</u>	<u>57,048</u>	<u>23,692</u>	<u>29,152</u>
Amounts recognised in the income statement						
Service cost	832	66	1,361	17	1,853	4,129
Net interest expense	285	(3,342)	24	927	342	(1,764)
Changes and plan amendments and settlements	-	-	-	-	-	-
Administration cost	330	1,353	34	(5)	-	1,712
	<u>1,447</u>	<u>(1,923)</u>	<u>1,419</u>	<u>939</u>	<u>2,195</u>	<u>4,077</u>
Amounts recognised in other comprehensive income						
Remeasurements:						
- Return on plan assets, excluding interest income	(41,318)	(51,463)	(339)	(71)	(8,354)	(101,545)
- (Gain)/loss from change in demographic assumptions	-	10,608	(1,371)	3,110	-	12,347
- (Gain)/loss from change in financial assumptions	43,709	99,277	2,255	3,852	16,132	165,225
- Experience (gains)/losses	3,462	(1,764)	482	258	136	2,574
	5,853	56,657	1,028	7,149	7,914	78,601
Income tax	(1,463)	(10,098)	(263)	2,338	(990)	(10,476)
Remeasurement net of tax	<u>4,390</u>	<u>46,559</u>	<u>765</u>	<u>9,487</u>	<u>6,924</u>	<u>68,125</u>

	Netherlands	United Kingdom	Belgium	Germany	Ireland	Total
As at 31 December 2018						
Defined benefit liability	18,750	-	2,576	52,837	17,577	91,740
Defined benefit asset	-	111,219	-	-	-	111,219
	<u>18,750</u>	<u>(111,219)</u>	<u>2,576</u>	<u>52,837</u>	<u>17,577</u>	<u>(19,479)</u>
<i>Present value of obligation</i>						
As at 1 January 2018	428,788	989,194	25,115	72,961	97,138	1,613,196
Service cost	891	76	1,518	126	2,056	4,667
Interest expense	7,166	24,549	342	1,206	2,001	35,264
Remeasurements	(8,726)	(86,012)	(361)	422	(2,161)	(96,838)
Plan participants contributions	-	-	597	-	405	1,002
Benefit payments	(12,209)	(51,886)	(1,657)	(4,187)	(4,068)	(74,007)
Changes and plan amendments	-	11,092	-	-	-	11,092
Settlements	(39,164)	-	(169)	-	-	(39,333)
Disposals	-	-	(64)	-	-	(64)
Exchange rate differences	-	(12,359)	-	-	-	(12,359)
As at 31 December 2018	<u>376,746</u>	<u>874,653</u>	<u>25,321</u>	<u>70,528</u>	<u>95,371</u>	<u>1,442,619</u>
<i>Fair value of plan assets</i>						
As at 1 January 2018	411,402	1,064,215	21,427	18,862	79,900	1,595,806
Interest income	6,952	26,581	308	309	1,681	35,831
Remeasurements	(18,242)	(49,087)	540	(65)	(4,124)	(70,978)
Employer contributions	9,637	11,841	1,797	2,772	4,000	30,047
Plan participants contributions	-	-	597	-	405	1,002
Benefit payments	(12,209)	(51,886)	(1,657)	(4,187)	(4,068)	(74,007)
Administration cost	(380)	(1,820)	(38)	-	-	(2,238)
Settlements	(39,164)	-	(169)	-	-	(39,333)
Disposals	-	-	(61)	-	-	(61)
Exchange rate differences	-	(13,972)	1	-	-	(13,971)
As at 31 December 2018	<u>357,996</u>	<u>985,872</u>	<u>22,745</u>	<u>17,691</u>	<u>77,794</u>	<u>1,462,098</u>
Present value of obligation	376,746	874,653	25,321	70,528	95,371	1,442,619
Fair value of plan assets	357,996	985,872	22,745	17,691	77,794	1,462,098
As at 31 December 2018	<u>18,750</u>	<u>(111,219)</u>	<u>2,576</u>	<u>52,837</u>	<u>17,577</u>	<u>(19,479)</u>
Amounts recognised in the income statement						
Service cost	891	76	1,518	126	2,056	4,667
Net interest expense	214	(2,032)	34	897	320	(567)
Changes and plan amendments and settlements	-	11,092	-	-	-	11,092
Administration cost	380	1,820	38	-	-	2,238
	<u>1,485</u>	<u>10,956</u>	<u>1,590</u>	<u>1,023</u>	<u>2,376</u>	<u>17,430</u>
Amounts recognised in other comprehensive income						
Remeasurements:						
- Return on plan assets, excluding interest income	18,242	49,087	(542)	65	4,124	70,976
- (Gain)/loss from change in demographic assumptions	(3,235)	(38,506)	-	980	-	(40,761)
- (Gain)/loss from change in financial assumptions	(985)	(53,924)	(1,145)	(814)	(3,533)	(60,401)
- Experience (gains)/losses	(4,506)	6,418	784	256	1,372	4,324
	9,516	(36,926)	(902)	487	1,963	(25,862)
Income tax	(2,379)	6,278	322	(87)	(245)	3,889
Remeasurement net of tax	<u>7,137</u>	<u>(30,648)</u>	<u>(580)</u>	<u>400</u>	<u>1,718</u>	<u>(21,973)</u>

The average duration of the defined benefit obligations per country were as follows:

	Netherlands	United Kingdom	Belgium	Germany	Ireland
2019					
Average duration (in years)	17	20	17	11	22
2018					
Average duration (in years)	16	19	16	11	23

The significant actuarial assumptions per country were as follows:

	Netherlands	United Kingdom	Belgium	Germany	Ireland
2019					
Discount rate	0.9%	2.1%	1.8%	1.0%	1.4%
Salary growth rate	0-1.7%	0-3.6%	1.8%	1.5%	-
Pension growth rate	0-1.4%	2.2-3.0%	-	1.5%	0-1.3%
2018					
Discount rate	1.8%	2.8-2.9%	1.8%	1.8%	2.2%
Salary growth rate	0-1.9%	0-3.6%	1.9%	1.5%	-
Pension growth rate	0-1.8%	2.2-3.3%	-	1.5%	0-1.4%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

- If the discount rate is 0.5 per cent higher (lower), the pension liability will decrease by approximately €141 million (increase by approximately €162 million).
- If the expected salary increase is 0.5 per cent higher (lower), the pension liability will increase by approximately €3 million (decrease by approximately €3 million).
- If the expected indexation is 0.5 per cent higher (lower), the pension liability will increase by approximately €78 million (decrease by approximately €71 million).
- If the life expectancy increases (decreases) by 1 year, the pension liability will increase by approximately €70 million (decrease by approximately €67 million).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Plan assets are comprised as follows:

	Netherlands	United Kingdom	Belgium	Germany	Ireland	Total
2019						
Equity instruments (quoted)	-	119,973	-	-	46,484	166,457
Debt instruments (quoted)	-	802,088	-	-	31,544	833,632
Property (quoted)	-	17,148	-	-	3,630	20,778
Qualifying insurance policies (unquoted)	401,045	99,784	24,232	17,254	521	542,836
Cash and cash equivalents	-	54,121	-	-	335	54,456
	401,045	1,093,114	24,232	17,254	82,495	1,618,140
2018						
Equity instruments (quoted)	-	104,289	-	-	41,897	146,186
Debt instruments (quoted)	-	739,518	-	-	31,906	771,424
Property (quoted)	-	16,885	-	-	3,447	20,332
Qualifying insurance policies (unquoted)	357,996	-	22,745	17,691	499	398,931
Cash and cash equivalents	-	125,180	-	-	45	125,225
	357,996	985,872	22,745	17,691	77,794	1,462,098

Plan assets do not include the Company's ordinary shares. The Group applies IAS 19.104 for the valuation of the plan assets in connection with the insured contracts.

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

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit.

Changes in bond yields

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

Salary growth

The plan liabilities are calculated based on future salaries of the plan participants, so increases in future salaries will result in an increase in the plan liabilities.

Pension growth

The majority of the plan liabilities are calculated based on future pension increases, so these increases will result in an increase in the plan liabilities.

Life expectancy

The majority of the plan liabilities are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan liabilities.

With regard to the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Employer contributions to post-employment benefit plans for the year ending 31 December 2020 are expected to be slightly lower than 2019 by €3 million to €4 million, due to less contributions in the Netherlands.

23. Provisions

	Warranty	Restructuring	Rental guarantees	Associates and joint ventures	Onerous contracts	Other	Total
As at 1 January 2019	31,657	8,289	240	24,067	135,899	37,488	237,640
Charged/(credited) to the income statement:							
- Additional provisions	12,181	5,324	-	29,310	37,091	10,787	94,693
- Release	(1,657)	(367)	-	-	(21,897)	(5,324)	(29,245)
Used during the year	(10,156)	(5,471)	(85)	(6,607)	(29,784)	(3,048)	(55,151)
Reclassifications	-	-	-	30,604	(2,832)	(1,173)	26,599
Changes in discounted value	-	-	-	-	-	-	-
Exchange rate differences	-	-	-	92	360	29	481
As at 31 December 2019	32,025	7,775	155	77,466	118,837	38,759	275,017

Provisions are classified in the balance sheet as follows:

	2019	2018
Non-current	163,363	141,803
Current	111,654	95,837
	<u>275,017</u>	<u>237,640</u>

The provision for warranty concerns the best estimate of the expenditure required to settle complaints and deficiencies that become apparent after the delivery of projects and that fall within the warranty period. In reaching its best estimate, the Group takes into account the risks and uncertainties that surround the underlying events which are assessed periodically. Approximately 45 per cent of the provision is current in nature (2018: approximately 44 per cent).

The provision for restructuring concerns the best estimate of the expenditure associated with reorganisation plans already initiated. Approximately 69 per cent of the provision is current in nature (2018: approximately 71 per cent). The estimated staff restructuring costs to be incurred are recognised under 'personnel expenses'. Other direct costs attributable to the restructuring are recognised under 'other operating expenses'.

The provision for rental guarantees consists of commitments arising from rental guarantees issued to third parties. Approximately 100 per cent of the provision is current in nature (2018: 67 per cent).

The provision for associates and joint ventures arise from the legal or constructive obligation in connection with structured entities for property development projects (associates and joint ventures) and the development of the hedging reserves in PPP joint ventures. An amount of €77.5 million (2018: €24.0 million) is attributable to joint ventures and €0.0 million (2018: €0.1 million) to associates.

The contract asset or contract liability does not include any provisions for future project losses and is not formed as a part of this contract asset or liability. Approximately 58 per cent of the provision is current in nature (2018: approximately 51 per cent). See note 2.26 step 2.

Other provisions mainly include continuing rental commitments resulting from (temporarily) unused premises, claims and legal obligations in Germany. Approximately 59 per cent of the provision is current in nature (2018: approximately 17 per cent).

The non-current part of the provisions has been discounted at an interest rate in the range of approximately 0 to 3 per cent (2018: approximately 0 to 3 per cent).

24. Deferred tax assets and liabilities

	2019	2018
Deferred tax assets:		
- To be recovered after more than twelve months	117,001	141,649
- To be recovered within twelve months	<u>19,467</u>	<u>23,908</u>
	136,468	165,557
Deferred tax liabilities:		
- To be recovered after more than twelve months	18,160	38,261
- To be recovered within twelve months	<u>335</u>	<u>1,461</u>
	18,495	39,722
Deferred tax liabilities (net)	<u>(117,973)</u>	<u>(125,835)</u>

The gross movement on the deferred income tax assets and liabilities is as follows:

	2019	2018
As at 1 January	(125,835)	(206,961)
Income statement charge/(credit)	22,048	52,310
Tax charge/(credit) relating to components of other comprehensive income	(9,376)	3,905
Changes in enacted tax rates	(5,570)	28,173
Reclassifications	(135)	(2,958)
Exchange rate differences	<u>895</u>	<u>(304)</u>
As at 31 December	<u>(117,973)</u>	<u>(125,835)</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provisions	Tax losses	Derivatives	Employee benefit obligations	Other	Total
Deferred tax assets						
As at 1 January 2018	8,635	205,381	2,415	13,943	23,642	254,016
(Charged)/credited to the income statement	(3,729)	(42,635)	(1)	(2,401)	1,371	(47,395)
(Charged)/credited to other comprehensive income	25	(159)	(152)	2,493	-	2,207
Changes in enacted tax rates	21	(26,971)	-	(29)	(2,811)	(29,790)
Reclassifications	-	2,969	(520)	4	45	2,498
Exchange rate differences	(12)	(2)	(23)	-	(17)	(54)
As at 31 December 2018	4,940	138,583	1,719	14,010	22,230	181,482
(Charged)/credited to the income statement	826	(31,184)	(1)	(2,995)	1,572	(31,782)
(Charged)/credited to other comprehensive income	-	(394)	(57)	298	(250)	(403)
Changes in enacted tax rates	134	7,234	-	(25)	581	7,924
Reclassifications	-	205	-	-	(12)	193
Exchange rate differences	57	44	88	-	64	253
As at 31 December 2019	5,957	114,488	1,749	11,288	24,185	157,667

	Construction contracts	Accelerated tax depreciation	Derivatives	Employee benefit assets	Other	Total
Deferred tax liabilities						
As at 1 January 2018	18,941	9,126	439	12,754	5,794	47,054
Charged/(credited) to the income statement	6,492	(404)	-	(31)	(1,142)	4,915
Charged/(credited) to other comprehensive income	-	(298)	28	6,382	-	6,112
Changes in enacted tax rates	(1,329)	(360)	-	72	-	(1,617)
Reclassifications	-	(132)	(328)	-	-	(460)
Exchange rate differences	-	(83)	-	(274)	-	(357)
As at 31 December 2018	24,104	7,849	139	18,903	4,652	55,647
Charged/(credited) to the income statement	(13,835)	(186)	-	1,752	2,535	(9,734)
Charged/(credited) to other comprehensive income	-	(277)	(127)	(10,178)	803	(9,779)
Changes in enacted tax rates	1,116	14	-	1,226	9	2,365
Reclassifications	13	(13)	-	-	47	47
Exchange rate differences	-	312	-	835	1	1,148
As at 31 December 2019	11,398	7,699	12	12,538	8,047	39,694

Deferred income tax assets in a country are recognised only to the extent that it is probable that future taxable profits in that country are available against which the temporary differences and available tax losses carry-forwards can be utilised.

Tax losses available to the fiscal unity in the Netherlands for carry-forward losses at year-end 2019 amount to approximately €1 billion (2018: €1 billion). These unused tax losses relate to the years 2011 up to and including 2017 and result to a large extent from identifiable causes, which are unlikely to recur, including a loss relating to the liquidation of old property development activities in Germany, significant impairments on properties and significant restructuring costs during these years. The legal term within which these losses may be offset against future profits is nine years.

In December 2019 the Dutch tax plan 2020 was approved by the Dutch Senate increasing the corporate income tax rate to 25 per cent in 2020 and 21.7 per cent in 2021. In total this has caused an increase of the deferred tax asset related to the Dutch fiscal unity tax losses of €7 million.

Based on estimates and timing of future taxable profits within the fiscal unity in the Netherlands for the upcoming seven years, approximately €470 million (2018: €568 million) of these losses are recognised. Management estimates of forecasted taxable profits in the Netherlands are based on financial budgets approved by management, extrapolated using growth rates for revenue and profit before tax margins that take into account external market data and benchmark information and taking into account past performance. Growth rates for revenue and profit before tax margins are in line with the Group's mid- and long-term expectations. Subsequently these forecasts have been reduced to meet the recognition criteria under IFRS in respect of deferred tax assets. No specific tax planning opportunities have been taken into account. The measurement of the deferred tax asset is especially sensitive to the risk of expiry of tax loss carry forwards, for which therefore appropriate discounts have been used.

The taxable result in 2019 in the Netherlands for the Dutch fiscal unity was higher than expected and as a result this led to an unrecognized use of tax losses of €7 million. The assessment as to whether an entity will have sufficient taxable profits in the future is a matter requiring careful judgement based on the facts and circumstances available. Although the profit forecast shows that sufficient profit should be available in coming years to recognize a deferred tax asset for compensating losses, we performed further analysis of all positive and negative evidence to substantiate the position taken. Positive evidence amongst others are: the growth of the Dutch construct market and the performance of the Dutch construction and property unit, change in governance, identifiable one off non-recurring losses. Negative evidence are: unused carry forward losses and lower results than previously forecasted. Considering certain contingencies on the forecasted future taxable profits, an impairment charge of €16.7 million has been recorded in respect of the Dutch fiscal unity.

Tax losses to a minimum of €600 million (2018: €600 million) are expected to remain available for the companies in Germany, which can be offset against future taxable profits in Germany. Based on estimates of the level and timing of future taxable profits per operating company and per fiscal unity, approximately €15 million (2018: €48 million) of these losses are recognized. In 2019, the lower than expected performance of the German construction and property unit led to a non-recognition of tax losses for the tax amount of €14 million. Furthermore an impairment for the usability of the carry forward losses of the upcoming six years of €7.9 million was taken into account. The legal term within which these losses may be offset against future profits is indefinite. Management estimates of forecasted taxable profits in Germany are based on financial budgets approved by management, extrapolated using estimated growth rates that are considered to be in line with the Group's mid- and long-term expectations, taking into account past performance. The impairment charge for Germany and the Dutch fiscal unity totally amounts to €24.6 million.

25. Trade and other payables

	Notes	2019	2018
Trade payables		835,624	980,342
Amounts due to customers (contract liabilities)	6	626,297	654,212
Amounts due to related parties	38	126,067	125,542
Social security and other taxes		147,495	157,586
Pension premiums		9,972	10,617
Amounts due for work completed		178,049	160,766
Amounts due for work in progress		616,598	661,976
Other financial liabilities		1,134	1,329
Other liabilities		67,264	92,518
Accrued expenses and deferred income		273,969	236,247
		<u>2,882,469</u>	<u>3,081,135</u>

The amounts due for work completed and for work in progress relate to suppliers of the Group for contract work performed.

26. Employee benefit expenses

	Note	2019	2018
Wages and salaries		1,130,460	1,075,233
Social security costs		171,983	165,883
Pension costs - defined contribution plans		84,482	79,834
Pension costs - defined benefit plans	22	4,077	17,430
Other post-employment benefits		904	(61)
		<u>1,391,906</u>	<u>1,338,319</u>

Wages and salaries include restructuring costs and other termination benefits of €3.0 million (2018: €3.8 million).

At year-end 2019, the Group had 19,517 employees in FTE (2018: 20,194). The average number of employees in FTE amounted to 19,433 (2018: 20,156), of which 10,966 in other countries than the Netherlands (2018: 12,186).

27. Impairment charges

	Notes	2019	2018
Intangible assets	9	10,337	-
Other financial assets	12	-	(1,292)
Inventories	13	10,841	21,920
Impairment charges		21,178	20,628
Share of impairment charges in investments	11	(2,655)	3,122
		<u>18,523</u>	<u>23,750</u>

The impairment charges of intangible assets relates to the capitalised developments costs for the patented Gravity Based Foundations for offshore wind power.

In 2019, the net impairment charges in connection with inventories are related to property developments in the Netherlands.

28. Exceptional items

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional and are presented within the line items to which they best relate.

An analysis of the amount presented as exceptional items in these financial statements is given below:

	Notes	2019	2018
Impairment charges	27	18,523	23,750
Restructuring costs	23	4,957	3,837
Pension one-off	22	-	11,092
		<u>23,480</u>	<u>38,679</u>

29. Audit fees

The total fees for the audit of the consolidated financial statements 2019 are listed below. The fees stated below for the audit of the financial statements are based on the total fees for the audit of the financial statements, regardless of whether the procedures were already performed in the financial year.

Expenses for services provided by the Company's current independent auditor, Ernst & Young Accountants LLP (EY) and its foreign member firms to the Group are specified as follows:

	2019			2018		
	EY Netherlands	EY foreign member firms	Total	EY Netherlands	EY foreign member firms	Total
Audit fees	4,099	2,173	6,272	4,279	2,234	6,513
Audit-related fees	93	36	129	52	9	61
Tax fees	-	-	-	-	-	-
Other non-audit fees	-	-	-	-	-	-
			<u>6,401</u>			<u>6,574</u>

The decrease in the audit fee 2019 compared to 2018 relates to the in 2018 additional audit procedures on the application of new accounting standards such as IFRS 15 and IFRS 16. In 2019 only additional audit procedures for IFRS 16 were performed.

30. Finance income and expense

	2019	2018
Finance income		
- Interest income - cash at banks	1,911	1,175
- Interest income - other financial assets	1,904	2,579
- Interest income - PPP receivables	5,490	5,446
- Other finance income	<u>8,160</u>	<u>12,021</u>
	17,465	21,221
Finance expense		
- Subordinated convertible bonds	7,189	7,025
- Committed syndicated credit facility	185	328
- Bank fees - committed syndicated credit facility	2,708	2,611
- Non-recourse PPP loans	2,903	3,155
- Non-recourse property financing	1,618	2,185
- Other non-recourse financing	185	153
- Interest expense - bank overdrafts and deposits	125	253
- Interest expense on lease liabilities / finance lease liabilities *	6,689	556
- Recourse property financing	1,196	1,222
- Other recourse financing	856	1,592
- Interest expense - other liabilities	<u>587</u>	<u>848</u>
	24,241	19,928
Less: capitalised interest on the Group's own projects	<u>(5,063)</u>	<u>(8,034)</u>
	19,178	11,894
Net finance result	<u>(1,713)</u>	<u>9,327</u>

* As from 2019 the interest expenses on lease liabilities include all leases (former operational and finance leases), since all leases have been included in the right-of-use assets due to IFRS 16. In 2018 the lease expenses only included finance leases.

Included in the finance expense is an amount of €1.4 million (2018: €1.8 million) relating to interest rate swaps that was reclassified from equity to the income statement. An overview of the applicable effective interest rates on borrowings are disclosed in note 19 to the consolidated financial statements. The Group encounters various negative interest rates on deposits.

31. Income tax

	2019	2018
Current tax	22,162	9,642
Deferred tax	<u>16,489</u>	<u>80,483</u>
	<u>38,651</u>	<u>90,125</u>

Income tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2019	2018
Result before tax	50,618	114,540
Tax calculated at Dutch tax rate	12,654	28,633
Tax effects of:		
- Tax rates in other countries	453	(10,592)
- Income not subject to tax	37	(1,638)
- Remeasurement of deferred tax – changes in enacted tax rates	(5,570)	27,973
- Tax filings and previously unrecognised temporary differences	5,056	(5,108)
- Previously unrecognised tax losses	(9,709)	(5,718)
- Tax losses no(t) (longer) recognised	36,657	55,797
- Results of investments and other participations, net of tax	(8,271)	(5,334)
- Other including expenses not deductible for tax purposes	<u>7,344</u>	<u>6,112</u>
Tax charge/(gain)	<u>38,651</u>	<u>90,125</u>
Effective tax rate	76,4%	78,7%

The weighted average tax rate applicable was 25.9 per cent (2018: 15.8 per cent). The difference is attributable to a different spread of results over the countries.

In December 2019 the Dutch corporate income tax rate was increased to 25.0 per cent applicable as of 1 January 2020 and will be brought to 21.7 per cent as of 1 January 2021.

In 2019 the tax burden was influenced by tax losses which are not recognised (anymore), the recognition of tax losses that were previously unrecognised and the increase of the corporate tax rates in the Netherlands.

The corporate income tax rate effect related to the losses within the Dutch fiscal unity increased the deferred tax asset by €7 million. An amount of €16.7 million of the tax charge relates to the impairment of previously recognised tax losses of the fiscal unity in the Netherlands. The lower than expected performance of the German construction and property unit led to a non-recognition of tax losses for the year of €14 million. Furthermore an impairment of €7.9 million was taken into account for the previously recognized losses for the upcoming six years.

32. Earnings per share

	2019	2018
Weighted average number of ordinary shares in issue (x 1,000)	273,496	273,491
Net result attributable to shareholders	11,846	23,773
Basic earnings per share (in €)	0.04	0.09
Net result from continuing operations attributable to shareholders	11,846	23,773
Basic earnings per share from continuing operations (in €)	0.04	0.09
Net result from discontinued operations attributable to shareholders	-	-
Basic earnings per share from discontinued operations (in €)	-	-

Allowing for dilution, the earnings per share are as follows:

	2019	2018
Diluted weighted average number of ordinary shares in issue (x 1,000)	299,039	298,269
Net result attributable to shareholders (diluted)	17,238	29,042
Diluted earnings per share (in €)	0.04	0.09
Net result from continuing operations attributable to shareholders (diluted)	17,238	29,042
Diluted earnings from continuing operations per share (in €)	0.04	0.09
Net result from discontinued operations attributable to shareholders (diluted)	-	-
Diluted earnings from discontinued operations per share (in €)	-	-

In 2019 the calculation of the diluted earnings per share stated €0.06 (2018: (€0.10) however due to IAS 33, no anti-dilutive effect is allowed. So in both years diluted earnings per share are equal to the basic earnings per share.

33. Dividends per share and proposed appropriation of result

The net result for 2019, amounting to €11.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2019 of 2 eurocents in cash per ordinary share or in shares, at the option of the shareholders with repurchase of shares to offset dilution (2018: 14 eurocents). Based on the number of ordinary shares outstanding at year-end 2019, a maximum of €5.5 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.

The dividends paid to shareholders of ordinary shares in 2019 were €38.3 million, €19.5 million in cash (€0.14 per share) and €18.8 million in shares (€0.14 per share), these shares are repurchased in 2019 for €16.9 million. In 2018 dividends paid to shareholders of ordinary shares were €27.3 million, €11.4 million in cash (€0.10 per share) and €15.9 million in shares (€0.10 per share), these shares are repurchased for €15.2 million.

34. Contingencies

34.1 Legal proceedings

In the normal course of business the Group is involved in legal proceedings predominantly concerning litigation in connection with (completed) construction contracts. The legal proceedings, whether pending, threatened or unasserted, if decided adversely or settled, may have a material impact on the Group's financial position, operational result or cash flows. The Group may enter into discussions regarding settlement of these and other proceedings and may enter into settlement agreements, if it believes settlement is in the best interests of the Company's shareholders. In accordance with current accounting policies, the Group has recognised provisions with respect to these proceedings, where appropriate, which are reflected on its balance sheet.

On 3 March 2009, during the construction of a section of the Cologne metro system, several adjacent buildings, including the building of the City Archives of the City of Cologne, collapsed. Two persons were killed as a result of this accident. Wayss & Freytag Ingenieurbau is a one-third partner in the consortium carrying out this project but was not directly involved in the work performed at the site of the accident. The customer has instituted a judicial inquiry (known as a Beweisverfahren) before the district court (the Landgericht in Cologne). As part of these proceedings, a number of specialists are investigating the cause of the accident. At this point in time it is not possible to determine if and to what extent the consortium might be held responsible for the accident and to estimate a potential financial impact. In two criminal law suits against six individuals, none of them an employee of Wayss & Freytag Ingenieurbau, the German court has found two of those individuals guilty. The others were acquitted. The prosecution and the convicted individuals have filed an appeal against the judgements. The damage to property is considerable and the parties involved have claimed under several different insurance policies.

34.2 Guarantees

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

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

The parent company guarantees issued amount to €178 million (2018: €160 million). Guarantees issued by banks and surety companies amount to €2,032 million (2018: €1,868 million). Guarantee facilities amount to €3.2 billion (2018: €3.2 billion).

35. Commitments

35.1 Purchase commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred and conditional contractual obligations to purchase land for property development activities is as follows:

	2019	2018
Property, plant and equipment	6,288	5,290
Land	<u>203,291</u>	<u>177,090</u>
	<u>209,579</u>	<u>182,380</u>

The conditional nature of the contractual obligations to purchase land relate to, among other items, the amendment of development plans, the acquirement of planning permissions and the actual completion of property development projects.

35.2 Lease commitments

The future undiscounted lease payments regarding lease commitments are included in note 20. Lease liabilities.

The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future undiscounted lease payments for these non-cancellable lease contracts are €3.3 million within one year, €12.4 million within five years and €1.2 million thereafter.

The Group has future variable lease payments related to €54.1 million which are not recognised in lease liabilities, but are recognised as expense in profit and loss. The expected future costs related to these variable lease payments are €14.4 million within one year, €36.8 million within five years and €2.9 million thereafter.

36. Business combinations

No material acquisitions have taken place in 2019 nor 2018.

37. Assets held for sale and discontinued operations

	2019	2018
Inventories	<u>8,516</u>	<u>8,516</u>
Assets held for sale	<u>8,516</u>	<u>8,516</u>

At year-end 2019 and 2018, the assets held for sale related to inventories comprising of one remaining property development position in the Northeast part of the Netherlands, which are not yet transferred.

38. Related parties

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

The following transactions were carried out with related parties:

38.1 Sales and purchase of goods and services

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

The Group carried out transactions with associates and joint arrangements related to the sale of goods and services for €410.1 million (2018: €435.6 million) and related to the purchase of goods and services for €11.2 million (2018: €27.8 million).

The 2019 year-end balance of short term receivables amounts to €21.4 million (2018: €30.7 million) and the short term liabilities amounts to €126.1 million (2018: €125.5 million).

38.2 Loans to related parties

At year-end 2019, the Group granted loans to related parties (mainly relating to associates and joint ventures) for the amount of €89 million (2018: €68 million). These transactions were made on normal commercial terms and conditions, except that for a number of loans there are no fixed terms for the repayment of loans between the parties. Interests for these loans are at arm's length. Loans to related parties are included in 'Other financial assets' in the statement of financial position.

38.3 Key management compensation

Key management includes members of the Executive Board and the Supervisory Board.

Executive Board

The compensation paid or payable to the Executive Board for services is shown below:

	2019					
	Fixed remuneration	Short-term incentive	Post-employment benefits	Other benefits	Long-term incentive	Total
R.P. van Wingerden ¹	700	230	154	-	28	1,112
L.F. den Houter ²	486	159	30	-	58	733
E.J. Bax ³	81	-	17	-	(46)	52
	1,267	389	201	-	40	1,897

	2018					
	Fixed remuneration	Short-term incentive	Post-employment benefits	Other benefits	Long-term incentive	Total
R.P. van Wingerden ¹	686	343	151	-	(41)	1,139
L.F. den Houter ²	203	101	10	-	-	314
E.J. Bax ³	486	243	101	-	(77)	753
T. Menssen ^{4,5}	243	50	28	491	(105)	707
	1,618	737	290	491	(223)	2,913

¹ Appointed as Chairman of the Executive Board with effect from 1 October 2014, reappointed as Chairman 20 April 2016.

² Appointed as a member of the Executive Board with effect from 1 August 2018.

³ Mr Bax has stepped down from the Executive Board with effect from 1 March 2019.

⁴ Mrs Menssen has stepped down from the Executive Board with effect from 1 July 2018.

⁵ Mrs Menssen has received a severance payment of €486 thousand and €5 thousand for legal fees, which are included in the other benefits in 2018.

The short-term incentive ('STI') is part of the remuneration package of the Executive Board and is based on financial objectives (70 per cent) and non-financial objectives (30 per cent). At the beginning of each financial year, the Supervisory Board determines the financial and non-financial STI objectives, their relative weighting and the performance incentive zones (i.e. threshold, at target and excellent performance levels). Payout gradually increases with performance, starting with a payout of 35 per cent of the fixed annual remuneration at threshold performance, 55 per cent at target performance and potentially going up to 75 per cent when performance is excellent. Below threshold there will be zero payout. The Supervisory Board determined the payout for 2019 at 32.8 per cent (2018: 50.0 per cent).

Post-employment benefits relate to the pension costs of the defined benefit plans recognized in the income statement and, if no pension arrangements were made, paid contributions for personal pension arrangements. Cost of defined benefit plans are determined on the basis of the individual pension obligations. Interest results and return on plan assets are not allocated on an individual basis. Certain components of the post-employment benefits are conditional and paid if employment continues until the retirement age.

The actual and necessarily incurred costs in the performance of the duties for the Group are reimbursed.

The long-term incentive relates to the Performance Share Plan and Phantom Share Plan. Additional information is disclosed in note 39.

No share options have been awarded to the members of the Executive Board. No loans or advances have been granted to the members of the Executive Board.

Supervisory Board

The compensation paid or payable to the Supervisory Board for services is shown below:

	2019	2018
H.L.J. Noy, Chairman	80	80
G. Boon, Vice-Chairman	63	60
C.M.C. Mahieu	60	60
M.P. Sheffield	68	69
H. Valentin	68	68
K.S. Wester, former Vice-Chairman	18	62
R. Provoost	8	-
	<u>365</u>	<u>399</u>

The actual and necessarily incurred costs in the performance of the duties for the Group are reimbursed.

No share options have been awarded to the members of the Supervisory Board. The members of the Supervisory Board do not hold any shares in the Company nor have loans or advances been granted as per 31 December 2019.

Other related parties

The Group has not entered into any material transaction with other related parties.

39. Share-based payments

In 2019, BAM's long-term incentive plan consisted of a conditional share-based incentive plan called Performance Share Plan. This equity-settled plan replaced as of 2015 the cash-settled Phantom Share Plan effective from 2011 through 2014 and is applicable for members of the Executive Board and selected positions below the Executive Board ('Participants') whereas the Phantom Share Plan solely included members of the Executive Board.

39.1 Performance Share Plan

Under the Performance Share Plan, each year performance shares are conditionally awarded subject to performance over a vesting period of three financial years. The number of awarded performance shares is calculated by dividing the award value (expressed as a percentage of fixed remuneration) by the average closing price of the BAM share on Euronext Amsterdam on the five days after the General Meeting in the year of award.

Performance is based on two financial objectives, being relative total shareholder return (TSR) and return on capital employed (ROCE) and one non-financial objective, being sustainability. TSR is defined as the share price increase, including dividends and measured over a three year period based on the three month average share price before the start and the end of the three year performance period. The relative position within the peer group determines the vesting percentage. The TSR peer group comprises of Balfour Beatty, Boskalis, Eiffage, Heijmans, Hochtief, NCC, Skanska, Strabag, Vinci, VolkerWessels (and BAM). At the beginning of each financial year, based upon a proposal from the Remuneration Committee, the Supervisory Board determines the performance incentive zones (i.e. threshold, at target and excellent performance levels) for ROCE and sustainability.

After the three year performance period, the Supervisory Board will assess the extent to which the performance objectives have been achieved. This results in a vesting percentage for each of the three performance objectives, each determining one third of the vesting of the conditionally awarded performance shares. For excellent performance, the number of performance shares that vests may amount to a maximum of 150 per cent of the 'at target' number of performance shares. This percentage may be reduced to 50 per cent (on a sliding scale) for threshold performance and to 0 below that. The TSR objective will also operate as a 'circuit breaker' for the vesting linked to the other two performance objectives: in case BAM ranks at the bottom two places of the TSR peer group, the other two objectives will not result in vesting regardless of the performance.

The value of the performance shares – as the combined result of the number of performance shares that will vest and the share price at the moment of vesting – that will become unconditional to a participant will at vesting never exceed two and a half times the award value in order to avoid inappropriate payouts.

The three-year vesting period will be followed by a two-year lock-up period. In addition, there is a minimum share ownership requirement. Executive Board members 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 required to meet any tax obligations and social security premiums (including any other duties and levies) as a consequence of the vesting.

The tables below indicate the percentage of conditional shares that could vest in connection with the pre-determined performance conditions:

Ranking	TSR		ROCE		Sustainability	
	Score	Vesting	Score	Vesting	Score	Vesting
2	Excellent	125%	Excellent	150%	Excellent	150%
3	Target	100%	Target	100%	Target	100%
4	Threshold	75%	Threshold	50%	Threshold	50%
5	Below threshold	50%	Below threshold	0%	Below threshold	0%
6		25%				
7		0%				
8		0%				
9		0%				
10		0%				
11		0%				

At the end of each reporting period, BAM revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions (financial and non-financial) and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In principle, conditionally awarded shares are forfeited if the participant is no longer employed by the company, however upon termination of employment due to retirement, disability or death the participant (or his or her heirs) reserves the right on the pro rata number of conditionally awarded shares to become unconditionally pursuant to the same vesting conditions as described above (pro rata means the number of full months that the participant was engaged by the Company during the performance period divided by 36 months). For the performance shares, the most recent performance results will be applied to calculate the number of vested shares.

The status of the Performance Share Plan (in number of shares) during 2019 for the members of the Executive Board and for all other participants is shown below:

	As at 1 January 2019	Awarded	Vested (including dividend)	Forfeited	As at 31 December 2019
R.P. van Wingerden	329,832	114,926	-	112,711	332,047
L.F. den Houter	-	68,393	-	-	68,393
E.J. Bax	199,833	-	-	129,551	70,282
Other participants *	<u>972,382</u>	<u>504,605</u>	<u>-</u>	<u>413,597</u>	<u>1,063,390</u>
	<u>1,502,047</u>	<u>687,924</u>	<u>-</u>	<u>655,859</u>	<u>1,534,112</u>

*The closing balance as per 31 December 2018 included a number of 68,195 shares, which were already forfeited in 2018, in line with the applicable plan rules and as included in the note. The opening balance in the above table has been adjusted accordingly.

The fair value per share of the 2019 award, for the participants, in connection with the TSR performance part amounted to €4.86 per share and is determined using a Monte Carlo simulation model. For the other financial and non-financial performance part, the fair value equals the share price at the date of award, corrected for the expected value of the possibility of achieving the 'circuit breaker'. As participants receive dividend compensation the dividend yield on the awards equals nil.

For the Performance Share Plan 2016 the 'circuit breaker' was applicable, leading to the full plan of 487,906 (remaining) shares to be forfeited as at the vesting date 28 April 2019.

The most important assumptions used in the valuations of the fair values were as follows:

	2019
Share price at award date (in €)	4.38
Risk-free interest rate (in %)	(0.42)
Volatility (in %)	44.89

Expected volatility has been determined based on historical volatilities for a period of five years.

In 2019, an amount of €48,000 was released (2018: €95,000 charged) to the income statement arising from the Performance Share Plan due to not meeting the relevant vesting conditions.

39.2 Phantom Share Plan

The last Phantom Share Plan has been paid out in 2019. Under the Phantom Share Plan the number of phantom shares awarded 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 Annual General Meeting.

The phantom shares are awarded on the sixth trading day following the day of the Annual General Meeting 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.

The number of shares that have been vested depended on BAM's performance compared to five other listed construction companies in Europe, measured over a three-year period using TSR, which is the sum of share price growth and dividends paid. The peer group on the previous balance sheet date consisted of Balfour Beatty, Ballast Nedam (until delisting), Bilfinger, Heijmans and Skanska. Vested phantom shares are not paid out to participants until the two year lock-up period has lapsed. The maximum cash distribution to the participants at the date of payout of the Phantom Share Plan is capped at 1.5 times the fixed remuneration of the participant.

The final status of the Phantom Share Plan (in number of shares) during 2019 for the individual Executive Board members is as follows:

	As at 1 January 2019	Stock dividend	Payout*	As at 31 December 2019
R.P. van Wingerden	62,847	2,053	64,900	-
E.J. Bax	62,847	2,053	64,900	-
	<u>125,694</u>	<u>4,106</u>	<u>129,800</u>	<u>-</u>

*The vesting percentage is 45 per cent, so 55 per cent of the shares have not been paid out.

During 2019 the Phantom Share Plan 2014 has been paid out. The value has been based on the average share price of BAM on the five trading days before the end of the blocking period as per 1 May 2019 (€4.2834) and on the number of vested shares three years after the award against the vesting percentage of 45 per cent. The finalisation of the 2014 award (end of lock-up period 1 May 2019) has resulted in a payout of €287 thousand for the current and retired Executive Board members. In addition, 45 per cent of 19,263 shares have been paid out to retired Executive Board members during 2019.

The payout of the 2014 Phantom Share Plan for previous Executive Board Member Thessa Menssen has already taken place in 2018.

In 2019, an amount of €124,000 was charged (2018: €82,000 charged) to the income statement arising from the Phantom Share Plan.

As at 31 December 2019, no liability exists (2018: €245 thousand).

40. Joint operations

A part of the Group's activities is carried out in joint arrangements and classified as joint operations. This applies to all activities and all countries in which the Group operates. These arrangements remain in place until a project is finished. In practice, the duration of the majority of the joint operations is limited to a period of between 1 and 4 years, with the exception of joint operations in connection with land and building rights held for strategic purposes.

Based on assessment of balance sheet total, revenue and result, none of the joint operations is material to the Group, except for OpenIJ EPC V.O.F. in which the construction of sea lock IJmuiden is carried out. BAM's share in the result of OpenIJ EPC V.O.F. amounts to a loss of 4 million (2018: €32 million loss).

The Group's share of the revenue of these joint operations amounts to approximately €1.0 billion in 2019 (2018: approximately €1.4 billion), which represents approximately 14 per cent of the Group's revenue (2018: 19 per cent).

The Group's share of the balance sheets of joint operations is indicated below:

<i>(in € million)</i>	2019		Total
	Construction and Property	Civil engineering	
Assets			
- Non-current assets	0.2	21.4	21.6
- Current assets	<u>339.1</u>	<u>586.3</u>	<u>925.4</u>
	339.3	607.7	947.0
Liabilities			
- Non-current liabilities	25.7	3.0	28.7
- Current liabilities	<u>318.4</u>	<u>588.9</u>	<u>907.3</u>
	344.1	591.9	936.0
Net balance	<u>(4.8)</u>	<u>15.8</u>	<u>11.0</u>

(in € million)

	Construction and Property	2018 Civil engineering	Total
Assets			
- Non-current assets	0.2	33.4	33.6
- Current assets	<u>385.8</u>	<u>608.0</u>	<u>993.6</u>
	385.8	641.4	1,027.2
Liabilities			
- Non-current liabilities	30.5	17.7	48.2
- Current liabilities	<u>362.0</u>	<u>676.2</u>	<u>1,038.2</u>
	392.5	693.9	1,086.4
Net balance	<u>(6.7)</u>	<u>(52.5)</u>	<u>(59.2)</u>

The group has capital commitments under joint operations amount to €8 million (2018: €5 million). Guarantees issued by banks and surety companies amount to €31 million (2018: €15 million). Transfers of funds and/or other assets are made in consultation with the partners of the joint operations.

As from 31 December 2018, on a prospective basis, the Group has classified the Argen as Joint Ventures to fully align with interpretations from German Audit Profession.

41. Service concession arrangements

The Group operates various service concession arrangements, both in the accommodation and infrastructure areas. These activities comprise the construction, exploitation, maintenance and divestment of (a part of) concession arrangements structured through separate legal entities and are principally carried out by BAM PPP independently and/or in collaboration with third parties.

The Group has a stake in the following concession arrangements:

	Interest	Classification	Category	Country	Operational	As from	Concession period (in years)
<i>Accommodations</i>							
East Ayrshire Hospital	100%	Group company	Health	United Kingdom	Yes	2000	25
Wharfedale Hospital	75%	Group company	Health	United Kingdom	Yes	2004	30
Derby Police	100%	Group company	Justice	United Kingdom	Yes	2000	30
Cheshire Police	100%	Group company	Justice	United Kingdom	Yes	2003	30
Peacehaven Schools	100%	Group company	Education	United Kingdom	Yes	2001	25
Bromsgrove Schools	20%	Joint venture	Education	United Kingdom	Yes	2008	30
Solihull Schools	20%	Joint venture	Education	United Kingdom	Yes	2010	25
West Dunbartonshire Schools	20%	Joint venture	Education	United Kingdom	Yes	2010	30
Somerset Schools	17.8%	Joint venture	Education	United Kingdom	Yes	2012	25
Camden Schools	18%	Joint venture	Education	United Kingdom	Yes	2012	25
Irish Schools Bundle 3	20%	Joint venture	Education	Ireland	Yes	2014	25
Irish Schools Bundle 4	20%	Joint venture	Education	Ireland	Yes	2016	25
Irish Courts Bundle	20%	Joint venture	Justice	Ireland	Yes	2017	25
Gent Universiteit	20%	Joint venture	Education	Belgium	Yes	2011	33
Beveren Prison	20%	Joint venture	Justice	Belgium	Yes	2013	25
Dendermonde Prison	100%	Joint venture	Justice	Belgium	No	2022	25
Schiphol	20%	Joint venture	Justice	Netherlands	Yes	2012	25
High Court	20%	Joint venture	Justice	Netherlands	Yes	2015	30
Ministry VROM	20%	Joint venture	Other	Netherlands	Yes	2017	25
Potsdam	100%	Group company	Other	Germany	Yes	2012	30
Bremervoerde Prison	20%	Joint venture	Justice	Germany	Yes	2013	25
University Hospital Schleswig-Holstein	50%	Joint venture	Health	Germany	No	2015	29
Burgdorf Prison	17.6%	Joint venture	Justice	Switzerland	Yes	2012	25
<i>Infrastructure</i>							
Dundalk By-pass	6.7%	Joint venture	Motorway	Ireland	Yes	2005	28
Waterford By-pass	33.3%	Joint venture	Motorway	Ireland	Yes	2009	30
Portlaoise	33.3%	Joint venture	Motorway	Ireland	Yes	2010	30
N11/N7	20%	Joint venture	Motorway	Ireland	Yes	2015	25
M11	10%	Joint venture	Motorway	Ireland	Yes	2019	25
N25	50%	Joint venture	Motorway	Ireland	No	2020	25
A59	14%	Joint venture	Motorway	Netherlands	Yes	2005	15
N31	66.7%	Joint venture	Motorway	Netherlands	Yes	2007	15
A12	20%	Joint venture	Motorway	Netherlands	Yes	2012	20
N33	20%	Joint venture	Motorway	Netherlands	Yes	2014	20
Infraspeed HSL	10.5%	Associate	Railway	Netherlands	Yes	2006	25
Lock IJmuiden	50%	Joint venture	Lock	Netherlands	No	2022	26
Afsluitdijk	46%	Joint venture	Dike	Netherlands	No	2022	25
A8	5%	Joint venture	Motorway	Germany	Yes	2010	30
A9	50%	Joint venture	Motorway	Germany	Yes	2014	17
A94	33.3%	Joint venture	Motorway	Germany	Yes	2019	26
A10/A24	70%	Joint venture	Motorway	Germany	No	2023	25
Liefkenshoektunnel	10%	Joint venture	Railway	Belgium	Yes	2013	38
Brabo II	80.1%	Joint venture	Tramway	Belgium	No	2020	25
Cross River Rail	15%	Joint venture	Railway	Australia	No	2024	24
Silvertown Tunnel	22.5%	Joint venture	Motorway	United Kingdom	No	2024	25

The Group is also involved in (accommodation and infrastructure) concession arrangements and energy service companies through other group companies.

The Group's equity investment in PPP projects amount to €80 million (2018: €75 million).

The Group has approximately €46 million (2018: €40 million) of obligations for capital contributions (after deduction of the PGGM share) in projects which have been awarded to the joint venture BAM PPP/PGGM. Construction revenue to be realised in connection with PPP projects amounts to approximately €1.5 billion (2018: approximately €0.8 billion).

A further description of the Group's concession arrangements is as follows:

Accommodation

The accommodation concession arrangements relate to schools, police stations, hospitals, sport complexes, a penitentiary institution and a laboratory building. These arrangements are located in the United Kingdom, Ireland, Germany, Belgium, the Netherlands and Switzerland. The concession payments are contractually agreed and are linked to the availability of the accommodation. The actual usage of the accommodation does not affect the amount of the concession payments. Most arrangements include maintenance and facility management services.

During the concession periods, payments are based on the availability of the related accommodation and the maintenance and facility management services. The majority of the concession arrangements are subject to indexation. The part of the concession payment that relates to the services will be evaluated every five years in general, using a benchmark. There may consequently be a limited settlement with the principal as a result. However, the volatility of the revenue and result is limited.

Infrastructure

The infrastructure concession arrangements relate to motorways in Ireland, the Netherlands and Germany, a railway tunnel in Belgium, a railway line in the Netherlands and a coastal defence scheme in the United Kingdom. The concession arrangements started between 2005 up to and including 2019, for periods varying from 15 to 38 years.

The majority of the concession payments are contractually agreed and are linked to the availability of the related infrastructure. This availability is evaluated based on the contractually agreed upon criteria. These criteria cover the intensity of usage, temporary closures and maintenance. There may consequently be (temporarily) adjustments to the concession payments with the principal as a result. However, the volatility of the revenue and result is limited.

For three motorways in Ireland and one in Germany, concession payments are directly linked to the traffic volume (toll collection) and revenue and result are consequently volatile to some extent.

42. Government grants

Government grants received in 2019 amount to €6.2 million (2018: €2.6 million), of which an amount of €4.3 million (2018: nil) is related to R&D and €1.9 million (2018: €2.6 million) to education.

43. Research and development

Research and development costs, which predominantly relate to projects, are considered to be part of contract costs.

Other research and development costs, in the amount of approximately €0.2 million (2018: approximately €0.2 million), are recognised in the income statement.

44. Events after the reporting period

The Supervisory Board of Royal BAM Group nv has announced that by mutual agreement it has been decided that Rob van Wingerden will not be nominated for a next term as CEO and member of the Executive Board. In accordance with its contractual obligations, BAM will pay a severance payment of one-year base salary.

No further material events after the reporting period have occurred.

Company statement of financial position as at 31 December

(before appropriation of result, x €1,000)

	Notes	31 December 2019	31 December 2018
Non-current assets			
Property, plant and equipment	2	12,320	8,760
Right-of-use assets *	3	4,314	-
Intangible assets	4	368,712	361,955
Financial assets	5	1,033,795	1,154,469
Deferred tax assets	6	114,046	124,005
		<u>1,533,187</u>	<u>1,649,189</u>
Current assets			
Receivables	7	38,442	35,338
Cash and cash equivalents	8	220,850	172,604
		<u>259,292</u>	<u>207,942</u>
Total assets		<u>1,792,479</u>	<u>1,857,131</u>
Equity attributable to shareholders of the Company			
Issued and paid capital	9	27,941	27,879
Share premium		811,370	811,432
Reserves		(183,647)	(164,966)
Retained earnings		(39,066)	30,913
Net result		11,846	23,773
		<u>628,444</u>	<u>729,031</u>
Provisions			
Employee benefits	10	14,712	42,747
		<u>14,712</u>	<u>42,747</u>
Non-current liabilities			
Borrowings *	11	120,451	117,637
Lease liabilities *	12	2,709	-
		<u>123,160</u>	<u>117,637</u>
Current liabilities			
Lease liabilities *	12	1,683	-
Other liabilities	13	1,024,480	967,716
		<u>1,026,163</u>	<u>967,716</u>
Total equity and liabilities		<u>1,792,479</u>	<u>1,857,131</u>

* As from 2019 all lease contracts have been capitalised (former operational and finance leases) as right-of use assets, due to the implementation of IFRS 16. Accordingly, lease liabilities have been separately included under non-current and current liabilities. In 2018 the lease liabilities were included in borrowings and only related to finance leases.

Company income statement

(x €1,000)

	Notes	2019	2018
Internal charges	14	120,291	105,385
External charges		(10,421)	(7,718)
Employee benefit expenses	15	(33,536)	(31,647)
Depreciation and amortisation charges	2,3,4	(7,909)	(5,292)
Other operating expenses		(68,893)	(61,352)
Exchange rate differences		913	561
		<u>(119,846)</u>	<u>(105,448)</u>
Operating result		445	(63)
Finance income	16	10,837	14,793
Finance expense	16	(12,936)	(13,137)
		<u>(2,099)</u>	<u>1,656</u>
Share of result of investments	5	28,114	96,218
Result before tax		<u>26,460</u>	<u>97,811</u>
Income tax		<u>(14,614)</u>	<u>(74,038)</u>
Result for the year from operations		<u>11,846</u>	<u>23,773</u>

Notes to the company financial statements

1. Summary of significant accounting policies

1.1 Basis of preparation

The company financial statements of Royal BAM Group nv ('the Company' or 'BAM') have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in these parent company financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

Regarding IFRS 9 combination 3, the Group has applied the Dutch 'RJ 100.107a' regarding expected credit losses. Therefore the expected credit losses on receivables from subsidiaries have not been included in the company financial statements, since these have been eliminated within the book value of the receivables.

1.2 Investments in subsidiaries

Investments in subsidiaries are measured at net asset value. The net asset value is calculated using the accounting policies, as described in note 2 to the consolidated financial statements. The net asset value of subsidiaries comprises the cost, excluding goodwill, of BAM's share in the net assets of the subsidiary plus BAM's share in income or losses since acquisition, less dividends received.

1.3 Income tax

Corporate income tax is allocated to the subsidiaries forming part of the fiscal unit, as if they were independent taxable entities.

2. Property, plant and equipment

	Other assets	Total
As at 1 January 2018		
Cost	22,224	22,224
Accumulated depreciation and impairments	<u>(14,646)</u>	<u>(14,646)</u>
	<u>7,578</u>	<u>7,578</u>
Additions	5,594	5,594
Disposals	(23)	(23)
Depreciation charges	<u>(4,389)</u>	<u>(4,389)</u>
	1,182	1,182
As at 31 December 2018		
Cost	27,794	27,794
Accumulated depreciation and impairments	<u>(19,034)</u>	<u>(19,034)</u>
	<u>8,760</u>	<u>8,760</u>
Additions	8,417	8,417
Disposals	(2)	(2)
Reclassifications	(6)	(6)
Depreciation charges	<u>(4,849)</u>	<u>(4,849)</u>
	3,560	3,560
As at 31 December 2019		
Cost	36,193	36,193
Accumulated depreciation and impairments	<u>(23,873)</u>	<u>(23,873)</u>
	<u>12,320</u>	<u>12,320</u>

3. Right-of-use assets

	Land and buildings	Cars	Total
As at 1 January 2019	<u>132</u>	<u>3,474</u>	<u>3,606</u>
Additions	35	2,149	2,184
Depreciation charges	<u>(69)</u>	<u>(1,407)</u>	<u>(1,476)</u>
	(34)	742	708
As at 31 December 2019	<u>98</u>	<u>4,216</u>	<u>4,314</u>

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

Additional information on right-of-use assets is disclosed in note 8 to the consolidated financial statements.

4. Intangible assets

	Goodwill	Non-integrated software	Other	Total
As at 1 January 2018				
Cost	514,546	4,455	883	519,884
Accumulated amortisation and impairments	<u>(157,088)</u>	<u>(2,050)</u>	<u>(155)</u>	<u>(159,293)</u>
	<u>357,458</u>	<u>2,405</u>	<u>728</u>	<u>360,591</u>
Additions	-	4,128	-	4,128
Amortisation charges	-	(815)	(88)	(903)
Exchange rate differences	<u>(1,861)</u>	<u>-</u>	<u>-</u>	<u>(1,861)</u>
	<u>(1,861)</u>	<u>3,313</u>	<u>(88)</u>	<u>1,364</u>
As at 31 December 2018				
Cost	512,685	6,859	883	520,427
Accumulated amortisation and impairments	<u>(157,088)</u>	<u>(1,141)</u>	<u>(243)</u>	<u>(158,472)</u>
	<u>355,597</u>	<u>5,718</u>	<u>640</u>	<u>361,955</u>
Additions	-	1,111	-	1,111
Amortisation charges	-	(1,496)	(88)	(1,584)
Exchange rate differences	<u>7,230</u>	<u>-</u>	<u>-</u>	<u>7,230</u>
	<u>7,230</u>	<u>(385)</u>	<u>(88)</u>	<u>6,757</u>
As at 31 December 2019				
Cost	519,915	7,946	883	528,744
Accumulated amortisation and impairments	<u>(157,088)</u>	<u>(2,613)</u>	<u>(331)</u>	<u>(160,032)</u>
	<u>362,827</u>	<u>5,333</u>	<u>552</u>	<u>368,712</u>

5. Financial assets

	Shares in subsidiaries	Receivables from subsidiaries	Other participating interests	Total
As at 1 January 2018	647,496	566,815	648	1,214,959
Net result for the year	96,218	-	-	96,218
Dividends	(17,255)	-	-	(17,255)
Reclassifications	(13,661)	13,661	-	-
Adjustments in group structure	(12)	-	-	(12)
Capital contributions	41,000	-	-	41,000
Loans granted and repayments	-	(200,469)	-	(200,469)
Hedging reserve	(4,532)	-	-	(4,532)
Remeasurements of post-employment benefit obligations	29,110	-	-	29,110
Exchange rate differences	(4,550)	-	-	(4,550)
As at 31 December 2018	773,814	380,007	648	1,154,469
Net result for the year	28,114	-	-	28,114
Dividends	(18,589)	-	-	(18,589)
Adjustments in group structure	(38)	-	-	(38)
Capital contributions	22,500	-	-	22,500
Loans granted and repayments	-	(73,815)	-	(73,815)
Hedging reserve	(30,745)	-	-	(30,745)
Remeasurements of post-employment benefit obligations	(63,735)	-	-	(63,735)
Exchange rate differences	15,634	-	-	15,634
As at 31 December 2019	726,955	306,192	648	1,033,795

The reclassification in 2018 relates to the entities of the Dutch sector Construction and Property and BAM Services Nederland bv.

None of the financial assets were subject to impairment.

A list of the principal subsidiaries is disclosed in section Other information, paragraph 8.5.

6. Deferred tax assets

	2019	2018
Deferred tax assets	<u>114,046</u>	<u>124,005</u>
	114,046	124,005

Deferred tax assets include the liquidation of old property development activities in Germany and the tax loss carry-forwards of the operations in the Netherlands to the extent that the realisation of the related tax benefit through future taxable profits is probable offset against deferred tax liabilities.

Additional information on deferred tax assets and liabilities is disclosed in note 24 to the consolidated financial statements.

7. Receivables

	2019	2018
Amounts due from subsidiaries	23,173	21,752
Prepayments and accrued income	<u>15,269</u>	<u>13,586</u>
	<u>38,442</u>	<u>35,338</u>

Receivables are due within one year.

8. Cash and cash equivalents

	2019	2018
Cash at bank and in hand	<u>220,850</u>	<u>172,604</u>
	<u>220,850</u>	<u>172,604</u>

Cash and cash equivalents are at the free disposal of the Company.

9. Equity attributable to shareholders of the Company

At year-end 2019, the authorised capital of the Group was 400 million ordinary shares (2018: 400 million) and 600 million preference shares (2018: 600 million), all with a nominal value of €0.10 per share (2018: €0.10 per share).

All issued shares have been paid in full.

Movements in the number of ordinary shares are as follows:

	Number of ordinary shares	Number of treasury shares	Number of ordinary shares in issue
As at 1 January 2018	274,925,419	1,712,085	273,213,334
Repurchase of ordinary shares	-	3,940,956	(3,940,956)
Awarded LTI shares		(170,039)	170,039
Dividends	<u>3,853,600</u>	-	<u>3,853,600</u>
As at 31 December 2018	<u>278,779,019</u>	<u>5,483,002</u>	<u>273,296,017</u>
Repurchase of ordinary shares	-	4,482,030	(4,482,030)
Awarded LTI shares	-	-	-
Dividends	<u>628,430</u>	<u>(3,853,600)</u>	<u>4,482,030</u>
As at 31 December 2019	<u>279,407,449</u>	<u>6,111,432</u>	<u>273,296,017</u>

Movements in shareholders' equity are as follows:

	Attributable to the shareholders of the Company					Total
	Issued and paid capital	Share premium	Reserves	Retained earnings	Net result	
As at 1 January 2018	27,493	811,818	(152,815)	48,549	(13,789)	721,256
Net result for the year	-	-	-	-	23,773	23,773
Appropriation of result	-	-	-	(13,789)	13,789	-
Dividends	386	(386)	-	(11,429)	-	(11,429)
Remeasurements of post-employment benefit obligations	-	-	-	21,973	-	21,973
Cash flow hedges	-	-	(4,541)	-	-	(4,541)
Repurchase of ordinary shares	-	-	-	(15,492)	-	(15,492)
Share-based payments	-	-	-	(95)	-	(95)
Exchange rate differences	-	-	(6,410)	-	-	(6,410)
Development cost	-	-	(1,200)	1,200	-	-
Other	-	-	-	(4)	-	(4)
As at 31 December 2018	27,879	811,432	(164,966)	30,913	23,773	729,031
Net result for the year	-	-	-	-	11,846	11,846
Appropriation of result	-	-	-	23,773	(23,773)	-
Dividends	62	(62)	-	(19,456)	-	(19,456)
Remeasurements of post-employment benefit obligations	-	-	-	(68,125)	-	(68,125)
Cash flow hedges	-	-	(30,745)	-	-	(30,745)
Repurchase of ordinary shares	-	-	-	(16,889)	-	(16,889)
Share-based payments	-	-	-	(46)	-	(46)
Exchange rate differences	-	-	22,864	-	-	22,864
Development cost	-	-	(10,800)	10,800	-	-
Other	-	-	-	(36)	-	(36)
As at 31 December 2019	27,941	811,370	(183,647)	(39,066)	11,846	628,444

9.1 Reserves

Reserves relate to the reserves for (cash flow) hedging, translation differences and legal reserve related to the capitalisation of development cost. All of these reserves are legal reserves that are required by Dutch law. Distributions to the shareholders of the Company are restricted to the extent of the balance.

The hedging reserve amounts to €95 million negative (2018: €64 million negative) and the translation reserve €89 million negative (2018: €112 million negative). The total reserves include as legal reserve for the capitalised development cost of €0 million (2018: €10.8 million).

For a further breakdown of the reserves see note 16 en 17 in the Consolidated statements.

9.2 Dividends per share

The Company proposes to declare a dividend over the financial year 2019 of 2 eurocents in cash per ordinary share or in shares, at the option of the shareholders with repurchase of shares to offset dilution (2018: 14 eurocents). Based on the number of ordinary shares outstanding at year-end 2019, a maximum of €5.5 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.

10. Provisions

	2019	2018
Employee benefits	<u>14,712</u>	<u>42,747</u>
	<u>14,712</u>	<u>42,747</u>

The duration of the provisions is more than one year. Provisions with a duration less than one year are included in current liabilities.

11. Borrowings

	2019	2018
Subordinated convertible bonds	<u>120,451</u>	<u>117,637</u>
	<u>120,451</u>	<u>117,637</u>

Additional information on borrowings is disclosed in note 19 to the consolidated financial statements.

12. Lease liabilities

	2019	2018
Lease liabilities	<u>4,392</u>	<u>-</u>
	<u>4,392</u>	<u>-</u>

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

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

13. Current liabilities

	2019	2018
Amounts due to subsidiaries	985,833	928,118
Other liabilities	<u>38,647</u>	<u>39,598</u>
	<u>1,024,480</u>	<u>967,716</u>

The other liabilities mainly consist of trade and other payables.

14. Internal charges

The internal charges represent services that have been charged to the other Group companies.

15. Employee benefit expenses

	2019	2018
Wages and salaries	28,282	26,994
Social security costs	2,870	2,570
Pension costs - defined contribution plans	2,218	1,909
Pension costs - defined benefit plans	166	174
	<u>33,536</u>	<u>31,647</u>

At year-end 2019, the Company had 307 employees in FTE (2018: 271). The average number of employees in FTE amounted to 289 (2018: 251). There are no employees in other countries than the Netherlands.

16. Finance income and expense

	2019	2018
Finance income		
- Interest income - intercompany	8,686	12,534
- Interest income - cash at banks	307	78
- Interest income - other financial assets	4	11
- Other finance income	1,840	2,170
	<u>10,837</u>	<u>14,793</u>
Finance expense		
- Subordinated convertible bonds	7,189	7,025
- Committed syndicated credit facility	185	328
- Bank fees - committed syndicated credit facility	2,708	2,611
- Interest expense - intercompany	2,413	1,770
- Interest expense on lease liabilities	54	-
- Recourse property financing	87	-
- Other recourse financing	300	1,403
	<u>12,936</u>	<u>13,137</u>
Net finance result	<u>(2,099)</u>	<u>1,656</u>

Additional information on finance income and expense is disclosed in note 30 to the consolidated financial statements.

17. Related parties

The Company has entered into arrangements with a number of its subsidiaries and affiliated companies in the course of its business. These arrangements relate to service transactions and financing agreements and were conducted at market prices.

Additional information on key management compensation is disclosed in note 38 to the consolidated financial statements.

18. Commitments and contingencies

18.1 Guarantees

The Company has issued parent company guarantees amounting to €178 million (2018: €160 million) at year-end 2019.

18.2 Third-party liability

The Company is jointly and severally liable for the debts of the subsidiaries based in the Netherlands pursuant to section 403, Book 2 of the Dutch Civil Code.

The Company, together with other participants, has a joint and several liability for deficits in the Group's cash pool as a whole.

The Company forms a fiscal unity with BAM's major Dutch and certain other subsidiaries for income tax and VAT purposes and, for that reason, it is jointly and severally liable for the Dutch income tax and Dutch VAT liabilities of the whole fiscal unity.

Bunnik, the Netherlands, 20 February 2020

Supervisory Board:

H.L.J. Noy

G. Boon

C.M.C. Mahieu

M.P. Sheffield

H. Valentin

Executive Board:

R.P. van Wingerden

L.F. den Houter



Other information

Inspiration from New York The Lofts, Amsterdam, the Netherlands

The Lofts is a response to the increasing demand for trendy and affordable housing in Amsterdam's city centre, especially for millennials. AM and BAM Wonen are behind this collection of 212 studios and two-room apartments which come completely finished and can be arranged flexibly.

The sturdy urban block was inspired by New York lofts and offers very energy-efficiency, with an EPC of 0.15. Solar panels on the roof provide the building with electricity.



8.1 Combined independent auditor's report on the 2019 financial statements and sustainability information

To: the shareholders and Supervisory Board of Royal BAM Group nv

Please find below the main conclusions and main features of our audit and review. For the full text of the independent auditor's report, which includes the assurance report on sustainability, please refer to the next pages.

Summary

Conclusions

Object of audit or review	Outcome of work performed	Level of assurance
Financial statements 2019 (consolidated and company financial statements)	True and fair view	Reasonable assurance
Sustainability information 2019 in Material themes, Business conduct and transparency and Safety	Reliable and adequate view	Reasonable assurance
Sustainability information 2019 in selected chapters and appendices	Reliable and adequate view	Limited assurance
Other information, including the reports from the Executive Board and the Supervisory Board	No material misstatements	

Main features of our audit and review

What we have done	Scope of our work	Materiality	Key audit and review matters
Audit of financial statements 2019 (consolidated and company financial statements)	Worldwide	€35 million, based on 0.5% of revenue	Valuation of projects and revenue recognition, implementation of IFRS 16, valuation of deferred tax assets and valuation of land and building rights
Audit of the sustainability information 2019	Material themes, Business conduct and transparency and Safety	Specific materiality levels for each element of the sustainability information in scope	Completeness registration of safety incidents
Review of the sustainability information 2019	Selected chapters and appendices	Specific materiality levels for each element of the sustainability information in scope	None
Procedures for other information	Full reports	Similar materiality levels as our audit and review scopes	None

Our conclusions

We have audited the financial statements 2019 of Royal BAM Group nv based in Bunnik. The financial statements include the consolidated financial statements and the Company financial statements. We have reviewed the sustainability information and audited selected sustainability information in the integrated report for the year 2019 of Royal BAM Group nv ('the Report'). The scope is described in the section Our Scope. A review is aimed at obtaining a limited level of assurance. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of Royal BAM Group nv as at 31 December 2019 and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

- The Company financial statements give a true and fair view of the financial position of Royal BAM Group nv as at 31 December 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.
- The sustainability information in Material themes (pages 20-21), Business Conduct and transparency (pages 37-38) and Safety (KPI: IF BAM, KPI: number of serious accidents, KPI: safety behaviour audit) in chapter Social performance (pages 30-41) in the integrated report 2019 of Royal BAM Group nv is prepared, in all material respects, in accordance with the Sustainability Reporting Standards (core option) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in appendix 9.6 Non-financial reporting process and methods.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of the policy and business operations with regard to corporate social responsibility and the thereto related

events and achievements for the year 2019 in accordance with the Sustainability Reporting Standards (core option) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in appendix 9.6 Non-financial reporting process and methods of the Report.

Based on our procedures performed according to the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, we conclude that the other information included in the Report, including the Executive Board report and the report from the Supervisory Board:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 and section 2:135b of the Dutch Civil Code.

Basis for our conclusions

We performed our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'.

Our responsibilities under those standards are further described in the section Our responsibilities in this report.

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our independence

We are independent of Royal BAM Group nv in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence)' and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagements. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)'.

Our scope

Our engagements scope

The Report of Royal BAM Group nv consists of the financial statements and other information, including the Executive Board report and the report from the Supervisory Board, that provides altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of Royal BAM Group nv during reporting

year 2019. The following information in the Report has been in scope for our assurance engagements:

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2019;
- The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The Company financial statements comprise:

- The Company statement of financial position as at 31 December 2019;
- The Company income statement for 2019;
- The notes comprising a summary of the accounting policies and other explanatory information.

The sustainability information comprises:

- Reasonable assurance – Sustainability information in the following paragraphs/chapters: Material themes (pages 20-21), Business conduct and transparency (pages 37-38) and Safety (KPI: IF BAM, KPI: number of serious accidents, KPI: safety behaviour audit) in chapter Social performance (pages 30-41) - hereafter: the selected sustainability information.
- Limited assurance – All other sustainability information reported in the paragraphs/chapters Business model (pages 11-13), Strategy (pages 14-18), Stakeholder engagement and material themes (pages 19-21), Social performance (pages 30-41), Environmental performance (pages 42-49), Non-financial reporting process and methods (pages 214-216), GRI Disclosures as disclosed on the website of Royal BAM Group nv – hereafter: the other sustainability information.

The other information comprises:

- Key figures.
- Executive Board report.
- Report from the Supervisory Board.
- Remuneration report.
- Other information pursuant to the requirements of Part 9 of Book 2 of the Dutch Civil Code.
- Chapter 9: appendices.

Limitations to the scope of our assurance engagement on the sustainability information

The sustainability information includes prospective information, such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

The references to external sources or websites in the sustainability information, except for the GRI Disclosures, which are available on the website of Royal BAM Group nv, are not part of the sustainability information as reviewed and audited by us. We therefore do not provide assurance on this information.

Reporting criteria

The financial statements and the sustainability information need to be read and understood together with the reporting criteria. Royal BAM Group nv is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

The reporting criteria used for the preparation of the financial statements and the sustainability information are presented below.

Consolidated financial statements	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code
Corporate financial statements, report by the board of management and report of the Supervisory Board	Part 9 of Book 2 of the Dutch Civil Code
Sustainability information	Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in appendix 9.6 Non-financial reporting process and methods on pages 214-216 of the Report.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance, human resources and regional directors) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 4. 'Critical accounting judgements and key sources of estimation uncertainties' in the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements

For the audit of the financial statements our considerations regarding the materiality are as follows:

Materiality	€35 million (2018: €34 million)
Benchmark used	0.5 per cent of revenue
Additional explanation	Based on our analyses of the common information needs of users of the financial statements, we consider profit before tax the most appropriate benchmark to determine materiality. However, profit before tax has been volatile in recent years and is not yet at a representative level, given the size of the business. For this reason we considered revenues to be a more appropriate benchmark to determine the materiality.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of €1.75 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the Company.

We agreed with the Supervisory Board that misstatements which are identified during the review and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our scope for the Group audit of the financial statements

Royal BAM Group nv is the head of a group of entities primarily located in BAM's home countries (Belgium, Germany, Ireland, the Netherlands and United Kingdom), along with certain corporate functions part of Royal BAM Group nv's headquarters. The financial information of this group is included in the consolidated financial statements of Royal BAM Group nv.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for entities within the Group. Decisive were the size and/or the risk profile of the entities within the Group or operations. On this basis, we selected entities within the Group for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our Group audit focused on significant entities within the Group. Entities are considered significant either because of their individual financial significance or because they are likely to include significant risks of material misstatement due to their specific nature or circumstances. On this basis, we selected entities for which an audit or review had to be carried out on the complete set of financial information or on specific items. In establishing the overall approach to the audit, we determined the audit procedures required to be performed by us, as Group auditors or by (non-)Ernst & Young Global member firms operating under our instructions.

For the foreign BAM home countries, we involved EY component auditors, who are familiar with local laws and regulations and who applied full scope audits. In order to take responsibility as Group auditor in line with current auditing standards, we visited our component auditors in the Belgium, Germany, Ireland and United Kingdom and furthermore, we discussed the outcome of audit procedures with all component auditors.

BAM International has, for purpose of the 2019 audit, engaged EY Canada for the audit procedures on a project in Canada. For the Middle East projects, BAM has involved a local non-EY audit firm who we visited and we reviewed their work. We concluded that we can rely on both the EY and non-EY component auditors and their work performed in relation to the audit of the consolidated financial statements of Royal BAM Group nv.

We have performed audit procedures ourselves for entities within the Group located in the Netherlands, thereby focusing on the key risk areas. Apart from focusing on significant entities within the Group, we also reviewed and selected projects on a risk basis, thereby taking into consideration the size and nature of projects, as well as the countries in which projects are being executed.

As a result of the above mentioned procedures, we have covered all entities and foreign locations that are material to the consolidated financial statements of Royal BAM Group nv. In addition, we have performed analytical review procedures and made inquiries with the

Executive Board with respect to some smaller locations that are not material and made sure that there are no developments or exposures that should have been covered.

By performing the procedures mentioned above at entities within the Group, together with additional procedures at Group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the consolidated financial statements.

Our key audit and assurance matters

Key audit and assurance matters are those matters that, in our professional judgment, were of most significance in our assurance procedures for the financial statements and the sustainability information. We have communicated the key audit and assurance matters to the Supervisory Board. The key audit and assurance matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our assurance procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

As per 1 January 2019 IFRS 16 'Leases' is effective, which has a significant impact on BAM's financial statements as from 2019. We therefore consider this topic to be a key audit matter for the audit of the financial statements 2019. As BAM has adopted IFRS 15 'Revenue from Contracts with Customers' in 2018 we do not consider this to be a key audit matter for the audit of the financial statements 2019 anymore. Furthermore, we paid additional attention to Royal BAM Group nv's reassessment of the forecasted results due to the lower than expected results of certain CGU's as part of the annual impairment tests on goodwill in 2019.

For the audit of the financial statements 2019 we identified the following key audit matters:

Valuation of projects and revenue recognition

Refer to pages 57-60 (Executive Board Report), pages 122-124 (Critical accounting judgements and key sources of estimation uncertainties) and pages 128-130 (Note 6. Projects)

Key audit matter	How our audit addressed the matter	Key observations
<p>The valuation of projects and revenue recognition are significant to the financial statements based on the quantitative materiality and the degree of management judgment required to account for complex projects and to apply the percentage of completion method. We therefore considered this to be a key audit matter.</p> <p>BAM is involved in large and complex construction projects for which the Company applies the percentage of completion method. The amount of project revenue, profit recognised as well as provisions for onerous contracts in a year is dependent, inter alia, on the actual costs incurred, the assessment of the percentage of completion of (long-term) contracts and the forecasted contract revenue and costs to complete of each project.</p> <p>Furthermore, the amount of revenue and result is influenced by the valuation of variation orders and claims. This often involves a high degree of judgment due to the complexity of projects, uncertainty about costs to complete and uncertainty about the outcome of discussions with clients on variation orders and claims, thereby taking into account the various parts of the world BAM operates in.</p>	<p>Our audit procedures included an assessment of the internal control environment of BAM, testing existence of relevant controls, performing site visits, vouching project valuations and testing the Executive Board's position against supporting documentation and BAM's accounting policy. In cases where a high amount of judgment is involved, we gained additional comfort by comparing the Executive Board's positions to opinions from external parties such as lawyers or surveyors. For long-term contracts, we also compared BAM's current positions taken to the positions taken in previous year, to ensure consistency in the valuation and to perform back testing on this estimate.</p>	<p>Overall, we are of the opinion that projects have been valued in accordance with IFRS as adopted by the EU, thereby taking into account the disclosures with respect to risk and uncertainty mentioned on the pages referred to above. The Report also includes references to those projects valuations considered most significant by the Executive Board.</p>

Implementation of IFRS 16

Refer to pages 97-115 (Summary of significant accounting policies), page 122-124 (Critical accounting judgements and key sources of estimation uncertainties), 132 (Note 8. Right-of-use assets) and 151-153 (Note 20. Lease liabilities)

Key audit matter	How our audit addressed the matter	Key observations
<p>BAM has adopted IFRS 16 'Leases' with effect from 1 January 2019, using the modified retrospective transition approach whereby comparative figures were not restated. BAM chose to apply the transition option whereby the right-of-use asset is measured at an amount equal to the lease liability at transition date.</p> <p>Implementation of the new standard has resulted in a significant impact on BAM's financial statements as from 2019. At transition date the total assets increased with €265 million and the total liabilities with €271 million. We therefore considered this to be a key audit matter.</p>	<p>Our audit procedures focused on auditing BAM's transition adjustments and disclosures and assessing the appropriateness of the applied practical expedients, judgments and assumptions. Specific attention was paid to the completeness of the population of leases by among others an expense analysis on lease costs and a lease commitment reconciliation.</p> <p>We evaluated the completeness and accuracy of the data used to calculate the transition adjustments, which included an assessment of the reasonableness of estimates with respect to the lease term and the incremental borrowing rate.</p> <p>We also determined the accuracy of the lease calculations by the lease accounting tool applied by BAM.</p>	<p>We concur with the IFRS 16 opening balances.</p> <p>We concur with the accounting for leases based on IFRS 16 including the relevant (transition) disclosures made in the Report.</p>

Valuation of goodwill and deferred tax assets

Refer to page 27 (Executive Board Report), pages 122-124 (Critical accounting judgements and key sources of estimation uncertainties), pages 133-134 (Note 9. Intangible assets) and pages 161-163 (Note 24. Deferred tax assets and liabilities)

Key audit matter	How our audit addressed the matter	Key observations
<p>As per 31 December 2019, BAM recognised goodwill (€380 million) and deferred tax assets (€136 million). The valuation of both goodwill and deferred tax assets is primarily based on expected future cashflows and forecasted results, among others derived from the 2020 operating plan as approved by the Supervisory Board and the Executive Board's outlook based on order intake and expected margins for new projects for 2020 and beyond. Estimation of future cashflows and results inherently involves a high degree of judgment. We therefore considered this to be a key audit matter. The Executive Board has re-assessed the ability to realise projected future results to meet the recognition criteria under IFRS. To reflect for the lower than expected results in amongst others Germany, Belgium and the Netherlands, the Executive Board reduced the expected forecasted results for 2020 and onwards. For goodwill valuation purposes, BAM's re-assessed whether projected future results would reduce the available headroom for certain CGU's. CGU's with limited headroom are disclosed on page 134 of the Report. The reduced expected forecasted results led to an impairment of €24.6 million of the recognized deferred tax assets related to tax losses carried forward in the Netherlands and Germany.</p>	<p>Our audit procedures included an assessment of the Company's assumptions underlying the estimated future (taxable) results for their reasonableness and consistency with internal budgets, strategic plans for future years, order intake and expected margins for new projects for 2020 and beyond. We also challenged the Executive Board's expectations of future (taxable) results, challenged risk adjustments made by the Executive Board and we assessed the historical accuracy of the Executive Board's assumptions (back-testing) and analysed the rationale for differences between expected results and the actual results.</p> <p>We involved a tax and valuation specialist to determine the reasonableness of the assumptions and models used by BAM in determining the valuation of goodwill and deferred tax assets.</p>	<p>In our opinion, the Executive Board's assessment on the recognised goodwill and deferred tax assets is reasonable and within the acceptable range of the requirements of IFRS.</p> <p>Realisation of the forecasted results should further evidence assumptions and the related valuation of goodwill and deferred tax assets. We do note assumptions may be impacted by future changes in the assessment and/or outcome of variable considerations on various projects as well as the long term expectation on the operational performance of BAM.</p>

Valuation of land and building rights

Refer to pages 122-124 (Critical accounting judgements and key sources of estimation uncertainties) and pages 128-130 (Note 6. Projects)

Key audit matter	How our audit addressed the matter	Key observations
The estimates for valuation of land and building rights relate to terms which vary from one year to more than thirty years, because of which the estimation uncertainty is significant. We therefore considered this to be a key audit matter.	We have assessed the calculations of the land's net realisable values and challenged the reasonableness and consistency of the assumptions used by the Executive Board. We also determined consistency with prior years and external available information such as external appraisals and plans and decisions of government bodies. We also compared the Executive Board's assumptions concerning the development of house prices with independent expectations of external parties and institutions.	In our opinion, the valuation applied by BAM is in line with IFRS as adopted by the EU.

For the assurance engagement on the sustainability information, we identified the following key assurance matter:

Completeness registration of safety incidents

Refer to pages 30-41 (Executive Board Report) and pages 214-216 (Appendix 9.6 Non-financial reporting process and methods)

Key assurance matter	How our assurance engagement addressed the matter	Key observations
Royal BAM Group nv uses and discloses own reporting criteria for the KPI 'Incident Frequency BAM' (hereinafter: IF BAM) and the 'number of serious accidents'. The complexity of the scoping of the indicators and the decentralised organisation of BAM inherently involves risk that not all safety incidents are registered.	Our assurance procedures focused on the suitability of the reporting criteria, inquiry of responsible personnel from different levels within the organisation on how BAM monitors this risk and which controls are in place to mitigate this risk. We performed testing procedures, on group and operational Company level, to verify the completeness of the registered safety incidents. We have also reviewed whether the disclosures in the Report, including any inherent limitations in measurement, are adequate.	We concur with the reporting criteria applied and the disclosures made.

Report on other legal and regulatory requirements

Engagement

We have been appointed in the shareholders meeting on 22 April 2015 as auditors of Royal BAM Group nv as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Agreed upon procedures on debt covenants and other financial ratios;
- Assurance on other items than the consolidated financial statements of Royal BAM Group nv (such as local statutory audits and assurance on the Carbon footprint Scope 1 and 2 as included in the Report 'CO₂ emissie inventaris' of Royal BAM Group nv;

- Assurance on sustainability information as described in the section 'Our scope' of this report.

All other non-prohibited services provided have been pre-approved by the Audit Committee.

Responsibilities

Responsibilities of the Executive Board and the Supervisory Board

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the other information, including the Executive Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with Section 2:135b of the Dutch Civil Code.

The Executive Board is also responsible for the preparation of reliable and adequate sustainability information in accordance with the Sustainability

Annex to the combined independent auditor's report

Work performed

Reporting Standards of the GRI (core option) and the applied supplemental reporting criteria, including the identification of the stakeholders and the determination of material issues. The choices made by the Executive Board with respect to the scope of the sustainability information are included in paragraph 9.6 Non-financial reporting processes and methods (pages 214-216) of the Report.

Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or errors.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless the Executive Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the (financial) reporting process of Royal BAM Group nv.

Our responsibility

Our responsibility is to plan and perform the assurance engagements in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our audit of the financial statements and our audit of the selected sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Our review of the other sustainability information is aimed to obtain a limited level of assurance. The assurance procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

Amsterdam, 20 February 2020

Ernst & Young Accountants LLP

Signed by A.A. van Eimeren

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements performed by a multi-disciplinary team, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our review to obtain limited assurance about the sustainability information included the following:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the Company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Executive Board
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or errors. Designing and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These further review procedures consisted of:
 - Interviewing the Executive Board and relevant staff at corporate and local levels responsible for the sustainability strategy, policies and results
 - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
 - Determining the nature and extent of the review procedures for

locations. For this, the nature, extent and/or risk profile of these locations are decisive. Based thereon we selected the locations to visit. The visits to multiple sites and offices of BAM's Operating Companies in Belgium, United Kingdom and The Netherlands are aimed at, on local level, valuating source data and evaluating the design and implementation of internal controls and validation procedures

- Reviewing, on a limited test basis, relevant internal and external documentation
- Performing an analytical review of the data and trends
- Evaluating the consistency of the sustainability information with the information in the Integrated Report which is not included in the scope of our review
- Evaluating the presentation, structure and content of the sustainability information
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

In addition to the procedures mentioned above, for the selected sustainability information we designed and performed further audit procedures responsive to the risks identified and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the other sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures included the following procedures:

- Obtaining a more detailed understanding of the systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the design and implementation of the relevant internal controls during the reporting year
- Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the selected sustainability information.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed on the other information is substantially less than the scope of those performed in our audit of the financial statements or in our review of the sustainability information.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for entities within the Group. Decisive

were the size and/or the risk profile of the entities within the Group or operations. On this basis, we selected entities within the Group for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements and the assurance engagement on the sustainability information of the current period and are therefore the key audit and assurance matters. We describe these matters in our combined independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

8.2 Proposed appropriation of result

The net result for 2019, amounting to €11.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2019 of €2 cents in cash per ordinary share or in shares, at the option of the shareholders with repurchase and cancellation of shares to offset dilution. Based on the number of ordinary shares outstanding at year-end 2019, a maximum of €5.5 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.

Antarctic infrastructure modernisation



In partnership with client British Antarctic Survey, designers SWECO and technical experts Ramboll, BAM Nuttall and BAM International are working on the Antarctic Infrastructure Modernisation Programme. The programme aims to keep the United Kingdom at the forefront of climate, biodiversity and ocean research.

In 2019, the team worked on the deconstruction of the old Rothera Wharf and constructed the first phase of the 74-metre-long wharf for the new polar research ship RRS Sir David Attenborough. Also part of the programme is the comprehensive modernisation of the Rothera Science and Operations building (the largest British Antarctic research station) as well as improving facilities and working conditions at other British Antarctic Survey research stations.

The application of digital construction has brought benefits when planning work in this remote, harsh and sometimes hazardous environment that the team faces during delivery. The construction of Rothera Wharf is scheduled to complete summer 2020, and groundworks for the Rothera Science and Operations building started recently.

David Seaton, British Antarctic Survey, Antarctic Infrastructure Programme Manager: 'Work to date on Rothera Wharf has seen some exceptional results and innovative engineering. The teams from BAS, BAM, SWECO and Ramboll completed all that they set out to do. They delivered their work on time to the highest standards of quality, safety and environmental performance.'

8.3 Articles of Association provisions governing the distribution of profit

(Summary of Article 31 of the Articles of Association)

From the profit realised in any financial year, an amount will first be distributed, where possible, on the class B cumulative preference shares, calculated by applying the percentage stated below to the mandatory amount paid up on those shares as at the start of the financial year for which the distribution is made. The percentage referred to above will be equal to the average of the Euribor rates for money market loans with a maturity of twelve months – weighted according to the number of days for which these rates prevailed – during the financial year for which the distribution is made, plus one percentage point. Euribor refers to the Euro Interbank Offered Rate as determined and published by the European Central Bank.

Subsequently, if possible, a dividend will be distributed on each financing preference share of a certain series, with due consideration of the provisions of this article, equal to an amount calculated by applying a percentage to the nominal amount of the financing preference share concerned at the start of that financial year, plus the amount of share premium paid in on the financing preference share issued in the series concerned at the time of initial issue of the financing preference shares of that series, less the amount paid out on each financing preference share concerned and charged to the share premium reserve formed at the time of issue of the financing preference shares of that series prior to that financial year. If and to the extent that a distribution has been made on the financing preference shares concerned in the course of the year and charged to the share premium reserve formed at the time of issue of the financing preference shares of the series concerned, or partial repayment has been made on such shares, the amount of the distribution will be reduced pro rata over the period concerned according to the amount of the distribution charged to the share premium reserve and/or the repayment with respect to the amount referred to in the preceding sentence.

The calculation of the dividend percentage for the financing preference shares of a certain series will be made for each of the series of financing preference shares referred to below, in the manner set forth for the series concerned.

Series FP1 to FP4

The dividend percentage will be calculated by taking the arithmetic mean of the yield to maturity on euro government loans issued by the Kingdom of the Netherlands with a remaining term matching as closely as possible the term of the series concerned, as published in the Euronext Prices Lists, plus two percentage points.

Series FP5 to FP8

The dividend percentage will be equal to the average of the Euribor rates for money market loans with a maturity of twelve months – weighted according to the number of days for which these rates prevailed – during the financial year for which the distribution is made, plus two percentage points.

The above percentages may be increased or reduced by an amount of no more than 300 basis points.

The above percentages apply for the following periods: series FP1 and FP5: five years; series FP2 and FP6: six years; series FP3 and FP7: seven years and series FP4 and FP8: eight years. After a period expires, the percentage will be modified in accordance with the rules laid down in Article 31 paragraph 6(c) of the Articles of Association.

The Supervisory Board shall determine, on the basis of a proposal by the Executive Board, what part of the profit remaining after application of the above provisions will be added to the reserves. The part of the profit that remains thereafter is at the disposal of the General Meeting, subject to the provision that no further dividends will be distributed on the preference shares and with due consideration of the other provisions of Article 31 of the Articles of Association.

8.4 Anti-takeover measures

Royal BAM Group nv (hereafter 'the Company') has taken the following measures to protect itself against any undesired developments that might have an impact on the independence, continuity and/or identity of the Company and the group of companies associated with the Company (hereinafter 'the Group').

Pursuant to a resolution passed by the General Meeting held on 12 June 1972, the Articles of Association include the possibility of issuing preference shares. Stichting Aandelenbeheer BAM Groep (hereafter referred to as 'the Foundation') was founded with a view to this possibility in 1978. The objective of the Foundation is to look after the interests of the Company and the Group. Specifically, the Foundation seeks to ensure that the interests of the Company, the Group and all their stakeholders are safeguarded as much as possible, and that influences which could undermine the independence and/or continuity and/or identity of the Company and the Group and which are in conflict with those interests are averted to the best of the Foundation's ability. The Foundation attempts to achieve its objective by acquiring and holding class B cumulative preference shares in the Company's capital, by exercising the rights connected with those shares and/or by using its right of enquiry.

As announced at the General Meeting held on 4 June 1992 and considered at the General Meeting on 8 June 1993, the company granted the Foundation an option to acquire class B cumulative preference shares in the Company's capital on 17 May 1993. This option was granted up to such an amount as the Foundation might require, subject to a maximum of a nominal amount that would result in the total nominal amount of class B cumulative preference shares in issue and not held by the company equalling no more than ninety-nine point nine per cent (99.9%) of the nominal amount of the issued share capital in the form of shares other than class B cumulative preference shares and not held by the company at the time of exercising of the right referred to above. The board of the Foundation has the exclusive right to determine whether or not to exercise this right to acquire class B cumulative preference shares. No class B cumulative preference shares have been issued at this time.

On 6 October 2008, the Company granted the Foundation the right, under Article 2:346(c) of the Dutch Civil Code, to submit a petition as referred to in Article 2:345 of the Dutch Civil Code (right of enquiry).

The Supervisory Board and the Executive Board reserve the right, in the interests of the Company and its associated companies, to resolve to take alternative measures in order to protect the Company and the Group against influences that might be regarded by the Supervisory Board and the Executive Board, after balancing the interests of the company and all of the stakeholders in the Group, as being potentially damaging to the independence, continuity and/or identity of the Company and/or the Group.

The Foundation's board consists of three members who are appointed by the Foundation's board, after notification to the Executive Board. The Foundation is supported by its own legal and communication advisors.

The composition of the board as per the end of this financial year is:

J.J. Nooitgedagt, Chairman;
F.K. Buijn;
P. van Riel.

The Chairman of the Foundation's board receives an annual fee of €12,000 from the Foundation. The Foundation pays an annual fee of €10,000 to each of the other members of its board.

The particulars of the board members per the end of 2019 are:

J.J. (Jan) Nooitgedagt (1953)

Mr Nooitgedagt has served on the Foundation's board since 2017 and was appointed Chairman in that same year. He is a Dutch national. A former member of the Executive Board and Chief Financial Officer of Aegon, Mr Nooitgedagt is a member of the Supervisory Board and Chairman of the Risk Committee of Rabobank, Chairman of the Supervisory Board of PostNL and a member of the board of the Stichting Beschermingspreferente Aandelen Fugro. He is also the Chairman of the Board of VEUO, Chairman of the advisory committee establishing Invest-NL, a member of the committee Financial Reporting and Accountancy at the Dutch Authority for the Financial Markets (AFM) and member of the advisory committee Governance, Risk and Compliance at the Dutch Institute of Chartered Accountants.

F.K. (Frederik) Buijn (1950)

Mr Buijn has been a member of the Foundation's board since 2012. He is a Dutch national. Due to his long-term experience as a qualified civil-law notary Mr Buijn is well-versed in commercial law. Mr Buijn is a member of the board of the Stichting Preferente Aandelen Arcadis N.V. He is involved in various large family companies as chairman or member of foundation trust offices and is also Chairman of the Board of the Stichting Instituut Gak.

P. (Paul) van Riel (1956)

Mr Van Riel has been a member of the Foundation's board since 2019. He is a Dutch national. He is a former CEO and Chairman of the Executive Board of Fugro. He is also the Chairman of the Board of the Stichting Preferente Aandelen Arcadis N.V.

8.5 List of principal subsidiaries, joint arrangements and associates

Subsidiaries

%

BAM Bouw en Vastgoed Nederland bv*, Bunnik (Netherlands)	100
uniting the activities of:	
BAM Bouw en Techniek bv*, Bunnik	100
BAM Wonen bv*, Bunnik	100
AM bv*, Utrecht	100
BAM Infra Nederland bv*, Gouda (Netherlands)	100
uniting the activities of:	
BAM Infra bv*, Gouda	100
BAM Infra Energie & Water bv, Zwolle	100
BAM Infra Rail bv*, Breda	100
BAM Infra Telecom bv, Zwammerdam	100
BAM Infraconsult bv*, Gouda	100
BAM Belgium nv, Brussels (Belgium)	100
uniting the activities of:	
Interbuild nv, Wilrijk-Antwerp	100
Galère sa, Chaudfontaine	100
BAM Contractors nv, Brussels	100
Kairos nv, Wilrijk-Antwerp	100
BAM Construct UK Ltd, Hemel Hempstead (United Kingdom)	100
BAM Nuttall Ltd, Camberley, Surrey (United Kingdom)	100
BAM Deutschland AG, Stuttgart (Germany)	100
Wayss & Freytag Ingenieurbau AG, Frankfurt am Main (Germany)	100
BAM International bv*, The Hague (Netherlands)	100
BAM Contractors Ltd, Kill, County Kildare (Ireland)	100
BAM PPP bv*, Bunnik (Netherlands)	100

Joint arrangements

%

BAM PPP PGGM Infrastructure Coöperatie U.A. (Netherlands)	50.0
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Associates

%

Infraspeed (Holdings) bv, Haarlem (Netherlands)	10.5
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A list of associates as referred to in Sections 379 and 414, Book 2, of the Netherlands Civil Code has been deposited at the Office of the Trade Register in Utrecht.

* In respect of these subsidiaries, Royal BAM Group nv has deposited a declaration of joint and several liability pursuant to Section 403, Part 9, Book 2 of the Netherlands Civil Code.

9

Appendices

Office tower to LEED standards

Spreeturm, Berlin, Germany

BAM Deutschland is working on a new sustainable office tower, located on the former border strip between East and West Berlin, which will offer flexible office spaces. The building will be designed and constructed according to the LEED (Leadership in Energy and Environment Design) certification system, which defines a series of standards for environmentally friendly, resource-saving and sustainable construction. Spreeturm's completion is scheduled for 2020.



9.1 Royal BAM Group nv shares

Stock exchange listing

BAM has been listed on Euronext Amsterdam since 1959 (symbol: BAMNB; ISIN code: NL0000337319). The share is included in the Amsterdam Midcap Index (AMX) and the Euronext NEXT-150 Index. Options are traded by Liffe, the Euronext derivatives exchange. The market capitalisation was €734 million at year-end 2019 (year-end 2018: €687 million).

Investor relations policy

The purpose of the investor relations policy is to provide accurate, transparent, consistent, information simultaneously and timely to stakeholders, which include existing and potential shareholders, financial institutions, brokers and the media. BAM wants to ensure a clear understanding about its strategy, performance and decisions to create awareness and confidence. Information is made available through the annual integrated report, quarterly (financial) information, press releases and presentations to investors, which are all available on the website. BAM discloses price-sensitive information without delay by press release and on its site.

BAM publishes quarterly (financial) information. The full-year and half-year results are presented at analyst meetings. The trading updates for the first quarter and the nine months are presented during conference calls. These events are held in the English language and can be followed live or on demand on the website. BAM organises road shows and participates in investor conferences to meet existing and potential investors. All data and venues are published on the website.

BAM observes a closed period in which no meetings with existing or potential investors take place. For the annual results, this period extends from 1 January up to the date of publication. For the half-year results the closed period extends from 1 July up to the day of publication. For the trading updates after the first quarter and the nine months, it extends from 1 April and 1 October, up to the day of publication.

BAM is covered by analysts of all major Dutch brokers; they are key in distributing information to support the investment case to their clients. Research reports about BAM are available through these brokers. Contact details are available on the website.

All activities comply with the rules and regulations of Euronext Amsterdam and the Dutch Authority for the Financial Markets (AFM).

More information about investor relations is available on www.bam.com under the link Investor relations or from Manager Investor Relations Michel Aupers, e-mail ir@bam.com, telephone +31 (0)30 659 89 88.

Share price

The 2019 closing price of the ordinary share was €2.69, which was 7 per cent above the closing price at year-end 2018 (€2.51). The AMX index ended the year 38 per cent higher. BAM's share price increased by 13 per cent over the last five years. By way of comparison, the AEX and the AMX index rose by 42 per cent and 43 per cent in the same period.

Graph 51 shows the history of the BAM ordinary share price over the past five years.

51 - Ordinary share price movement



Trading volume on Euronext Amsterdam

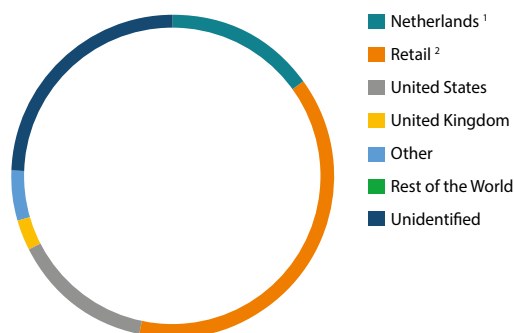
The average daily trade was 2,528,000 ordinary shares (2018: 1,723,000). In 2019 the average daily trade in BAM shares was €7.9 million (2018: €6.2 million).

If necessary, ING and Rabobank act as liquidity providers for the trade in ordinary shares.

52 - Information per share*(in € per share, unless otherwise indicated)*

	2019	2018	2017 ⁴	2016	2015
Number of ordinary shares ranking for dividend	273,296,017	273,296,017	273,213,334	270,621,583	270,393,982
Average number of ordinary shares	273,495,636	273,490,657	272,215,432	270,503,004	270,956,691
Net result ranking for dividend	0.04	0.09	(0.05)	0.17	0.04
Net result from continued operations	0.04	0.09	(0.05)	0.17	0.04
Average number of ordinary shares (diluted)	299,039,187	298,269,233	296,427,682	283,642,546	270,956,691
Number of ordinary shares ranking for dividend (diluted)	299,157,729	298,297,517	297,584,081	294,547,317	270,393,982
Net result (diluted)	0.04	0.09	(0.05)	0.17	0.04
Net result from continued operations (diluted)	0.04	0.09	(0.05)	0.17	0.04
Cash flow before dividend	0.69	0.43	0.18	0.60	0.44
Equity attributable to shareholders	2.30	2.61	2.64	3.08	3.34
Dividend ¹	0.02	0.14	0.10	0.09	0.02
Payout (in %)	40	40	50	50	50
Dividend yield (in %) ²	7.4	5.6	2.6	2.1	0.4
Highest closing price	4.38	4.16	5.46	5.02	5.16
Lowest closing price	2.16	2.37	3.45	2.97	2.22
Price on 31 December	2.69	2.51	3.83	4.39	5.13
Average daily trade (in number of shares)	2,528,000	1,723,000	1,926,000	1,717,000	3,117,000
Market capitalisation at year-end (x €1,000) ³	734,074	687,066	1,053,239	1,193,267	1,387,121

¹ Dividend proposal 2019. ² Based on share price at year-end. ³ Based on total number of ordinary shares in issue. ⁴ Adjusted for IFRS 15.

53 - Geographical distribution shareholders
as at 31 December 2019

¹ Netherlands including treasury shares

² Retail, Primary dutch shareholders

Shareholders

BAM closely monitors the development in its shareholder base by following public market information and a yearly shareholder identification report. Under the Dutch Financial Supervision Act, shareholders of 3 per cent or more must disclose to the Dutch Authority for the Financial Markets (AFM) and when these shareholders transfer to a different threshold level. The Company holds 6,111,432 (2 per cent) treasury shares, of which 1,629,402 shares for the long-term incentive plan of management.

54 - Shareholders owning 3 per cent or more in BAM's share capital as at 31 December 2019

Ownership	Date of last notification	Interest above 3 per cent since
Dimensional Fund		
Advisors Ltd.	4.8% 27 September 2019	26 July 2018
NN Group N.V.	5.5% 26 May 2015	February 1992
I.M. Fares	5.0% 24 October 2014	July 2013

According to the AFM register of substantial shareholdings, three institutional investors have real interests of 3 per cent or more. Changes may have occurred, however, within the disclosure thresholds.

Number of outstanding ordinary shares

55 - The movement in the number of outstanding shares

	2019	2018
Outstanding ordinary shares as at 1 January	278,779,019	274,925,419
Shares issued for stock dividend	628,430	3,853,600
Outstanding ordinary shares as at 31 December	279,407,449	278,779,019
Treasury shares to offset dilution stock dividend	(4,482,030)	(3,853,600)
Treasury shares held for Performance Share Plan	(1,629,402)	(1,629,402)
Ordinary shares ranking for dividend as at 31 December	273,296,017	273,296,017
Percentage ordinary shares ranking for dividend	97.8%	98.0%

Subordinated unsecured convertible bonds

In 2016, BAM placed €125 million subordinated unsecured convertible bonds to redeem the existing subordinated loan of the same amount. The transaction was in line with BAM's financing strategy to strengthen its balance sheet by lengthening the maturity and broadening the sources of its funding. It also improved BAM's commercial position and supports the execution of its strategy.

The bonds have an annual coupon of 3.5 per cent, an initial conversion premium of 32.5 per cent and are convertible into ordinary shares of BAM with a nominal value of €0.10 each. The bonds were issued at 100 per cent of their principal amount and, unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at their principal amount on or around 13 June 2021.

Upon exercise of their conversion rights, holders will receive shares at the then prevailing conversion price. BAM will have the option to call all but not some of the outstanding bonds at their principal amount plus accrued but unpaid interest from 28 June 2019, if the value of the shares underlying a bond exceeds €130,000 for a specified period of time. The bonds are trading on the Open Market (Freiverkehr) segment of the Frankfurt Stock Exchange.

More details of the subordinated unsecured convertible bond are published on www.bam.com under the link Investor relations.

Dividend policy

BAM has a dividend policy to distribute a dividend between 30 and 50 per cent of the net result for the year. When deciding upon the dividend, the Company takes into account the balance sheet structure supporting the strategic agenda Building the present, creating the future and the interest of the shareholders. In accordance with the Company's dividend policy the proposal is to distribute a dividend of 2 euro cents per ordinary share for 2019 (2018: 14 euro cents). This equates to a payout ratio of 40 per cent of the net result in line with BAM's policy. Subject to approval by the Annual General Meeting on 15 April 2020, this will be paid in cash in May 2020.

9.2 Five-year overview

(x € million, unless otherwise stated)

	2019	2018	2017	2016	2015
Revenue	7,209	7,208	6,535	6,976	7,423
Operating result	52.3	105.2	10.4	52.8	2.3
Result before tax	50.6	114.5	20.0	60.1	13.3
Net result attributable to the shareholders of the Company	11.8	23.8	(13.8)	46.8	10.2
Basic earnings per share (in €1)	0.04	0.09	(0.05)	0.17	0.04
Diluted earnings per share (in €1)	0.04	0.09	(0.05)	0.17	0.04
Dividend per ordinary share (in €1) ¹	0.02	0.14	0.10	0.09	0.02
Equity attributable to the shareholders of the Company	628.4	729.0	721.3	834.3	902.1
Subordinated convertible bonds	120.5	117.6	115.0	112.5	-
Subordinated loan	-	-	-	-	124.3
Capital base	748.9	846.7	836.3	946.7	1,026.5
Net investment in property, plant and equipment	67.7	72.2	70.7	45.1	41.7
Net additions right-of-use assets	115.8	-	-	-	-
Depreciation, amortisation and impairment charges of:					
- Property, plant and equipment	54.0	63.7	55.0	62.5	67.9
- Right-of-use assets	99.7	-	-	-	-
- Intangible assets	16.2	6.0	5.2	5.0	7.4
- Other impairment charges	8.2	20.6	3.9	47.6	34.3
Cash flow before dividend	189.9	117.4	50.5	161.9	119.8
Total impairment charges	18.5	23.8	4.8	50.7	39.1
Order book ²	12,659	12,692	11,636	10,193	11,480
Number of employees as at 31 December (in FTE)	19,517	20,194	19,720	20,370	21,916
Average number of employees (in FTE)	19,433	20,156	19,837	19,486	21,248
Ratios (in %)					
Result before tax and impairment charges as % of revenue	1.0	2.1	0.4	1.6	0.7
Net result to the shareholders of the Company as % of revenue	0.2	0.3	(0.2)	0.7	0.1
Net result to the shareholders of the Company as % average equity	1.7	3.3	(1.8)	5.4	1.2
Solvency ratios (in %)					
Equity attributable to shareholders as % of total assets	13.8	15.9	16.1	17.3	18.6
Capital ratio as % of total assets	16.5	18.5	18.6	19.7	21.2
Current ratio as current assets divided by current liabilities	0.95	1.02	1.00	1.04	1.07

* Due to the implementation of IFRS 16, leases are no longer classified as operational or financial lease, but are recognised as a right-of-use asset.

¹ For 2019 dividend proposal.

² Order book comprises both signed contracts and agreed upon orders.

9.3 Non-financial information* and diversity information reference table

Topic	Subtopic	Included (yes/no)	Page reference
Business model	N/A	Yes	11-12
Relevant social and personnel matters (e.g. HR, safety etc.)	A description of the policies pursued, including due diligence	Yes	12, 21, 30-43
	The outcome of those policies	Yes	21, 30-43
	Principal risks in own operations and within value chain and how risks are managed	Yes	21, 57-59, 217-222
	Non-financial key performance indicators	Yes	30
Relevant environmental matters (e.g. climate-related impacts)	A description of the policies pursued, including due diligence	Yes	12, 21, 42-48, 217-222
	The outcome of those policies	Yes	21, 42-48
	Principal risks in own operations and within value chain and how risks are managed	Yes	21, 57-59, 217-222
	Non-financial key performance indicators	Yes	42
Relevant matters with respect to human rights (e.g. labour protection)	A description of the policies pursued, including due diligence	Yes	21, 37-38, 222
	The outcome of those policies	Yes	37-38
	Principal risks in own operations and within value chain and how risks are managed	Yes	37-38, 57-59
	Non-financial key performance indicators	Yes	21, 38
Relevant matters with respect to anti-corruption and bribery	A description of the policies pursued, including due diligence	Yes	21, 37-38, 218
	The outcome of those policies	Yes	37-38
	Principal risks in own operations and within value chain and how risks are managed	Yes	21, 57-59, 218
	Non-financial key performance indicators	Yes	37-38
Insight into diversity (Supervisory Board and Executive Board)	A description of the policies pursued	Yes	63-64, 78-79
	Diversity targets	Yes	63-64, 78-79
	Description of how the policy is implemented	Yes	63-64, 78-79
	Results of the diversity policy	Yes	63-64, 78-79

* In compliance with 'Besluit bekendmaking niet-financiële informatie' which is the implementation of the EU Directive 2014/95/EU on Non-Financial information.

9.4 Key financial dates

15 April 2020	Annual general meeting of shareholders
7 May 2020	Trading update first quarter 2020
20 August 2020	Publication of half-year results 2020
5 November 2020	Trading update first nine months 2020
18 February 2021	Publication of annual results 2020
14 April 2021	Annual general meeting of shareholders
6 May 2021	Trading update first quarter 2021
19 August 2021	Publication of half-year results 2021
4 November 2021	Trading update first nine months 2021

Young BAM Germany meets in Hamburg



In September 2019, Young BAM Germany met in Hamburg to visit the construction site of the Überseequartier. After the visit there was ample opportunity to exchange ideas and meet colleagues from other disciplines or locations. Similar meetings in the course of the year took the Young BAM members to Frankfurt and Stuttgart.

Young employees from BAM Deutschland and Wayss & Freytag Ingenieurbau are associated in Young BAM Germany with the aim of inspiring, networking and supporting young people in their professional development. It offers a platform for exchanging experiences, asking questions, sharing personal ideas and supporting each other in their further development.

9.5 Glossary

Adjusted result before tax	Result before tax excluding restructuring costs, impairment charges and pension one-off.
Adjusted pre-tax margin	Adjusted result before tax divided by rolling-year revenue.
Capital base	Equity attributable to the shareholders of the Company plus subordinated convertible bond.
Capital employed	Non-current assets plus net working capital and cash and cash equivalents.
Capital ratio	Capital base divided by total assets.
Carbon footprint	Total amount of greenhouse gas (GHG) emissions caused during a defined period, or across the total or part of the duration of a project. It is expressed in terms of the amount of carbon dioxide equivalents CO ₂ (e) emitted.
Cash flow before dividend	Net result attributable to the shareholders of the Company adjusted for depreciation, amortisation and impairment charges.
Community engagement	The process by which community benefit organisations and individuals build ongoing, permanent relationships with the purpose of applying a collective vision for the benefit of a (local) community.
Comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with shareholders in their capacity as shareholders.
Current ratio	Current assets including assets held for sale divided by current liabilities including liabilities held for sale.
Earnings per share	Net result attributable to shareholders divided by the weighted average number of ordinary shares in issue during the year.
EBIT	Earnings before interest and tax.
Emissions and waste	BAM solely reports CO ₂ emissions. Other greenhouse substances, such as CH ₄ (methane), N ₂ O (nitrous oxide) are excluded as they are considered not material. BAM reports all waste leaving its sites and offices.
General Meeting	Annual general meeting of shareholders.
GHG	Greenhouse gases which have a global warming impact.
HSE	Health, safety and environment.
IF BAM	Incident frequency including all BAM site employees on own work and joint ventures.
Incident frequency (IF)	The total number of industrial accidents leading to absence from work per million hours worked on construction sites.
Industrial accident	An unintended occurrence during a period of paid work that results in physical injury or illness, including accidents that occur during business trips (during working hours, no commuting). In case of an accident involving multiple victims the number of accidents is considered equal to the number of victims.
Net debt	Long-term borrowings plus short-term borrowings less cash and cash equivalents.
Net working capital	Current assets (excluding cash and cash equivalents) minus current liabilities (excluding current borrowings and current lease liabilities).
Return on capital employed (ROCE)	Rolling-year EBIT divided by the average four-quarter rolling capital employed.
Return on equity (ROE)	Rolling-year net result divided by the average four-quarter rolling invested equity.
Serious accident	An industrial accident that leads to the person involved being admitted to hospital for more than 24 hours or results in electrocution, amputation or fracture with and without lost time.
Solvency	Equity attributable to shareholders of the Company divided by total assets.
Total shareholder return (TSR)	Metric used to compare the performance of companies in BAM's peer group's shares over time. The relative TSR position reflects the market perception of overall performance relative to the peer group.
Trade working capital	Net working capital excluding land and building rights, property development, PPP receivables, other financial assets, other receivables, taxes, derivative financial instruments, provisions, other liabilities and assets and liabilities held for sale.
Trade working capital efficiency	The average four-quarters' trade working capital divided by rolling-year revenue.

9.6 Non-financial reporting process and methods

Reporting criteria: GRI Standards – Core

This report has been prepared 'in accordance' with the GRI Standards: Core option. An overview of the GRI disclosures covered by this report is available on BAM's website (www.bam.com/en/sustainability/reports-and-policies). In this overview, more information is disclosed on the nature and coverage of reporting per GRI disclosure (e.g. quantitatively or qualitatively).

Reporting period and reporting frequency

This report presents both quantitative and qualitative data for the calendar year 2019. For some operating companies or topics an exception is made and a reporting period of 1 December 2018 to 30 November 2019 is applied. BAM allows for this different reporting period when due to a complex operating and reporting structure more time is required to ensure that the reported data are reliable and adequate. BAM considers the effects of a different reporting period as not material to the Group's integrated report. There have been no significant changes from previous reporting periods in the scope and boundaries.

Reporting boundaries

Sustainability performance and data are accounted for according to BAM's share of equity. As an exception to this rule, BAM International reports all sustainability data for joint arrangement projects in which it is the leading party. In general, BAM views disclosure regarding acquisitions and divestments on a case-by-case basis.

Reporting process

The integrated report, including all material aspects, is compiled by the Executive Board and discussed with the Supervisory Board. BAM uses a reporting system for non-financial information (including safety, CO₂, waste and HR), as an extension of the financial reporting system. The applied reporting processes and definitions are formalised in BAM's non-financial reporting manual, which provides guidance on how to collect, consolidate and report data.

Reporting indicators

For BAM's main non-financial indicators this chapter provides further insight below. For other quantitative indicators disclosures on the reporting scope and methods used are given elsewhere in this report.

Safety

BAM defines its incident frequency (IF) as the number of BAM employees (not including site employees outsourced to external companies) involved in industrial incidents leading to absence from work per million hours worked on construction sites. Reportable incidents are based on actual occurrences and are never extrapolated or estimated. Despite all measures and an open safety culture there is an inherent risk of incomplete accident reporting. BAM is partially dependent on information provided by the person involved in an accident. Reported hours are measured, calculated or estimated. The absolute number of reported serious accidents covers all BAM employees, subcontractors, hired employees and thirds on own projects and BAM employees, BAM

subcontractors and direct hired employees by BAM on joint ventures.

For all companies, except for BAM International, BAM includes only employee-related accidents and hours. BAM International takes into account all persons working under its direct supervision even though they may not have a labour contract with BAM directly. As a result, the accidents and hours worked by all persons working under the supervision of BAM International and irrespective of their labour contract are included in the reported incident frequency.

Creating uniform safety reporting across all operating companies is one of the strategic objectives which create access to the right management information. BAM is in the process of enhancing the reporting process for worked hours of subcontractors. The Group strives to obtain reliable information by implementing automated on-site entrance systems such as tourniquets, fingerprint readers, iris scans and card systems.

BAM safety behavior audit

The audit was carried out following the official BAM safety behaviour audit (BAM-SBA) questionnaire 2016, which is aligned with the BAM Health and Safety Directive of January 2015. The audit template consists of the sections: safety climate, management system and site conditions. Each section is scored independently with all elements collated to provide the overall score. Additional points may be added for innovative practices and where areas of concern, points deducted. The scoring of the various sections is marked from 1 to 5 as below:

No evidence of commitment	Poor	0% - 40%
Slight evidence of commitment	Fair	41% - 60%
Commitment evident but room for Improvement	Good	61% - 80%
Good commitment demonstrated	Very good	81% - 90%
Excellent commitment demonstrated	Excellent	91% - 100%

Safety climate: management ambition and commitment to keeping workers safe is demonstrated through words and actions. Visual leadership coaching/ supporting the organisation, demonstration of intervention and enforcement where necessary.

Management system: safety policies, processes and procedures used to the task specific requirements (including resources) to achieve its safety objectives by risk management, supply chain management and continuous improvement. Demonstrate learning ability of the organisation. Compliance with the law and safety regulations (including the Royal BAM Safety Directive).

Site conditions: site setup, site logistics, collective and personal measurements to mitigate the task specific risks. Safe physical work environment and equipment. Demonstrate how to plan for safety and engage with the workforce.

The reported SBA score is the average of all individual operating company scores. It is the responsibility of safety officers from

the operating company to organise the SBA interviews in detail and select the projects within the overall planning. Safety officers have to take into account the diversity in areas, business units, type of projects, phase of the projects. The selection of various projects could result into fluctuation of the score between the years. During all SBAs an independent person is present to oversee the results of all SBAs.

Human Resources (HR)

HR data are obtained twice a year using a standardised reporting platform. HR data are derived from the HR accounts held by BAM's operating companies. Due to different definitions used, breakdowns in paragraph Organisational development and employee engagement (▶ page 34) are based on figures that do not match the total number of FTE in Key figures. This does not result in different insights.

Energy consumption and CO₂ emissions

BAM's energy consumption and greenhouse gas inventory is based on the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, Revised Edition (2013: Corporate Standard) as issued by the World Business Council for Sustainable Development and the World Resources Institute. BAM reports its greenhouse gas emissions as CO₂ equivalent, taking into account other greenhouse gasses than CO₂. BAM calculates the energy consumption (in terajoules) and CO₂ emissions associated with BAM's energy consumption, using conversion factors from reputable and authoritative sources. BAM applies country-specific conversion factors for electricity and natural gas, based on GHG emissions reported in national inventory reports (NIR). BAM uses tank-to-wheel emission factors. All conversion factors are reviewed annually and updated if necessary.

The Group's reporting scope includes its direct CO₂ emissions (scope 1 emissions, from BAM's own sources), indirect CO₂ emissions from the generation of purchased electricity consumed by BAM (scope 2 emissions) and employee travel-related scope 3 emissions.

The GHG Corporate value chain (scope 3) accounting and reporting standard for full scope 3 reporting has not been implemented. Contrary to the Greenhouse Gas Protocol BAM reports fuel consumption by leased vehicles under scope 1 emissions. Energy consumption from district heating and use of public transport are considered negligible and therefore not included in BAM's overall energy consumption and related CO₂ emissions. The basis for consolidated energy consumption and CO₂ emissions is activity data, which in turn are based mostly on meter readings, invoices and data provided by suppliers. Where reliable data are not available, BAM uses calculations or estimations using reliable methods and input data. BAM is satisfied that the estimates are reliable in all material respects.

Where clients provide BAM with electricity and BAM is able to receive reliable information on its client-supplied electricity consumption, the Company includes this consumption in its

carbon footprint. Similarly, information received on CO₂ emissions associated with air travel is included in BAM's scope 3 emissions.

It occurs on projects that BAM supplies fuel and electricity to subcontractors. In accordance with BAM's non-financial reporting manual the supplied fuel and electricity to subcontractors should be measured and excluded from reported figures, unless fuel and electricity are supplied under the supervision of BAM. In practice, however, it is not always possible to determine how much fuel is supplied to subcontractors. In that case BAM accounts for all CO₂ emissions.

Waste

The reporting scope includes all waste leaving BAM's sites and offices, mainly based on waste tickets and data provided by suppliers. Reported waste is either measured, calculated or estimated using reliable methods and input data which can be based on BAM's experience in comparable works. Excavation waste and demolition waste are especially difficult to measure and are more often calculated.

Construction and office waste consists of temporary and permanent (construction) materials and packaging brought on to sites which are to be discarded and subsequently leave offices, construction sites and/or BAM sites such as depots or premises.

Materials

BAM reports the amount of materials used and the recycled content of various materials used by Dutch operating companies. Raw materials which are consumed in large quantities and which have a significant impact on natural resources have been selected. The Group reports on concrete, timber, asphalt and steel.

The raw material consumption in the Netherlands was determined using supplier reports. Extrapolation of data is applied to cover all suppliers. BAM aspires to keep the extrapolated data below 20 per cent. The results are verified against BAM's procurement database, internal and external experts. The recycled content is determined based on information provided by suppliers.

True Price of asphalt

The True Price calculations of LE2AP and conventional asphalt are made by a third party and contain inherent estimates and specialised supplier data. The methodology has been checked for logic and consistency, yet it is known that different visions on the cost of CO₂ are available and that the cost of CO₂ is subjective. A comparison by True Price has been performed to evaluate the bandwidth of CO₂ cost, in which a conservative estimate is used by True Price.

Local sourcing

For the Dutch companies BAM has investigated the extent to which its purchases are sourced locally. BAM has defined local sourcing as a purchase done with a supplier who is located in the same country as the construction site. BAM determines the percentage of local sourcing based on the country of residence of its suppliers.

Verification of this report

In order to provide BAM's stakeholders comfort over BAM's sustainability information, the Executive Board has appointed Ernst & Young Accountants LLP (EY) to provide independent assurance of the report. As in previous years, BAM has obtained reasonable assurance for the following KPIs: IF BAM, number of serious accidents, safety behaviour audit, as included in the 'Safety' section in ► paragraph 3.2. Additionally EY has provided reasonable assurance over the 'Material themes' section in ► paragraph 2.3 and the 'Business conduct and transparency' section in ► paragraph 3.2. For all other information reported in ► paragraphs 2.1, 2.2, 2.3, 3.2, 3.3 and 9.3, 9.6 and 9.7 BAM has obtained limited assurance.

Uganda

Various dates in 2019, Kibale

50,000 trees on degraded land, to restore and protect tropical rainforest, including the habitat for primates. Together with local villagers, the Uganda Wildlife Authorities (UWA) have set up three tree nurseries. A total of around 155 villagers have found employment through BAM's tree-planting initiative, either in nursery work, planting activities or maintenance.



Switzerland

25 October 2019, Hardwald, Basel.

500 oak trees were planted in replacement of pine trees which did not survive the hot and dry summer of 2018. 'We all have a responsibility for the sustainable use of our environment. The fact that almost all BAM Swiss employees volunteered to plant trees says a lot about the culture in our company', said

Stephan Wüstemann, Managing Director of BAM Swiss AG.



9.7 Material themes and management approach

The content of this chapter is an integral part of the Executive Board Report as required under EU Directive.

Definition

Impact

Management approach

Health and safety

Health and safety (zero accidents) of all employees and subcontractors and everyone involved with BAM's activities, including the general public.

'BAM borrows its employees from their families', is how BAM expresses its responsibility for everyone who works with and for BAM. There is nothing more important than everyone returning home safely. Health and safety at work contribute to the satisfaction of the employees of the Group and their family members, BAM's subcontractors, its supply partners and others involved in BAM's construction sites. Safety also affects BAM's clients and BAM's reputation.

BAM has developed a Group-wide guideline for safety management. All safety management systems from operational companies must comply with this framework. Meeting the strategy means focussing on the quality of the underlying goals: striving for the ambition 'zero accidents' every day is the goal for safety. Zero accidents means the mindset (intrinsic motivation) and the true belief that it is feasible to create a safe working environment that means 'everyone returns home safe every day'.

► For BAM's performance, see paragraph 3.2 Social performance.

Project and product quality and control

Quality of the tender process, efficient project management and effective project execution with the aim to meet or exceed the expectations of the client.

In order to exceed client expectations, BAM must continuously improve the experienced performance of BAM's products. Product quality means that BAM does what it has promised to do, within budget and on time. Operational performance is crucial for achieving the right level of financial and non-financial results for construction projects.

BAM has the tender process focussed on quality of its tenders in order to guarantee the current and future results of construction projects. The evaluation of the internal governance framework has resulted in the updating of the business principles and management guidelines, including the strengthening of project selection and BAM's tender process for large and high-risk projects. In connection with this development, peer reviews are carried out on project estimates under the leadership of the Tender Desk Director. In order to comply with product responsibility, BAM assures that projects where its operating companies are responsible for design and construction are certified. In other projects (PPP projects) BAM uses verification and validation methods. Each operating company has a quality manager who is responsible for the quality control of the operating company's processes. System audits are conducted by third parties. On all levels, outcomes are assessed by the senior management of BAM's operating companies.

► For BAM's performance, see paragraph 2.2 Strategy and chapter 4 Risk management.

Definition

Impact

Management approach

Business conduct and transparency

Openness and compliance with generally accepted standards and values and compliance with local legal and other rules and regulations, in particular with regard to the acquisition and execution of contracts.

BAM's reputation and licence to operate depend on responsible business conduct, by stimulating dialogue about dilemmas. Ensuring compliance with anti-corruption legislation improves efficiency through lower transaction costs for BAM and its stakeholders. Moreover, BAM is of the opinion that doing business honestly is of vital importance for the strengthening of the competitive position of both BAM and its partners. Competitive behaviour contributes to innovation and collaboration. It creates an environment in which the best products will win and in which BAM's clients will get the best products for the best price. The Group believes that by providing financial and non-financial information on the achievement of BAM's strategic goals, it can continuously improve the reporting process as well as its performance.

For BAM, it is fundamental to comply with generally accepted standards and values but also with local legal and other rules and regulations, particularly with respect to the acquisition and performance of contracts. This is set out in the Group's core values, the Code of Conduct and adjoining policies such as those relating to bribery, corruption and competition. All employees must act honestly, comply with agreements and deal carefully with customers and business partners, including suppliers and subcontractors. The Executive Board encourages this compliance, which is continuously evaluated in order to make integrity a fundamental part of the daily activities. The Group has an enhanced speak-up policy with an external reporting line, so that breaches of the code and policy can be reported through various channels. This policy is easily accessible to employees (e.g. on the intranet) and there is frequent communication around the themes. Compliance officers monitor compliance and advise on integrity issues.

► For BAM's performance, see paragraph 3.2 Social performance.

Financial performance

Overall financial health, including balance sheet, profit and loss, property divestment and working capital improvement.

A healthy financial performance provides BAM with the means to undertake transactions with its supply chain partners, leading to the possibility to develop new activities and to pay BAM's employees and shareholders.

Constant attention is paid to strengthening BAM's balance sheet and net results by improving financial processes to ensure a solid track record of project execution and margin stability, including rigorous monitoring of the cost base in line with BAM's portfolio. Other key elements are working capital management and the execution of a property divestment programme.

Example KPI: Return on capital employed (ROCE) >10 per cent by 2020. ► For BAM's performance, see paragraph 3.1 Financial performance.

Definition

Impact

Management approach

Employee recruitment, development and retention

Encourage employees to use their skills, abilities and experience in a way that adds value to the Company and delivers personal growth, technical innovation and profit.

BAM increases its intellectual capital and the human capital of its stakeholders by investing in employee development. Although the impact of the development of employees on society in general is minimal, it is much greater within BAM, where it contributes to the involvement of employees and lifelong learning. BAM recognises the importance of Group-wide development and implementation of the talent strategy and agenda, succession planning and internal mobility, based on BAM's organisational development and strategic objectives. Talent management allows BAM to attract, develop, motivate and retain productive, engaged employees, now and in the future. BAM is committed to the principles of equal opportunity and diversity. The Group believes that diverse teams are better aligned with the wishes and expectations of its clients and to society in all BAM markets. In line with its vision on diversity, BAM wants to attract people with different profiles and backgrounds to build teams that are suitable for future challenges and will contribute to the achievement of BAM's strategic goals.

The Group's development approach is aimed at encouraging employees to take their development into their own hands, with the manager/company taking on a supporting and facilitating role. The employee's personal development is recorded in a personal learning and development plan. These plans are evaluated annually between manager and employee. BAM offers employees various tools that can be used in their personal development, and which are all accessible via BAM's intranet Connect. With BAM Learning, BAM offers an integrated approach to support employees in achieving their professional goals. The training portfolio enables employees to keep up with their professional knowledge and to further develop the broader skills related to their role and career paths. Courses include topics such as integrity, entrepreneurship, commerce, new contract forms, project and risk management, procurement and financial management. The Group aims to foster an open culture of learning and exchanging knowledge in the form of training and education, building on the knowledge and expertise available. For business and project leadership development, the Group has specialised programmes. Participants for these programmes are nominated by their manager.

► For BAM's performance, see paragraph 3.2 Social performance.

Energy and emissions

Energy consumption for BAM's direct activities and the entire lifecycle of its products, and the CO₂ emissions as a result of this energy consumption.

The Group's energy consumption contributes to a significant amount of its costs and is an indicator of the efficiency of its processes. The construction industry has a high energy consumption compared to others, therefore BAM's energy use has a major impact on society. Climate adaptation and mitigation options can help address climate change, but no single option is sufficient by itself. Effective implementation depends on policies and cooperation from governmental bodies. Urgent action is needed to significantly reduce greenhouse gas emissions and BAM supports global developments like the UN's Sustainable Development Goals (► paragraph 2.2 Strategy for BAM's alignment), the Paris Agreement, the EU Emissions Trading System and the Science Based Target Initiative.

BAM innovates and works with value chain partners to identify possible reductions in both upstream and downstream manufacturing and operational processes. BAM has calculated its carbon footprint in order to identify the main influences and therefore the key areas for potential reduction of emissions. The Group has set targets for both absolute and relative reduction of emissions. BAM monitors and benchmarks progress on these targets on a quarterly basis for different activities within the Company. The Company focusses on reducing its direct CO₂ emissions by lowering energy consumption during the construction process. The Group also maintains its efforts to use higher proportions of renewable energy. By joining the Dutch Climate Coalition (Nederlandse Klimaat Coalitie), BAM has committed to:

- Having climate-neutral operations by 2050;
- Providing insights into its carbon footprint;
- Setting interim targets for climate neutrality;
- Becoming an ambassador of the Dutch Climate Coalition within the construction industry.

Example KPI: CO₂ intensity ► For BAM's performance, see paragraph 3.3 Environmental performance.

Definition

Impact

Management approach

Circular economy

An economy which aims to keep materials, components and products at their highest utility and value, at all times.

BAM has a continuous need for raw materials, water and energy. This means that primary processes are influenced by the increasing volatility of raw materials and energy prices. The products made by the Group must also comply with current and future requirements, with particular attention to the significant influence of changing laws and regulations. Waste production influences BAM's licence to operate and is an indicator for the efficiency of the business processes. In addition, waste products lead to costs due to the low value of residual material. Approximately 25-30 per cent of the total demolition and construction waste in the European Union is generated by the construction process. Being a large construction company, the Group's waste production has an impact on society. Since about 83 per cent of all materials is recycled, this involves large quantities that have to be reused. BAM has identified opportunities for innovation on the basis of changing customer requests, especially with regard to greater attention for the recycling of materials and the use of sustainable materials, including wood from sustainable forests.

BAM is innovating to reduce material consumption during the design process. The Group works with its supply chain partners to identify more sustainable alternatives for production and operational processes, both upstream and downstream. BAM focusses on improving the recycling potential of materials and renewable materials by asking its most important suppliers to provide insight into their origin.

BAM has set targets for waste reduction, waste recycling and responsible sourcing. The Group monitors and benchmarks progress on these targets on a quarterly basis for various activities within the Company. BAM is also the only major construction member of the Ellen MacArthur Foundation's CE100 programme, which promotes the circular economy.

Example KPI: source 100 per cent sustainable timber by 2020. ► For BAM's performance, see paragraph 3.3 Environmental performance.

Community engagement

The relationships with the communities surrounding BAM's activities.

By its very nature, the Group's construction and renovation work has an impact on the local community, residents and other users of buildings and infrastructure, and society as a whole. Community engagement affects the Group's licence to operate and enables BAM to build faster, leading directly to results. The Group's impact on its surroundings immediately affects its employees and local suppliers. And BAM's community engagement improves jobs and education in its environment, contributing to society as well. This requires a constant focus on everything BAM does to minimise the Group's negative impact and create value for local communities by implementing community engagement programmes. Involvement of people from diverse backgrounds provides an opportunity to create social value. BAM actively supports social return, providing work for people who are unemployed for various reasons, for example due to poor education, health issues and people with disabilities. Through the support of BAM, these people benefit from 'social return on investment' initiatives.

For many of its projects, BAM identifies local interests and, on that basis, chooses the best approach to increase the license to operate, which may mean that BAM participates in local events. BAM also participates in the Considerate Constructors Scheme in the United Kingdom, as well as its Dutch equivalent (Bewuste Bouwers).

Example KPI: Enhance one million lives in local communities by 2020. ► For BAM's performance, see paragraph 3.2 Social performance.

Definition

Impact

Management approach

Innovation

The creation of new viable business offerings.

Innovation influences BAM's ability to adapt to changing market needs and competitiveness in relation to current competition and future newcomers to the market. Digital construction is a main theme within BAM's innovation agenda. The benefits of digital construction for BAM and its stakeholders are higher resource productivity, end-user value, sustainability and outcome predictability.

BAM shapes its future portfolio over two tracks. Both tracks are supported by an organisation and a lively ecosystem for innovation. In both tracks BAM focusses strongly on digital innovation.

- Track one, 'Business innovation', follows an innovation stage gate-process to improve and align BAM's current innovation portfolio.
- Track two, 'Scaling edges', uses scalable learning and sprint methodology to develop and scale new business offerings at the edges of BAM's current business.

► For BAM's performance, see chapter 2.2 Strategy.

Procurement strategy

Selecting suppliers and subcontractors and stimulating them to practise their skills and improve their products in a way that adds long-term value to BAM and its clients as well as the suppliers and subcontractors, providing process and product innovation and profit.

Labour policies of the Group's suppliers and subcontractors can affect BAM's reputation. Loss of reputation can lead to less work. The suppliers and subcontractors of the Group must at least adapt their policies to the BAM standards in order to be able to work for the Company. As a result, these standards also have a positive influence outside the Group.

To integrate the development of the Group's supply chain and its values, BAM strives for added value, long-term, mutually beneficial relationships with partners that can help to improve the Group's supply chain. In order to achieve this, BAM is developing selected groups of suppliers and subcontractors on different levels – unit, operating company, country and Group level – within BAM. By having a preferred group of suppliers and subcontractors BAM is able to further interact with the supply chain on a regular basis, thereby creating the possibility to challenge each other to learn, innovate and improve its joint performance for the client. Based on the level of the relationship, there are different types of suppliers and subcontractors, such as preferred suppliers, partners and co-makers. Based on the challenges in client markets, development in the supply chain and performance of the suppliers and subcontractors, the position and role of the suppliers and subcontractors can change. The challenge is, on the one hand, to select up-front supply chain partners, products and services that really make a difference to the value proposition of BAM, and on the other hand let go of suppliers and subcontractors who do not add value. Apart from a more standardised due diligence, suppliers are assessed against five different themes: safety, quality, total cost, logistics and engineering and process. If they score below the required level, BAM starts a dialogue to improve their performance. If they are not willing and/or able to improve their performance, they will be excluded from future work with BAM.

► For BAM's performance, see paragraph 3.2 Social performance

Definition

Impact

Management approach

Fair tax

Compliance to the letter and spirit of tax laws resulting in paying an appropriate amount of tax according to where value is created within the normal course of and being transparent about approach and outcome.

Tax is a relevant subject for BAM and its stakeholders. Tax payments to governments can contribute to the development of countries. On the other hand, optimisation of taxes is in the interest of the Company and its financial position.

BAM strives to come to a responsible approach to tax and supports paying fair tax as an integral part of its strategic agenda.

BAM's tax policy statement is published on the website www.bam.com.

► For BAM's performance, see paragraph 3.1 Financial performance.

Human rights

Ensuring compliance within the entire value chain regarding the basic rights and freedoms to which all humans are considered to be entitled, often held to include the rights to equality, a fair trial, freedom from slavery, and freedom of thought and expression.

Human rights practices within BAM and its supply chain affect the reputation of the Group and are associated with the risk of losing work. The risk of violations of human rights as referred to in the Framework Agreement agreed with the international federation Building and Wood Worker's International (BWI) is considered to be limited by having social audits conducted on a regular basis. Subcontractors have to bring their practices up to at least BAM standards to be able to work for the Company and in doing so will have a positive influence outside of the Group as well.

BAM has signed a framework agreement with Building and Wood Worker's International (BWI), to promote and protect employee rights. By signing the agreement BAM agreed to recognise and respect:

- The fundamental principles of human rights as defined in the Universal Declaration of Human Rights;
- The ILO Declaration on Fundamental Principles and Rights at Work;
- The ILO Conventions in force;
- The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy; and
- The OECD Guidelines for Multinational Enterprises.

Within the agreement, BAM also endorses the need for fair negotiations with national trade unions and acknowledges that corruption, bribery and anti-competitive behaviour are not acceptable. Regular meetings are held with management representatives from BAM and trade union organisations, including BWI, to monitor implementation of the agreement.

Subcontractors must comply with labour conditions as stated in BAM's purchasing conditions. The UK Modern Slavery Act 2015 requires all larger companies to prepare a statement of its activities in this area. Both BAM Construct UK and BAM Nuttall have initiated working groups and are working towards developing their approaches.

► For BAM's performance, see paragraph 3.2 Social performance.

