



Integrated Report 2018



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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.

Key figures

(x € million, unless otherwise stated)

Profit	2018	2017 *
Continuing operations		
Revenue	7,208	6,535
Adjusted result before tax	153.2	24.9
Result before tax	114.5	20.0
Net result attributable to the shareholders of the company	23.8	(13.8)
Earnings per share (in €1)	0.09	(0.05)
Dividends per ordinary share (in €1)	0.14	0.10
Dividend payout (in %) ¹	40	50
Number of shares as at 31 December (x 1,000)	273,296	273,213
Share closing price as at 31 December (in €1)	2.51	3.83
Equity attributable to the shareholders of the Company	729.0	721.3
Capital base	846.7	836.2
Total assets	4,578.0	4,488.6
Order book	12,692	11,636
Net investment in property, plant and equipment	72.2	70.7
Depreciation charges	63.7	55.0
Amortisation charges	6.1	4.5
Impairment charges	23.8	4.8
Cash flow before dividend	117.4	50.5
Ratios		
Adjusted result before tax as % of revenue	2.1	0.4
Net result attributable to the shareholders of the Company as % of revenue	0.3	(0.2)
Net result attributable to the shareholders of the Company as % of average equity	3.3	(1.6)
Solvency ratios		
ROCE (in %)	7.5	0.6
Equity attributable to the shareholders of the Company as % of total assets	15.9	16.1
Capital base as % of total assets	18.5	18.6

* The comparative figures, where applicable, have been restated for IFRS 15.

¹ The dividend payout has been adjusted for a one-off non-cash impairment of deferred tax asset.

Revenue (x € million)

7,208

2017
6,535

Adjusted result before tax (x € million)

153.2

2017
24.9

Net result (x € million)

23.8

2017
(13.8)

Order book (x € million)

12,692

2017
11,636

RATIOS

Adjusted result before tax as % of revenue

2.1

2017
0.4

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

0.3

2017
(0.2)

Capital ratio as % of total assets

18.5

2017
18.6

ROCE (in %)

7.5

2017
0.6

TRADE WORKING CAPITAL

(in % of revenue)

(8.8)

2017
(11.1)

SHARES

Earnings per share

0.09

2017
(0.05)

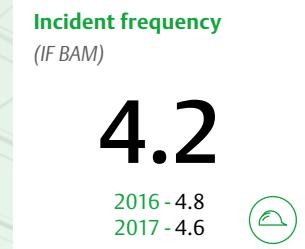
Dividends per ordinary share

0.14

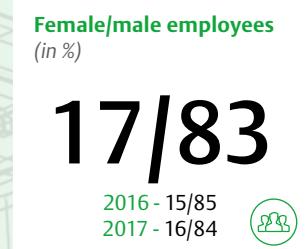
2017
0.10

People	2018	2017
Human resource		
Average number of employees (in FTE)	20,156	19,720
Number of employees as at 31 December (in FTE)	20,194	19,837
Training costs per employee (in €1)	703	614
Female/male employees (in %)	17/83	16/84
Safety		
Incident frequency (IF BAM)	4.2	4.6
Safety Behaviour Audit (SBA)	72	72
Planet	2018	2017
Climate positive		
CO ₂ emissions intensity (in tonnes per € million revenue)	26.8	28.1
CO ₂ emissions (in kilotonnes)	193	186
Energy (in terra joules)	2,744	2,644
Resource positive		
Construction and office waste intensity (in tonnes per € million revenue)	17.9	20.3
Construction and office waste (in kilotonnes)	129	134
Total waste (in million tonnes)	2.3	1.9
Sustainable certified timber (in %)	94	98

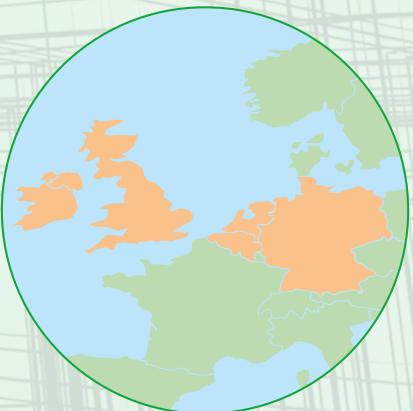
SAFETY



HUMAN RESOURCES



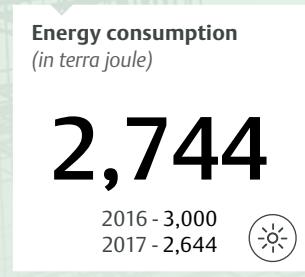
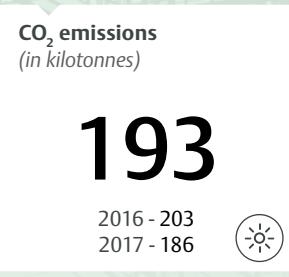
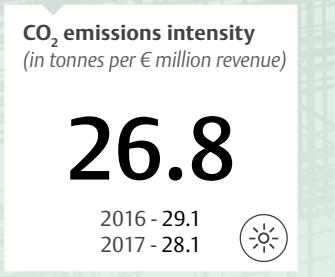
Number of employees (at 31 December, in FTE)



RESOURCE POSITIVE



CLIMATE POSITIVE



Message from the CEO

Music, theatre, conference and exhibition

The Bonus Arena, Hull

BAM Construct UK completed the Bonus Arena in 2018. The new flexible development with a capacity of 3,500 persons is a combined music, theatre, and conference and exhibition venue. The arena is located between Hull city centre and the Humber estuary.



BAM has much to be proud of. With a history stretching back

**150 years, and through a variety of acquisitions, we have
transformed from a small carpentry business into a truly
international construction firm – one of the largest in Europe.**

To celebrate 150 years of constructing and maintaining some of the world's most iconic buildings and infrastructure projects, BAM will plant 150,000 trees in 2019 – giving back to the communities in which we work.

2018 has been a year of good progress for BAM. Most of our businesses performed well, which reflected the benefits of ongoing improvements in our tendering and project execution. Although the sea lock IJmuiden adversely affected our result and cash flow, we have made further steps in de-risking the project. Our overall cash flow for the year was positive and our financial position remained strong.

Adjusted result before tax for the year 2018 improved by €128.3 million to €153.2 million. The adjusted pre-tax margin was 2.1 per cent (0.4 per cent). The overall order book growth (€12,700 million at year-end 2018 compared to: €11,600 million at year-end 2017) was driven by positive market conditions and winning multiyear projects especially in civil engineering in the UK. The margin on the new order intake continued to improve and is well within the strategic target margin bandwidth of 2 per cent to 4 per cent.

Worldwide safety campaign

In 2018 our safety performance improved again and we launched a new campaign: Your Safety is My Safety. We are very grateful to all 20,000 BAM employees for their continuous attention to safety and their efforts to incorporate safer working conditions.

This year's Worldwide BAM Safety Day reflected our collective responsibility for safety, facilitating an open dialogue to engage with all persons involved (employees, supply chain, clients).

Generating sustainable value for all our stakeholders

Our purpose as a company is clear: to create sustainable environments that enhance people's lives. Sustainable in terms of the quality of experience for the hundreds of thousands of people touched by our projects – including our own employees. Providing our clients with sustainable solutions across the total lifecycle of an asset. Minimising our environmental impact. And generating sustainable value for all our stakeholders. To make sure we are delivering on our purpose we have defined clear targets in three categories: people, planet and profit. People, in terms of safety, our employee engagement and enhancing the lives of people by creating skills and learning opportunities and through voluntary

***'Focus to perform
together'***



Rob van Wingerden, CEO Royal BAM Group nv

and charitable work. Planet, in terms of our net positive impact, waste and CO₂ reduction. And profit, in terms of return on capital employed, margin, trade working capital and property investment.

Accelerate strategy execution

To fulfil our purpose, we need to deliver on our strategy: Building the present, creating the future. Doing things better, doing better things and doing new things, including innovating through digital technologies and digital construction so we can anticipate any issues before the implementation phase and make our performance more predictable – in other words, we make it (digitally) before we make it (physically). Enabling our people, our biggest asset, to capitalise on state-of-the-art knowledge and resources, talent and training, and rolling-out our uniform project approach and uniform business controlling, as well as developing an organisational structure and governance to support our One BAM way of working, those are the things that enable us to get the very best out of our company for all our clients and other stakeholders, today and in the future.

Outlook

For 2019, we expect the revenue to be around €7 billion and aim to further improve the adjusted result before tax margin within the strategic target range of 2 to 4 per cent.

Also on behalf of Frans den Houter and Erik Bax, I would like to thank all our stakeholders for their confidence in BAM and especially our employees for their hard work and commitment throughout the year. We are confident that more rigorous strategy execution will enable us to deliver on our 2020 targets supported by our digital and sustainability agenda.

Rob van Wingerden,
CEO Royal BAM Group nv
Bunnik, the Netherlands, 19 February 2019



An icon of the Netherlands

Afsluitdijk dam

Artist's impression of the reinforced Afsluitdijk dam, an icon of the Netherlands. Levvel, a consortium of BAM, Van Oord and Rebel, has started work on the reinforcement of the Afsluitdijk. The contract comprises the design, construction, financing and maintenance of the seawall over a 25-year period. This includes, among other things, applying 80.000 innovative concrete elements, the XblocPlus and a sustainable fish migration river to enhance ecological development.

2.1 Business model

Our organisation

BAM is a large European construction firm with ten operating companies active in two business lines, Construction and Property and Civil engineering. The company employs 20,000 people in its business lines and public private partnership activities.

The Group's activities are in five home markets: the Netherlands, Belgium, the United Kingdom, Ireland and Germany. The Group also delivers projects 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. In BAM home countries BAM International collaborates with local operating companies on specific services and competencies.

Construction and Property

BAM operates 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 full integrated solution to clients. The business line Construction and Property employs approximately 9,000 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 niche markets around the world. The business line Civil engineering employs approximately 10,500 professionals.

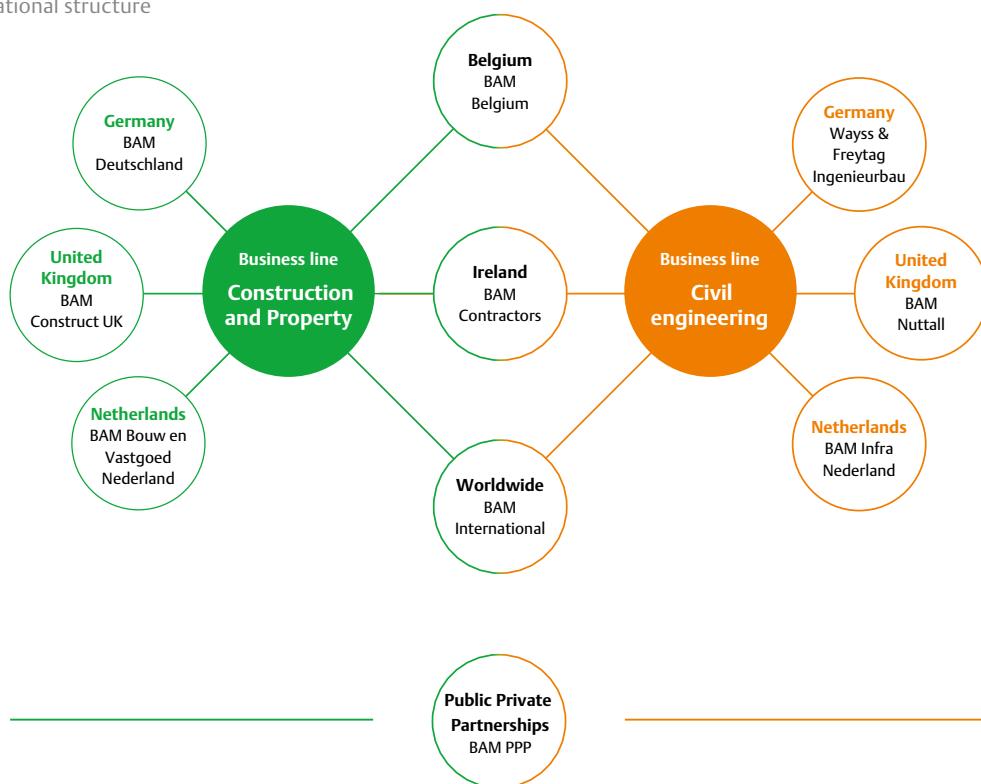
Public private partnerships

BAM is a well-respected player in the European market for public private partnership (PPP) projects. These projects deliver 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.

In December BAM announced it will change the top structure of the company in the first quarter of 2019. BAM will establish an Executive Committee in addition to a two-person Executive Board. With the appointment of a COO for each of its two business lines, the Group will create more focus on its customers and markets as well as strategic and operational priorities. By bringing together executives in an Executive Committee, each with a clear responsibility, BAM will be better able to use its economies of scale in line with the One BAM philosophy.

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

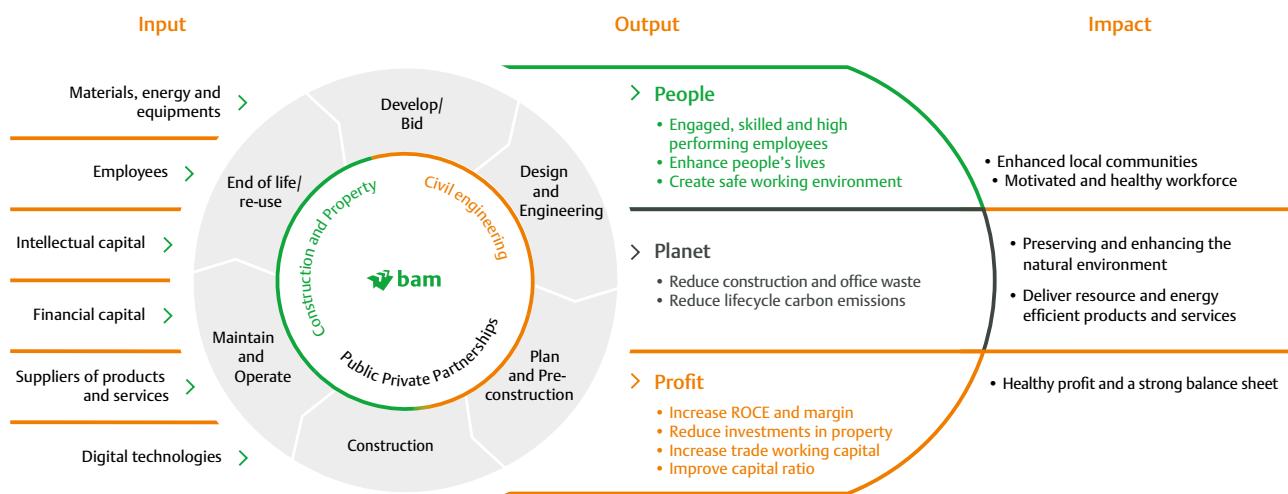
1 - Organisational structure



What we do and how we create value

► Figure 2 is based on the International Integrated Reporting Council's Integrated Reporting <IR> framework and gives an overview of how BAM creates value. BAM uses valuable resources in its primary process and through its activities the Group creates output that generate value for stakeholders and society. 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.

2 - Value creation model



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 BAM 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 the best company to work for.

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

► More details on BAM's primary process and stakeholders can be found in ► figure 3.

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 adopting circular business principles and implementing innovative solutions. BAM will work in close collaboration with its supply chain in achieving common goals and addressing global environmental challenges.

► For BAM's environmental performance, see chapter 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 2 to 4 per cent range margin.

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

Building the present, creating the future

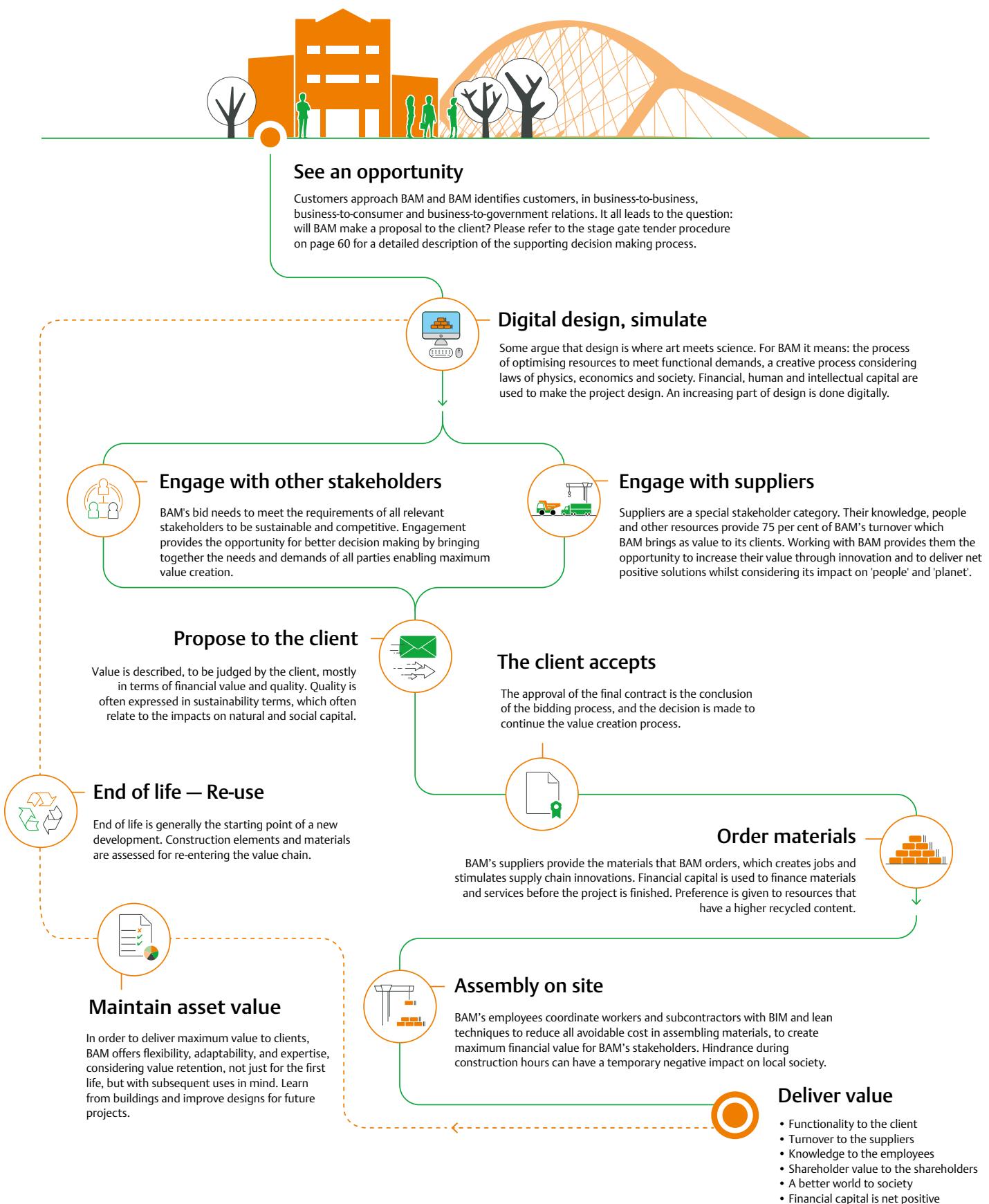
Mission

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, providing solutions across the total construction lifecycle for the Group's clients and generating maximum value for its stakeholders.

Vision

It's BAM's vision that by 2020 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 total construction lifecycle in its European home markets and in selected growing economies around the world.

3 - How we create value



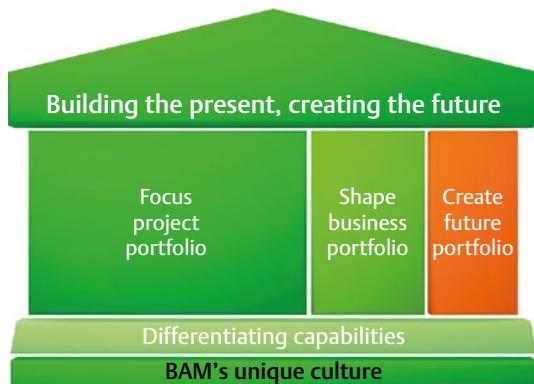
2.2 Strategy

Building the present, creating the future

To realise Building the present, creating the future, the strategy is based on three pillars: focusing the project portfolio, shaping the business portfolio and creating the future portfolio. These are supported by a strong foundation consisting of two layers: culture and capabilities (► figure 4).

In 2018 external influences impacted the construction industry. Firstly, economies across BAM's home markets are growing but global geopolitical uncertainties, (looming) trade wars and uncertainty about the outcome of the Brexit process makes them vulnerable and hesitant. Secondly, (governmental) sustainability agendas and mega trends such as urbanisation and energy efficiency are creating new areas for increased growth. Thirdly, digitalisation is rapidly transforming the construction industry and the built environment. Against this background, the main focus of BAM's strategy for 2016-2020 is to continue to improve profitability and capital efficiency.

4 - 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, reduction of the real estate portfolio to less than €500 million and a reduction of working capital to less than -10 per cent, to have a net positive impact (2050) and reach an incident frequency of less than 3.5 (► figure 7 on page 19).

Focusing project portfolio

Doing things better



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

By constantly analysing the current project portfolio, BAM keeps focus on its project portfolio ('doing things better'). The main drivers for performance improvement are either scale ('cost leadership') or skills ('knowledge partnership'). In market segments where BAM is in price-led competition, BAM achieves cost leadership through project bundling, industrialisation and/or digitalisation. For complex projects, BAM makes use of its knowhow, digital leadership, innovative drive and quality assurance as key differentiating factors. This focus leads to scalable learning in relevant market segments with better propositions for the Group's clients.

Shaping 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 the home markets as extensions of projects along the lifecycle, and leveraging specialisms in international markets. These initiatives will be driven by investments in people and systems and developing partnerships. At the same time, BAM will continue to exit from operational activities not offering sufficient opportunities to use scale or distinctiveness as critical success factors. BAM will continue to reduce its portfolio of property assets.

Creating 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 its 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. BAM 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 for:

- Creating competitive advantage on the basis of innovation, and recurring superior financial returns for its shareholders;
- Improving product and project quality for its clients;
- Improving the attractiveness of the company on the job market and developing and retaining talent;
- Contributing to innovation at its suppliers and subcontractors;
- Building a sustainable environment for society in general.

Differentiating capabilities

BAM's differentiating capabilities and operating model are being sharpened, with a focus on employee training and development and setting minimum requirements. The operating companies are improving their systems, knowledge and expertise for data-driven project selection, tendering and execution. At the same time, Group synergies are being leveraged in areas such as business controls, information management, digital construction, strategic sourcing and partnerships and enhancing local entrepreneurship to serve clients.

BAM's unique culture

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

1. Scalable learning;
2. Predictable performance;
3. Open collaboration;
4. Proactive ownership.

5 - BAM Values



Another fundamental part of BAM's unique culture is its safety ambition of 'zero accidents', allowing everyone to go home healthy every day, and recognition as a leader in safety in the European construction sector. BAM also aims 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. It is underpinned by a strong focus on innovation and solution-oriented approach to delivering BAM's projects and exceed expectations.

Leader in digital construction

BAM was presented with GEOBIM's inaugural 'Leadership in Digital Construction' award, at the Geo|Design+BIM conference on 1 November 2018 in Amsterdam. The awards celebrate companies who are pioneers in digital transformation and have outstanding digital strategies. GEOBIM was particularly impressed with BAM's commitment to increasing awareness of digital through activities such as Digital Construction Live, as well as our culture of innovation and day to day use of technologies such as BIM, virtual, mixed and augmented reality, robotics, drones and 3D printing.

The trophy was collected by Menno de Jonge, Director Digital Construction, who commented: 'This award demonstrates that BAM is well on its way towards achieving its goal of becoming Europe's leading sustainable and innovative construction business.'



Strategy execution

Doing things better



In 2018, BAM was more selective in tendering and focused only on those projects where it could differentiate on scale or knowledge. As a result the quality of BAM's order book improved further in those market segments where BAM can leverage its unique capabilities. Examples of project awards during 2018 reflecting these choices are the reinforcement of the iconic Afsluitdijk dam (the Netherlands), construction of the Edge Grand Central building (Berlin, Germany), the expansion of London City Airport (United Kingdom) and a joint effort of Civil engineering and Construction and Property led to the winning of three large maintenance plots at Schiphol Airport. During tenders, peer reviews were conducted by subject matter experts to ensure that BAM's global knowledge is unlocked to generate the best propositions for the Group's clients.

BAM's Project Management Information tool has now been fully operational for one year. This tool unlocks all financial data on projects in one place and helps colleagues make the best decisions. It is used to analyse project performance and to enable data driven decision making on projects and tenders. With this information BAM can make timely adjustments to retain or improve margins.

Accelerate strategy execution

BAM's financial, social and sustainable performance illustrate the Group's progress in executing the strategy. Key to accelerating the further execution of the strategic agenda is One BAM – a way of working that is aimed at getting the best out of the Group by unleashing BAM's collective knowledge and experience.

To further accelerate the strategic agenda, in 2018 BAM started a program to benefit from scale and skills. BAM developed a Uniform Project Approach (UPA) based on learnings and best practices of BAM's projects around the globe. This results in one uniform way of working on projects for the entire company. With UPA BAM aims to provide benefits for all stakeholders. It makes for a common (project) language, easier knowledge sharing and increased employee engagement. The final goal of UPA is to achieve better – more predictable and comparable – forecasts and results. In 2019 the roll out of UPA will commence in all operating companies.

One BAM also includes changes to the governance and organisational (top) structure. Changes will be implemented in early 2019. To ensure knowledge and common approaches are shared across the Group, support functions will be reinforced with a stronger mandate at Group level. This new way of working is kicking off in Finance, HR and IT, and will eventually extend to other functions.

Doing better things



BAM remains selective in its investments. In 2018, It acquired a company called Tidal Bridge which directly supports BAM's international division to remain a leader in international nearshore construction.

BAM and Heijmans are investigating the possibilities to transfer their current asphalt plants in the Netherlands to a new joint asphalt company. By establishing the new asphalt company, the knowledge, expertise and investments in innovation of both companies can be combined.

Accelerate strategy execution

The Project Management Information tool is used to perform additional strategic analysis on operational activities. This tool enables BAM to make objective analysis on project performance, business units and operating companies. Combined with data from the tendering stage gate procedure this enables improved assessments on operational activities. BAM will continue to build a portfolio of investment opportunities that match its criteria.

Doing new things



Innovation

In 2018, twenty-four innovation initiatives were managed within the innovation funnel. The innovation funnel consists of a stage gate review process of business innovations by BAM's innovation community based on the Lean startup methodology. Some examples in BAM's innovation funnel are: the modular development and production of building installations; robotics to lay brick slips on facade elements and deliver pre-engineered concrete building blocks that can be 3D printed and assembled; and a co-development with startup HARDT to showcase technology and enable a high-speed test facility for the hyperloop.

BAM's startup named b.Home continued its development of the platform to connect suppliers, assistant project managers, foremen and sub-contractors in their collaboration around renovation projects. In 2018 the startup had its first paying customers and received positive feedback from its users.

Digital construction

In BAM's ambition to become a leader in digital construction, it has made good progress in 2018. BAM is externally acknowledged as leader in digital construction and have been awarded international prizes in the area of digital construction, like the award for Global Leadership in Digital Construction from GEO|Design+BIM. BAM has also featured in many international reports on digital construction, such as Forbes Magazine and EY's 2018 Global Digital Survey.

The execution of the digital construction programme is well on track and successes have been reported, such as the BIM Level 2 certifications for BAM Bouw en Vastgoed, BAM Deutschland, BAM Belgium and Wayss & Freytag Ingenieurbau. With that,

95 per cent of BAM's operations are now certified towards BIM Level 2. BAM International aims to be certified by Q3-2019, which will lead to the first internationally operating BIM Level 2 (ISO 19650) certified construction company. Other successes are the development of maturity measurement dashboards, Return of investment (ROI) workshops, development of training and e-learning programs and the specific growth of maturity in BAM's projects around the globe.

Differentiating capabilities



Accelerate strategy execution

In 2018, BAM put an additional focus on Uniform Business Controlling (UBC), aimed to further strengthen accurate management and operational information. This will result in one dashboard bundling all performance information on projects to manageable indicators on detail levels that fit its purpose (from project management to OpCo management to Executive Board). UBC gives comparable and real-time accessible data for better forward looking and uniform reporting. The dashboard makes it possible for management to focus where it is most needed to improve performance and forecasts. In 2018 the beta version of the UBC dashboard is tested at Wayss & Freytag. Further global roll-out will take place in 2019.

BAM's unique culture



One BAM global safety: Your Safety is My Safety

BAM launched a global safety campaign Your Safety is My Safety, within all operating companies.

One BAM Panel

In 2018 BAM upscaled its HR Analytics tool BAM Panel company-wide. BAM introduced the Net Engagement Score (NES) as a single score indicator per OpCo which can easily be used for benchmarking. In this way BAM Panel gives direct insight in employee engagement and helps BAM to improve on segments as indicated by its employees to further improve as employer.

Sharing skills and knowledge through communities

In 2016 BAM created communities along functions and themes. The communities are formed by representatives from all operating companies and are chaired by a community lead. In 2018 all communities were in full force. The activities of these communities reflect BAM's values and accelerate learning and collaboration across all operating companies to operate as One BAM.

In 2018 BAM set up a Smart City platform. Representatives from different operating companies come together to share knowledge and initiatives regarding the concept of Smart Cities, with the goal to develop products and solutions for cities of the future.

BAM's sustainability performance has led to several third-party recognitions. The company was awarded a leadership score (A-) on the CDP climate ranking. BAM recognises more and more market and legislative drivers for solution-oriented, innovative and collaborative projects.

Award for collaboration with European startups

Royal BAM Group is one of Europe's most active corporates in terms of open-innovation, according the Europe's Corporate Startup Stars ranking unveiled in Brussels on 22 November 2018 at an official ceremony at the presence of EU Vice President Katainen. Other companies among the 24 Open Innovation Challengers that were awarded along with BAM were: ABB, ACCIONA S.A., Amazon, Google and Virgin.

This recognition for BAM is due to its procurement from and investment in EU startups, including HARDT Hyperloop and Dutch Analytics, specialists in machine learning and AI solutions for the maintenance industry.

'For BAM, collaboration with startups is crucial to bring out the right skills, disruptive views, speed and creativity to build our future portfolio', says Céline Bent, BAM's head of Innovation. 'We will continue to work with and invest in them to realise our strategy Building the present, creating the future.'



2.3 Stakeholder engagement and material themes

Stakeholder engagement

BAM recognises that real business benefits can only be achieved by involving all stakeholders. BAM continuously engages with its stakeholders 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. The Group has identified its stakeholders based on the risks and opportunities for its business performance, strategy execution and strategic objectives. BAM's key stakeholder groups, and its interactions with those stakeholders are:

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 upmost importance to BAM's clients, and this extends beyond simply delivering a project for the lowest price. Increasingly BAM has been engaged with clients who seek to engage with contractors who's sustainability performance delivers leading safety, innovation and socio-environmental outcomes with lasting benefits.

Providers of financial capital

Communication with investors, financial institutions and the financial community in general 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. All dates and locations of road shows, seminars and other investor relations activities are published on the BAM website. In terms of environmental, social and governance (ESG) performance, BAM has responded to CDP's investor information requests since 2008.

Employees

BAM's employees are the company's most important asset. 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, One BAM 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. In addition BAM is engaged and facilitates more informal interaction through the use of internal and external social media outlets. This ensures BAM stays connected with the next generation of BAM employees.

Suppliers and subcontractors

Supply chain partners are increasingly involved in the early stages of the bidding process and in the development and planning of BAM projects through lean planning meetings. This optimises the efficiency of the construction programme via the value chain. By involving its partners in an early stage, BAM invests in these relationships. Typical discussions between BAM and suppliers are around product and project quality and project progress. In projects suppliers and subcontractors play a large role in delivering performance on health and safety and innovations around circular economy and CO₂ reductions.

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. Main discussion points differ per governmental body, but health and safety as well as human rights are common. Chapter 3.2 of this report describes BAM's results and provides examples of its activities for social involvement in 2018. BAM's target of enhancing one million 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 its activities. BAM is involved in many governmental initiatives including several Green Deals in the Netherlands. BAM is a member of multiple Green Building Councils throughout Europe. BAM 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 Advancing Net Zero, a World Green Business Council global project which aims to promote and support the acceleration of net zero carbon buildings to 100 per cent by 2050.

Multi-stakeholder dialogue

In addition to its engagements with individual stakeholder groups across the business, the Group organises annual multi-stakeholder meetings hosted by CEO Rob van Wingerden. A wide range of stakeholders participates in this event. During the 2018 annual stakeholder dialogue cross-industry trends and movements throughout the entire construction value chain were addressed.

'Working together towards a sustainable future' was the central theme in the 2018 multi-stakeholder dialogue. At this year's special edition, stakeholders and BAM colleagues were invited together with their children. Stakeholders who joined the dialogue were some 137 representatives of clients, financial institutions, suppliers, architects, startups, NGOs, and knowledge institutes that are actively involved with BAM. BAM facilitated

discussion tables around the following themes: smart cities and mobility, circular economy, healthy urban living, life cycle values, energy transition and digital construction. These themes are all big societal challenges that no single party in the value chain can solve on its own. The themes are important for BAM's long-term strategy and with innovative solutions BAM shows how it contributes to the Sustainable Development Goals. This 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.

Discussions for both current leaders and children were facilitated in dialogue sessions that ran in parallel, H.R.H. Princess Laurentien of the Netherlands moderated the session where outcomes from all discussion tables were discussed. Suggested solutions from the different themes varied widely. However, the common denominators from all discussions were on the process how to drive change in collaboration. The main outcomes were:

- We need to change, now is the time to start;
- We can learn from children to spark creativity and use imagination. The ability to ask the right question improves decision making;
- Start small scale, accept to make mistakes, it most likely can't be first time right;
- Create an environment where you can work together and share knowledge in an early stage;
- Make sure the goals are aligned with all parties in the team, a shared vision and shared interest ensure to reach goals.

The session was concluded with a call to action: Dare to be a rebellious and experiment with partners to overcome societal challenges to safeguard a bright future for the generations to come. The conclusions of the multi-stakeholder dialogue were shared with relevant BAM colleagues and participants to ensure that the lessons learned will be used in practice.

Follow up of the stakeholder dialogue includes two round table sessions with the municipality of Bunnik and Eindhoven around urbanisation and mobility. In these sessions smart solutions are developed around bike mobility, for instance a digital bicycle highway at Schiphol Airport 'fly + bike' to reduce car movements by 5,000 a day, hubs to increase connectivity and minimise parking issues and partnerships to scale up bike sharing concepts. A next step on circular economy includes starting a 'taskforce' to develop a circular value proposition for clients.

Material themes

As part of the development of the strategic agenda for 2016-2020, the Group carried out a materiality assessment. Material themes are themes that significantly influence BAM's ability to create value in the short, medium and long term.

To update the 2018 materiality matrix, BAM sent out a survey to stakeholders that were invited to the stakeholder dialogue as

Stakeholder day

On 26 September 2018 BAM organised its stakeholder dialogue. Central questions included: What smart solutions can we create together to keep the Netherlands accessible? Do we still need a driving license, or do we have self-driving cars? Not only adults came up with ideas, also children – aged 10 to 17 – thought along and surprised everyone with their creative insights.

André Kuipers, the Dutch astronaut, opened the day and created a sense of urgency with an inspiring story about what it is like to work together in a small space capsule. Moreover, from space one can see how small and vulnerable our Earth is. 'We can only achieve a sustainable future by working together in other ways. Together we can do so much more,' said CEO Rob van Wingerden.

'Children are uninhibited, honest and curious. They are looking at the world in a different way,' Princess Laurentien said. 'They often have an open, fresh look, creativity and imagination. You do not have to have the best idea right away, stay open to all possibilities and you will be surprised at which smart solutions come up.' BAM announced to establish a BAM Council of Children – in collaboration with Princess Laurentien and the Missing Chapter Foundation – which will help the company with complex sustainability themes.



well as international stakeholders. A detailed description of all material themes, the impact on BAM and the management approach can be found in chapter 9.7. The materiality matrix (► figure 6) displays the prioritisation of the matters based on their relative importance to BAM and to BAM's stakeholders.

Stakeholders could identify and prioritise the potential impact of material themes on themselves and on society. In comparison to last year the prioritisation of material themes remained very similar. Most relevant for the client group were project and product quality and control and business conduct. The group of employees specifically indicated financial performance and project and product quality and control as most material themes. Providers of financial capital indicated that BAM's financial performance is most relevant to their organisations, in addition to business conduct and transparency. BAM's subcontractors and suppliers as well as the group representing society – NGOs, government and knowledge institutes – specifically indicated innovation and procurement strategy as material themes. Regulators indicated the circular economy and community engagement as most material. The stakeholders were requested to introduce and assess matters that were missing in BAM's original materiality assessment. Topics raised by stakeholder include supply chain integration and networking economy (page 40), life cycle thinking (page 48) and health & well-being (page 78).

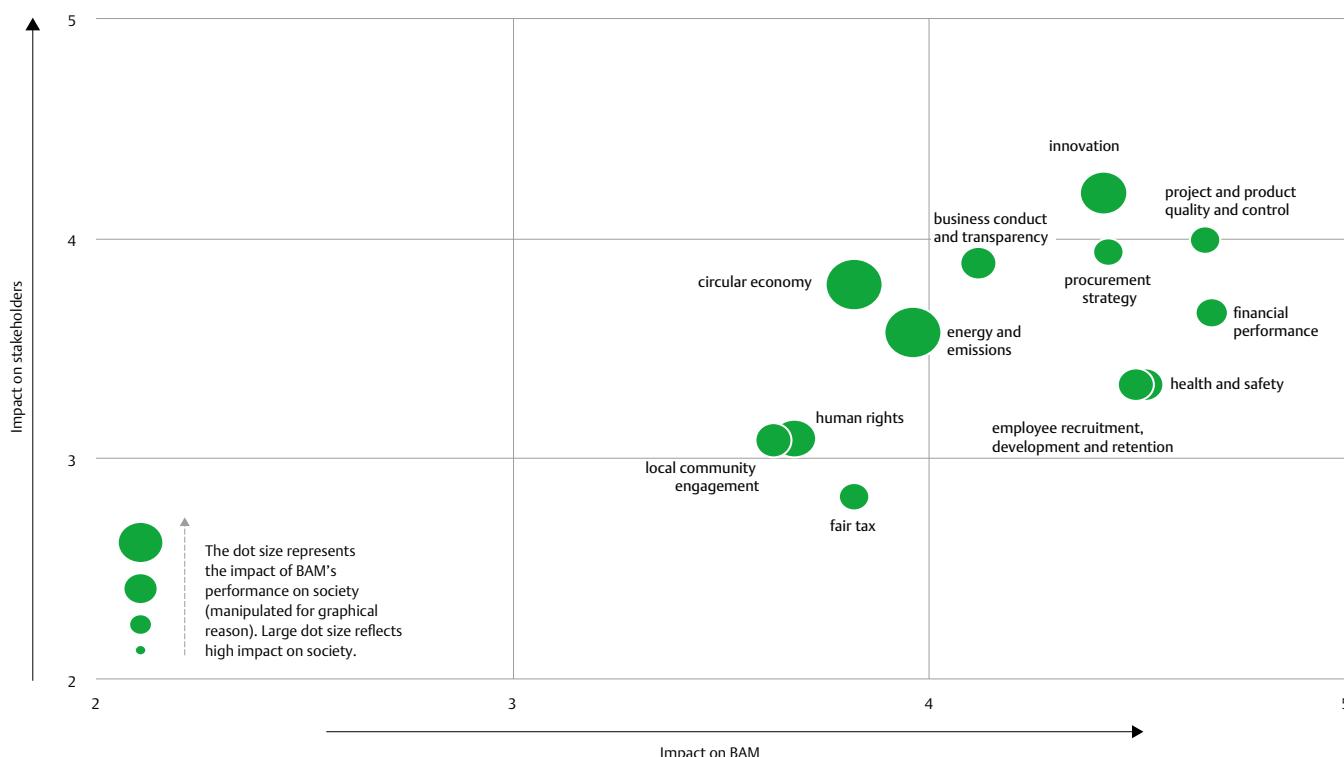
Sustainable Development Goals

BAM values alignment of its strategy with regard to the UN-adopted Sustainable Development Goals (SDGs): 17 goals that serve as a roadmap for good growth by 2030. BAM evaluated the key areas of alignment of the goals with its corporate strategy and the relevant stakeholder material themes. BAM's business potentially impacts all SDGs. However, some have more direct influence within current markets, given the nature of BAM's business. BAM has subsequently considered these global issues in relation to its 2050 Net Positive strategy and has identified key focus areas where progress will be monitored going forward. BAM therefore strives to make a positive contribution to seven SDGs in particular, because these best fit in with its strategy and impact. Results are described in the performance chapters and are indicated with SDG symbols.

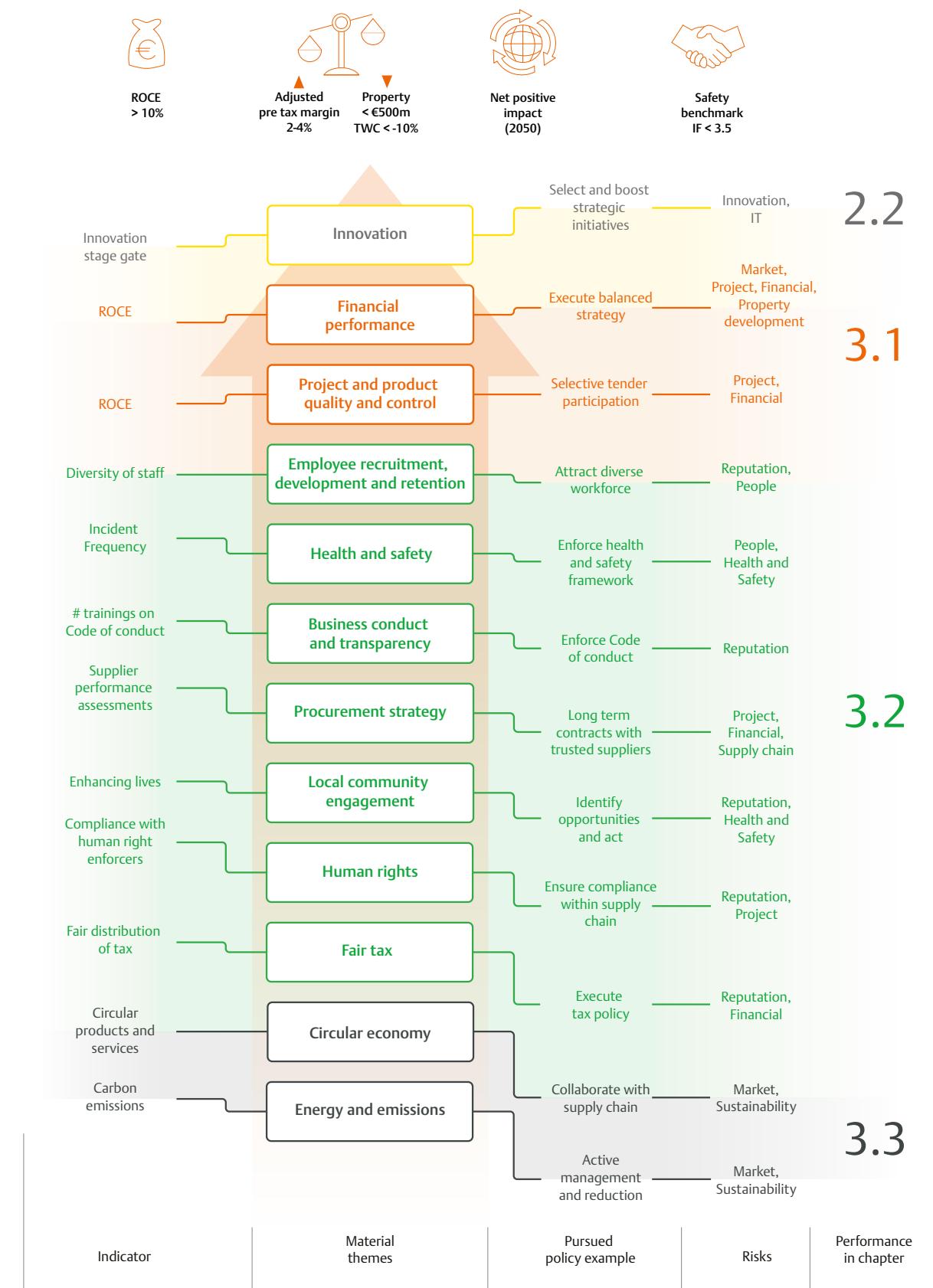
SUSTAINABLE DEVELOPMENT GOALS



6 - Materiality matrix



7 - Link between BAM's strategy, material themes and performance indicators



Timber-framed city centre

The Pavilion, Manchester

In Manchester, BAM Construct UK has completed The Pavilion, a four-storey, timber-framed building which has been greened and softened with landscaped edges and trellises, tiered seating and street furniture, adding some much needed public green space to the urban layout of Manchester City Centre.



3.1 Financial performance

8 - Target: Creating return on capital employed above 10 per cent

Targets	Performance in 2018	Progress
Return on capital employed (ROCE) >10 per cent by 2020	ROCE in 2018 amounted to 7.5 per cent (2017: 0.6 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 2018 improved to 2.1 per cent, compared to 0.4 at year end 2017.	○○●
• Capital employed: Increase trade working capital efficiency below -/- 10 per cent of revenue.	The trade working capital efficiency deteriorated to -/- 8.8 per cent at year-end 2018 compared to -/- 11.1 per cent at year-end 2017.	●○○
• Capital employed: Reduce investment in land bank and property development below €500 million.	BAM achieved net divestments of land bank and property for a total of €5 million in 2018 (2017: €35 million). Balance sheet value for land bank and property down to €564 million (2017: €591 million), including €22 million impairments.	○○●
• Improve capital ratio towards 25 per cent by 2020.	Capital ratio amounted to 18.5 per cent compared to 18.6 per cent at year-end 2017.	●○○

Management summary

2018 has been a year of good progress for BAM. Most of our business performed well, which reflected the benefits of ongoing improvements in our tendering and project execution. Although the sea lock IJmuiden adversely affected our result and cash flow, we made further steps in de-risking the project.

Our overall cash flow for the year was positive and our financial position remained strong. We propose an increased dividend, adjusted for the non-operational and non-cash impairment of the Dutch deferred tax asset, of 14 cents per share.

Conditions in most of our markets are generally positive, although uncertainty over Brexit remains.

We are firmly focused on delivering the targets of our strategy Building the present, creating the future. In order to enhance our project portfolio, we refrain from tenders where acceptable contract terms cannot be achieved. We are in ongoing discussions with public sector infrastructure clients which have to lead to improved risk and reward balance for new projects in our portfolio. We are shaping our business portfolio with our proposed joint venture for asphalt production in the Netherlands. And we are shaping our future portfolio by investing in modular construction in Ireland and the digital experience center for Dutch new build house buyers.

9 - Key financial results
(x €1 million, unless otherwise stated)

	2018	2017 *
Revenue	7,208	6,535
Adjusted result before tax	153.2	24.9
Margin (%)	2.1	0.4
Result before tax	114.5	20.0
Net result attributable to the shareholders of the Company	23.8	(13.8)
Order book	12,692	11,636
Earnings per share	9 cents	-5 cents
Dividend proposal	14 cents	10 cents

* the comparative figures, where applicable, have been restated for IFRS15.

Dutch Analytics

The Dutch railway system is one of the densest in the world. With a total of 91.6 per cent of trains running on time in 2017, the Netherlands is among the top 3 best performing countries worldwide. However, over 4,000 malfunctions were detected in 2017.

The market was asking for a predictive maintenance solution. This created a need for knowledge and skills related to big data and artificial intelligence, which was not available within BAM at that time. With the help of Dutch business incubator the Venture Generator in YES!Delft we created and invested in a startup, which gave us full flexibility and access to the latest disruptive technology as well as young, technically skilled talent.

Among other things, this startup, Dutch Analytics, has already accommodated BAM with a solution to predict future switch malfunctions. As a result, maintenance engineers are able to respond ahead of time. This solution boosts machine uptime of railway assets and reduces operational costs.



10 - Result before tax

(x €1 million, unless otherwise stated)

	2018	2017 *
Continuing operations		
Adjusted result before tax, depreciation and amortisation charges	223.0	84.4
Depreciation and amortisation charges	(69.8)	(59.5)
Adjusted result before tax	153.2	24.9
Impairment charges	(23.8)	(4.8)
Restructuring and other exceptional costs	(3.8)	(0.1)
Pension one-off	(11.1)	-
Result before tax	114.5	20.0
Income tax	(90.1)	(32.9)
Result for the year	24.4	(12.9)
Non-controlling interests	0.6	0.9
Net result attributable to shareholders of the Company	23.8	(13.8)

* the comparative figures, were applicable, have been restated for IFRS15.

Revenue

The revenue increased by €673 million (10 per cent) to €7,208 million. There was growth in all geographies reflecting generally positive market conditions.

Result

The adjusted result before tax for the year 2018 improved by €128.3 million to €153.2 million. The result in the Netherlands improved significantly due to lower impact of sea lock IJmuiden and a higher contribution from residential property development. There were strong results in the UK and Ireland. The performance in Belgium and International remained under pressure from market conditions. The PPP result was slightly ahead of last year.

The revenue and result included €27 million which had been derecognised in the adoption of IFRS 15. There was an offsetting effect from revenues which were not recognised in 2018, but would have been under the old accounting rules.

Impairments reflected mainly the lower valuation of Dutch regional property adjacent to the development of a large wind mill park which is now reduced to the value of farmer's land. The pension one-off item related to the equalisation of Guaranteed Minimum Pensions for men and women in the UK.

Income tax included a non-cash impairment of €72 million (2017: €40 million) on the deferred tax assets. This was related to the lower performance of the Dutch fiscal unity and the negative effect of the lowering of the future Dutch corporate income tax rate.

Order book

The overall order book growth was driven by positive market conditions and winning multiyear projects especially in civil engineering in the UK. The margin on the new order intake continued to improve and is well within the strategic target margin bandwidth of 2 per cent to 4 per cent. Of the current order book position, €5.9 billion (2017: €5.7 billion) is expected to be carried out in 2019 and €6.8 billion (2017: €5.9 billion) in the years after. The growth is particularly noticeable in the civil sector.

Earnings per share

The number of outstanding ordinary shares of the Group increased by 0.1 million in 2018 to 273.3 million shares as at 31 December 2018, due to stock dividend minus the repurchase of shares for the conditional performance share plan. (Diluted) earnings per share amounted to 9 euro cents (2017: -5 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 2018 of €23.8 million included a charge of €72 million for the impairment of deferred tax assets. Since this item is one-off non-operational and non-cash in nature, BAM has added back this item for the payout calculation. Therefore, BAM proposes a dividend of 14 euro cents per ordinary share for 2018 (2017: 10 euro cents) which equates to a payout ratio of 40 per cent of the adjusted net result. Subject to approval by the Annual General Meeting on 17 April 2019, this will be paid in cash with a scrip alternative. BAM will repurchase and cancel shares to offset the dilution due to shareholders taking the scrip alternative.

11 - Financial position (x €1 million, unless otherwise stated)

	2018	2017 *
Cash and cash equivalents	744	696
Less: borrowings	(343)	(503)
Net cash	401	193
Add: non-recourse financing	127	265
Recourse net cash	528	458
Capital employed		
- Non-current assets	1,271	1,424
- Net working capital	(626)	(600)
Shareholders' equity	729	721
Capital base	847	836
Total assets	4,578	4,489
Solvency (%)	18.5	18.6

* the comparative figures, were applicable, have been restated for IFRS15.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 amounted to €744 million (2017: €696 million), of which €173 million (2017: €217 million) concerns the Group's share of cash and cash equivalents in joint operations.

12 - Business cash flow ¹

	Full year 2018	Full year 2017
Group: net cash result ²	171	78
Investments (in)tangible fixed assets	(71)	(83)
Trade working capital ³	(60)	(39)
Net investment:		
- Property	6	80
- PPP	6	1
Other changes in working capital	47	(24)
Business cash flow	99	13
Dividend	(11)	(7)
Restructuring	(11)	(25)
Pensions (additional)	(12)	(12)
Other	(17)	(12)
Change in cash position	48	(43)

¹ These metrics are not directly comparable with the IFRS-based condensed cash flow statement.

² Net cash result is net result excluding depreciation, impairments, cash out related to restructuring, movements of provisions and book profit on sale of PPP projects.

³ Working capital excluding property positions, PPP receivables, assets and liabilities held for sale, derivatives, provisions, taxes, other receivables and other payables.

The business cash flow was again positive with €99 million, predominantly boosted by the net cash result. Investments in (in)tangible assets were below last year, when BAM invested more after years of structural lower investments.

The outflow on trade working capital increased in 2018, predominantly due to loss financing of OpenIJ EPC VOF, the entity in which the construction of sea lock IJmuiden is carried out, and by the deconsolidation of German joint arrangements (impact €92 million) that are now accounted for as joint ventures based on updated accounting interpretations.

Other changes in working capital in 2018 were driven by changes in accruals and positive effects from the cash flow in relation to joint arrangements, predominantly due to the deconsolidation of German joint arrangements. In the same period in 2017 there was a negative effect from the cash flow in relation to joint arrangements. Total impact of deconsolidation of the German Argen included in the business cash flow amounts to a cash out flow of €16 million.

Property cash flow was below 2017, when property positions in the northeast of the Netherlands and stadium Zwolle were sold. In 2018 cash proceeds were partly reinvested in new equity light developments.

Borrowings

As at 31 December 2018 total borrowings amounted to €343 million (2017: €503 million) of which €127 million (2017: €265 million) concerned non-recourse debt. Non-recourse loans associated with PPP projects decreased with €147 million (2017: decrease €84 million), due to the transfer of a project to the joint venture with PGGM. Non-recourse debt related to property development increased with €10 million in 2018.

As at 31 December 2018 a net cash position is achieved of €401 million (2017: €193 million net cash position). This position comprised of cash and cash equivalents of €744 million minus borrowings of €343 million.

The Group had two credit facilities as at 31 December 2018: 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 €4.9997. 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.

The committed syndicated credit facility has a duration until 31 March 2023 and as at 31 December 2018 the committed syndicated credit facility was not used, just as in 2017.

13 - Borrowings

(x €1 million, unless otherwise stated)

	2018	2017
Non-recourse debt		
PPP	43	190
Property	79	69
Other	5	6
	127	265
Subordinated convertible bonds	118	115
Recourse debt		
PPP	14	30
Property	59	80
Financial lease	25	13
	98	123
Borrowings	343	503

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 €528 million as at 31 December 2018, an increase of €70 million compared to 2017.

Capital employed

Non-current assets

On balance, non-current assets decreased in the year with €154 million (2017: decrease €30 million).

As the net capital expenditures in the year were higher than the annual depreciation, the carrying amount of property, plant and equipment increased with €8 million to €290 million. The majority of the capital expenditures concerned the asset category plant & equipment in the sector Civil Engineering.

Intangible assets predominantly contains goodwill with a carrying amount of €373 million, an decrease of €2 million compared with 2017, due to the lower exchange rate of the British pound sterling. Goodwill is tested for impairment annually and this did not result in an impairment. The sensitivity analyses indicated that for the cash generating unit BAM International, representing a goodwill amount of €22 million, a limited headroom remains in case of a negative change of 50 basis points on the discount rate and / or growth rate beyond the forecast period.

The total carrying amount of intangible assets increased with €4 million, mainly due to investment in non-integrated software.

PPP receivables decreased in 2018 to €90 million from €249 million 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) and other financial assets increased in the year with €14 million (from €96 million to €110 million) respectively increased with €9 million (from €92 million to €101 million).

Net working capital

Net working capital (current assets excluding cash and cash equivalents minus current liabilities excluding current borrowings) as at 31 December 2018 amounted to minus €625 million (2017: minus €600 million). Gross investment in property development has been reduced with €27 million in 2018 to €564 (2017: €591 million), as a consequence of property sales, divestments and an impairment charge of €21.9 million (2017: €4 million). Net investment in property development, taking into account associated borrowings, amounted to €431 million (2017: €446 million).

Shareholders' equity and capital base

Shareholders' equity increased by €8 million in 2018 to €729 million as at 31 December 2018. This increase is principally due to the net result for the year of €23.8 million.

Capital base includes the subordinated convertible bonds of €118 million (2017: €115 million). The difference between the nominal value of the convertible bonds of €125 million and the reported value of €118 million, consists of the valuation of the conversion right and transaction cost.

Solvency

As at 31 December 2018 solvency is 18.5 per cent (2017: 18.6 per cent) determined by using the capital base. Given the small increase in capital base and the higher balance sheet total, solvency slightly decreased in 2018. Recourse solvency, the ratio in accordance with the bank covenants, slightly decreased to 27.0 per cent as at 31 December 2018 (2017: 29.6 per cent), which comfortably exceeds the required minimum of 15 per cent.

Other balance sheet items

Post-employment benefits

The net benefit asset amounted to €19 million as at 31 December 2018, a change of €62 million compared to 2017 principally due to changes in actuarial assumptions, specifically the discount rate used.

Provisions

Provisions, other than post-employment benefits, increased by €15 million to €238 million as at 31 December 2018, predominantly due to the net increase of the provision for onerous contracts of €26 million, mainly related to sea lock IJmuiden. In 2018, €5 million was added to the restructuring provision, mainly in Belgium and €11 million was used for payments on restructuring, mainly in the Netherlands.

Deferred tax assets and liabilities

The Group has a net deferred tax asset of €166 million (2017: €235 million) principally reflecting the tax losses carried forward in the Netherlands and Germany. The decrease is due to tax rate cuts in the Netherlands in 2020 and 2021, with an impairment of €26 million and an impairment of €46 million as a consequence of lower performance in the Dutch fiscal unity.

Assets and liabilities held for sale

The assets and liabilities held for sale as at 31 December 2018 amount to €9 million (2017: €9 million) for the assets and €0 million (2017: €0 million) for the liabilities and are fully attributable to one remaining property position to be transferred in the Northeast part of the Netherlands.

Tax

In 2018, BAM recognised a tax expense of €90.1 million (2017: €32.9 million). Excluding the impairment of Dutch deferred tax assets of €72 million, the effective tax rate of the Group for 2018 is 15.8 per cent (2017: -35.6 per cent), influenced predominantly by the use of previously unrecognised tax losses outside the Netherlands and tax incentives.

On corporate income tax, taxes on wages, social security contributions and VAT, the Group paid a total amount of €819 million in 2018 (2017: €725 million). Relative to the Group's revenue, the share of taxes paid deviates most from the share of revenue in the Netherlands. Here, the Group's share of taxes is relatively high compared to revenue.

14 - Taxes paid in 2018

(x €1 million, unless otherwise stated)

	Taxes	%	Revenue	%
Netherlands	422	51	2,712	38
United Kingdom	193	24	1,998	28
Belgium	47	6	703	10
Germany	114	14	820	11
Ireland	24	3	474	7
Rest of the world	19	2	501	7
Total	819	100	7,208	100

Domed roof Utrecht

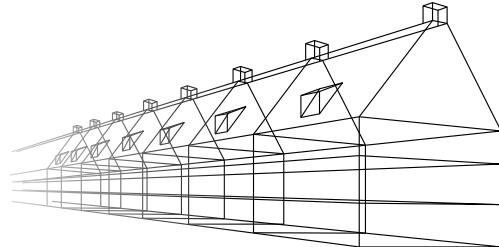
In Utrecht's Central Station area, the Stationsplein square has seen its festive opening. The absolute eye-catcher here is the 30-metre-high domed roof with its round inflatable cushions, which provides a rain-free crossing for pedestrians between the public transport terminal and the Hoog Catharijne shopping mall. Meanwhile, the combination of BAM Bouw en Techniek and BAM Infra are in the second phase of the world's largest bicycle park, which will eventually have a capacity of 12,500 bicycles.



Construction and Property

15 - Construction and Property

(x €1 million, unless otherwise stated)



	2018	2017
Revenue	4,043	3,696
Adjusted result before tax	114.6	68.9
Margin (%)	2.8	1.9
Order book	7,025	6,895

At Construction and Property, revenue increased by €347 million (9.4 per cent) to €4,043 million. Half of this increase was attributable to the Dutch residential construction and development activities. Revenues in most other business grew, driven by improved market conditions. The UK revenue stabilised.

The sector result was up by €45.8 million to €114.7 million (margin of 2.8 per cent) due to the larger contribution of Dutch property and strong results in Ireland and the UK. The construction activities in the Netherlands experienced some margin erosion from supply chain pressure. Germany delivered according to plan a positive result for the full year after the refocusing of activities in 2016. The modest result in Belgium included some claim settlements and small project losses.

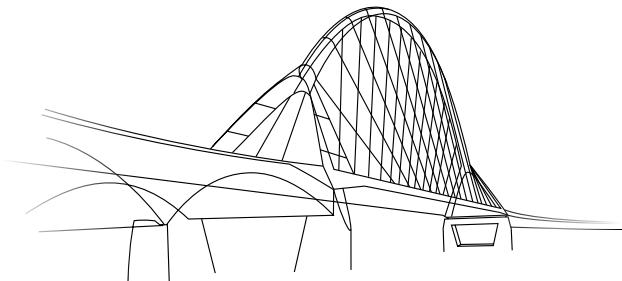
The contribution to the result from property rose to €52.9 million (2017: €26.7 million) mostly coming from Dutch residential. Dutch house sales were up by 6 per cent to 2,448 despite the ongoing constraints in the availability of locations with building permits. The gross investment in property reduced by €27 million, mainly due to the non-cash impairment in the third quarter, to €564 million at the end of 2018. These investments were financed by €53 million recourse property loans (year-end 2017: €75 million) and €79 million non-recourse property loans (year-end 2017: €69 million).

The year-end order book increased by €130 million (2 per cent) to €7,025 million. The increase came mainly from the refocused business in Germany, Ireland due to the strong market position and the Netherlands. In the Netherlands, the order book grew following improved market conditions. The order book was lower in Belgium and at BAM International due to selective tendering.

Civil engineering

16 - Civil engineering

(x €1 million, unless otherwise stated)



	2018	2017
Revenue	3,223	2,907
Adjusted result before tax	19.3	(58.6)
Margin (%)	0.6	(2.0)
Order book	5,577	4,694

In Civil engineering, revenue grew by €316 million (11 per cent) to €3,223 million. This increase came in all businesses, mainly the Netherlands and the UK. The sector result was €19.3 million after a loss of €58.6 million in 2017. Ireland and the UK had strong results which were partly offset by losses in the Netherlands, International and Belgium.

The Dutch activities were mainly held back by the cost overrun at the sea lock IJmuiden and a modest result from the regional activities. At the end of 2018, the first caisson which holds the door of the sea lock was successfully immersed and the lock doors arrived in the Netherlands. The second caisson will be immersed in the second half of 2019. The cumulative cost overrun at this project at year end 2018 was €106.7 million, of which €31.8 million was included in the 2018 results, €7.5 million in the IFRS15 restatement and €67.4 million in the 2017 results. The small losses at Belgium and BAM International reflected the challenging market conditions.

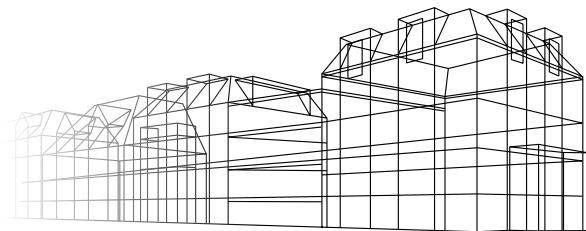
The order book rose by €882 million (19 per cent), mainly due to multiyear project awards in the UK and the Netherlands while maintain tender discipline.

The order book in Germany grew, although the year end number was reduced by the accounting change (deconsolidation) of German Argen.

PPP

17 - PPP

(x €1 million, unless otherwise stated)



	2018	2017
Revenue	35	135
Adjusted result before tax	20.2	19.0
Order book	202	210
Average invested equity	128	110
Return on equity (%)	15.8	17.3

PPP had a result of €20.2 million coming mostly from the existing portfolio. One project was transferred to the joint venture with PGGM and one project was won. The order book reduced due to the construction progress and a new project win in joint venture. The pipeline of active bids in BAM's home markets and International remains healthy. The total directors' valuation of the PPP portfolio as at the end of 2018 was €261 million, which included €75 million of unrealised value.

BAM PPP Portfolio financial performance

At year-end 2018, shareholders' equity invested by BAM PPP totaled €75 million (2017: €68 million). BAM PPP invested €22 million and transferred €13 million to the BAM PPP PGGM joint venture in 2017. BAM PPP does not invest in projects until their structural completion, with the shareholders' equity part being financed with a bridging loan.

Committed equity is €145 million, all by the joint venture.

Reinforcing a Dutch icon, the Afsluitdijk dam

Levvel, a consortium of BAM, Van Oord and Rebel, has started work on the reinforcement of the Afsluitdijk. The DBFM contract with Rijkswaterstaat has a net cash value of approximately €550 million, 46 per cent of which is for BAM (and its partner PGGM). 'Rijkswaterstaat is looking forward to the collaboration with Levvel. The consortium's design is smart and robust and honours Lely's legacy,' said the government agency's Director General Michèle Blom. Cornelis Lely was the statesman and civil engineer behind the creation of the Afsluitdijk dam in the early part of the 20th century.

'Being part of this iconic project is fantastic,' said BAM PPP's Project Director Carlo Kuiper, who was involved in the tendering process together with his colleagues of BAM Infra, Van Oord and Rebel. 'We are offering the best price-quality ratio, based on smart solutions and proven technology.'

The contract comprises the design, construction, financing and maintenance of the seawall over a 25-year period. Kuiper: 'The Afsluitdijk does not only function as a flood barrier, it also plays an important role in discharging water from the IJsselmeer into the Wadden Sea. In order to increase discharge capacity, we have chosen to build additional drainage sluices and new pumping stations.'



The invested and committed equity totaled €219 million. New projects will mainly be undertaken by the joint venture.

The future asset flow is based on the expected inflow of cash from the concessions portfolio for the shareholders' equity (dividends, interest and repayment). The discounted value of this future cash inflow is the directors' valuation and totals €261 million (2017: €229 million).

A comparison of the directors' valuation and the discounted value of the invested and committed equity results in an unrealised value of the portfolio of €75 million (2017: €75 million).

18 - Portfolio financial performance 2018 (x €1 million, unless otherwise stated)

	Nominal	Discounted
Invested equity	75	
Committed equity	145	
Total invested and committed equity	(a) 220	186
Future equity cash flows	(b) 812	261
Implied forecast unrealised value in the portfolio	(b)-(a)	75



Infrastructure asset management

The Netherlands

One of BAM Infra's many projects for its client Rijkswaterstaat, the Dutch government agency responsible for the main infrastructure networks, involves the management and maintenance of three highways in the Middle Netherlands region.

3.2 Social performance

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

Targets	Performance in 2018	Progress
<ul style="list-style-type: none"> Fully incorporate safety in daily activities to achieve a BAM incident frequency (IF BAM) of ≤ 4.0 for 2018 and of ≤ 4.0 for 2019. 	IF BAM of 4.2 (2017: 4.6).	  
<ul style="list-style-type: none"> Leadership development programme for top business management in 2019. 	Several design sessions were organised. However, a more detailed programme design has been postponed due to the One BAM transformation process.	  
<ul style="list-style-type: none"> Olympus: project management development programme for top project managers in 2018. 	Also in 2018 the Olympus leadership programme was organised for three new groups. From the start in 2017, 140 project directors participated in this leadership journey.	  
<ul style="list-style-type: none"> Enhance one million lives in local communities by 2020. 	For the first time in 2018, all operating companies have started to report on the number of lives they have enhanced. In this report some Enhancing Lives activities are included. In 2019 we will focus to improve data quality and include actual numbers in the report.	  

Management summary

BAM aims for zero accidents. While the IF BAM (Incident Frequency) target was not achieved in 2018, despite a declining trend, the Group is continuously making progress. In the history of BAM, 2018 was the first year with zero fatalities, as well as a year where IF BAM has never been lower. The Group is working hard on fostering a genuine and strong safety leadership culture within senior management. Nevertheless, to achieve this ambition the Group's strategic objectives are to create the right environment for knowledge-sharing and learning, enhancing leadership, culture and behavioural performance throughout the organisation, create a uniform safety reporting, build relationships and create interaction with all stakeholders.

Where we can improve: BAM believes that all accidents are preventable. People tend to make errors, but erroneous actions should not result in injuries. This is one reason why safety should be emphasised in the planning of any human – working or living – environment. One of the leading ideas is to learn from those accidents that have occurred and to take corrective actions to prevent similar accidents occurring again. Learning from accidents and near-miss situations but also from best practices and positive developments helps people to react to similar situations in the future. Accident investigations is a crucial learning tool. Workplaces with positive pro-safety attitudes carry out similar investigation to near-miss cases as they do for actual accidents. Mental health, stress and well-being are a growing concern for BAM as well. BAM will increase the focus on health related matters in the construction sector in the coming years.

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. Without any doubt health and safety is the most important element of our social performance: we want every employee 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.

20 - Health and Safety - Health risks at work.

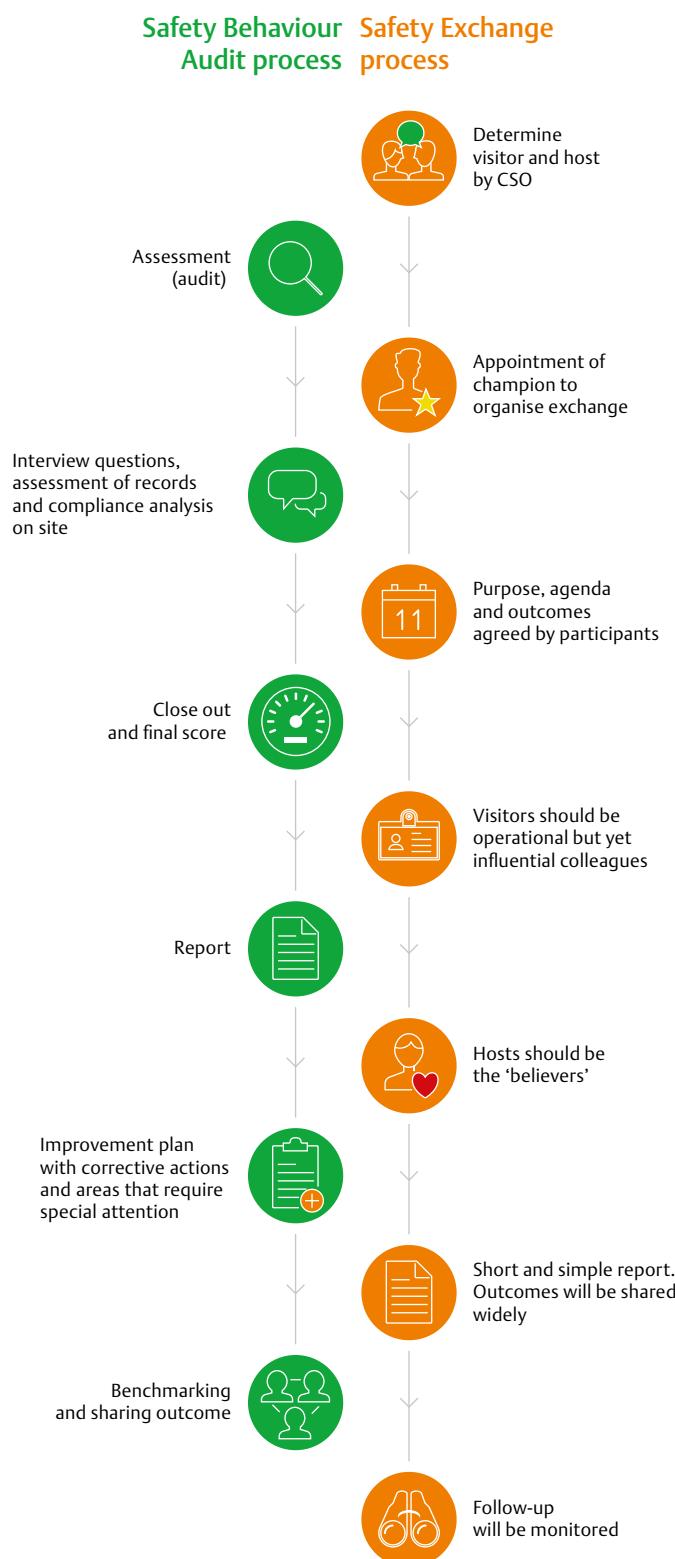


Art Fund Museum of the Year 2018

Tate St Ives, Cornwall

Designing and constructing a new gallery space has doubled the size of the existing Tate Gallery in Cornwall. BAM Construct UK refurbished and extended the space in the existing gallery, which improved visitor facilities and learning spaces. BAM removed large volumes of Blue Elvan rock from the tightly restricted site and put in place several retaining walls and temporary structures, as well as diverting existing services. We created a Cornish Features landscaped roof. The building won Art Fund Museum of the Year 2018.

21 - Safety - A safety activity (SA) can be a safety behaviour audit (SBA) or a safety exchange (SE)



Health and safety



Creating the right environment for knowledge-sharing and scalable learning in BAM's complete supply chain is most important to reach the Group's safety targets (See chapter 2.3 Stakeholder engagement and material themes). This is done by:

- Strengthening the operating companies to develop leadership and behaviour by carrying out safety behaviour audits (SBAs); Every operating company will have at least one Safety Behaviour Audit (SBA). 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. The better score on the leading indicator (SBA), the less control is needed, but the more commitment to share excellent performance is expected. Across the Group, 15 SBAs took place in 2018.
- Recognition of performance by carrying out and follow-up on the safety exchanges (SEs); The Safety Exchange or Safety Review is like a Peer Review and will have focus on a debate for challenging and learning (theme's from the maturity model). It is a dialogue between two Operating Companies and they have to find out together what's going to work best. This will result in a customised knowledge exchange. Across the Group, 7 SEs took place in 2018.
- Strengthening BAM's (safety) culture supported by uniform safety communication processes, modern methods and channels; On Tuesday 26 June 2018, BAM launched one uniform, global safety campaign for all of BAM under the slogan 'Your Safety is My Safety'.
- Improving the safety performance: IF BAM < 3.5 in 2020. IF BAM (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 2018 IF BAM decreased to 4.2 (2017: 4.6), which is above the 2018 target of 4.0.

This safety approach is established to continuously improve BAM's safety performance and to meet strategic targets.

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.

Safety Behaviour Audit (SBA) scores focus on three areas: safety climate, management system and site conditions. In 2018, overall SBA performance stabilised on 72 per cent. ► Figure 21 shows the audit process in detail.

Excellent performance in leading and lagging indicators (IF) by group companies will result in less control by Royal BAM Group's safety behaviour audits, but should increase commitment to share excellence performance by organising a safety exchange. A safety exchange, or safety review, is like a peer review and focuses on a debate for challenge and learning, which are themes from the safety maturity model. It is a dialogue between two operating companies that want to know what works best. This will result in a tailor-made knowledge exchange.

Good practices: sharing and learning across the Group

BAM Nuttall supports Time 2 Talk Day, which was held on 1 February 2018. This is a day when everyone is 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. BAM Nuttall also has Mental Health & Wellbeing Champions and an Employee Assistance Programme (EAP) which is available 24 hours a day, seven days a week, 365 days a year. The EAP gives advice and support by telephone and one to one sessions with a trained counsellor.

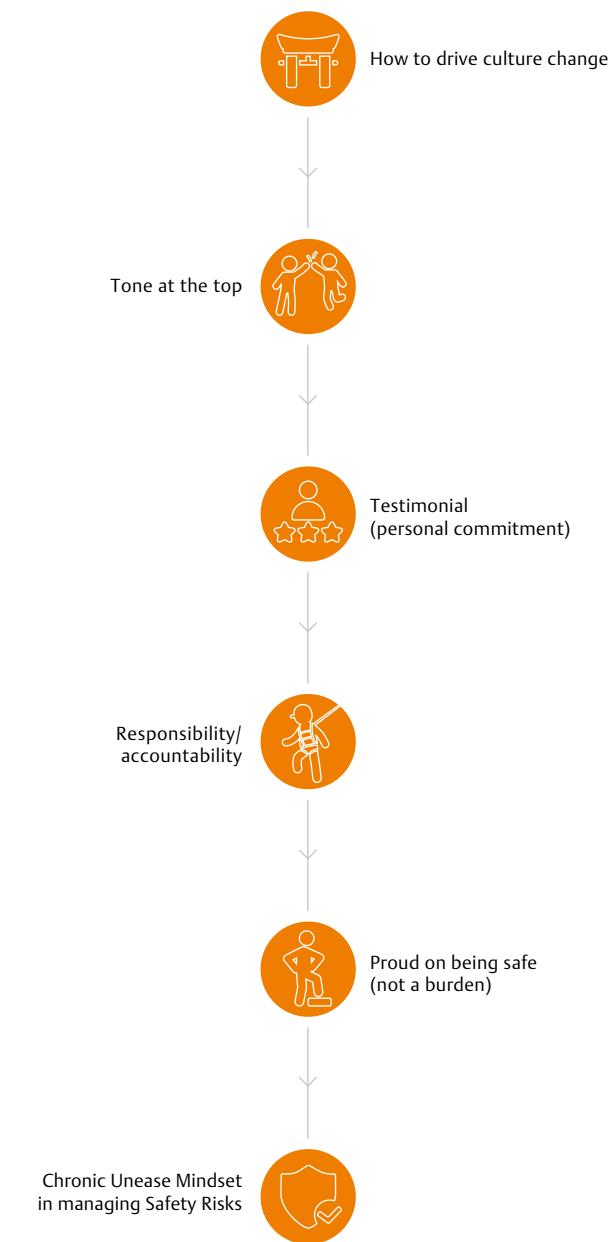
BAM Infra Nederland organises a 'Silver and Gold hard hat Competition' every year to award colleagues with good initiatives for improving our safety standards.

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.

Safety and digitalisation: SAFER is BAM International's digital system to streamline everything related to health and safety.

Many of BAM's sites in Ireland award a 'Crew of the Month' prize to say 'thank you for working safely'.

22 - Good practices - Themes for knowledge-sharing with leading companies



Your Safety is My Safety

Indonesia

A BAM International team in Indonesia during BAM's ninth Worldwide Safety Day, 9 October 2018. The theme was 'Your Safety is My Safety', building on BAM's uniform global safety campaign which was successfully launched earlier in 2018. The goal is to raise safety awareness, eliminate fatalities and reduce accidents by taking individual responsibility and working closely together.



One global safety campaign for all of BAM

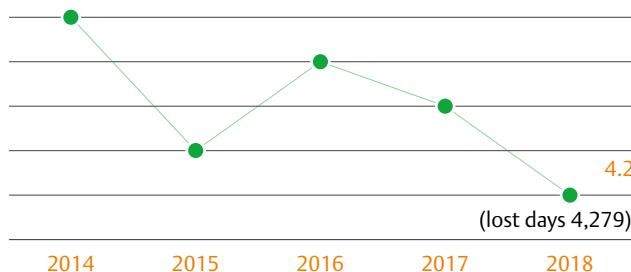
In June 2018, BAM launched one uniform, global safety campaign for all of BAM under the slogan Your Safety is My Safety.

The goal of the campaign is to demonstrate that safety is not only a shared responsibility of all BAM employees themselves, but also of BAM's supply chain partners, such as subcontractors, suppliers and clients. In total, some 100,000 people. BAM wants all employees to return home safely at the end of the day. This means zero accidents and that can only be achieved through a joint approach. That's why BAM encourages everyone to address one another when you see an unsafe situation, report incidents so that we can learn from them and to actively help in preventing dangerous situations.

Worldwide BAM Safety Day

Building on the successfully launched uniform global safety campaign, the theme for the ninth Worldwide BAM Safety Day was: Your Safety is My Safety. BAM needs to raise safety awareness, eliminate fatalities and reduce accidents. Only by taking individual responsibility and working closely together, will we be able to achieve this. Your Safety is My Safety captures these elements as it reflects BAM's collective responsibility. Creating a culture where we feel free to speak up when we see an unsafe situation and actively help to prevent dangerous situations, starts with an open dialogue around safety. And that's exactly what took place during this year's Safety Day: honest conversations between co-workers. To add a personal touch and visualise what Your Safety is My Safety means in BAM's daily practice, BAM organised a so-called Safe campaign. Staff was encouraged to upload a photo or short video of e.g. co-workers who stand for great safety performance, good examples of a safe situation on site/at the office, enroute to work or at home, or of lessons learned. The entries will help further enliven and enrich BAM's safety story.

23 - Group incident frequency (IF BAM)
(x €1 million, unless otherwise stated)



Launching a new worldwide campaign: Your Safety is My Safety

Mark Lockwood, Head of Health and Safety at BAM Construct UK, toured the country for a Your Safety is My Safety tour. He visited English Martyrs School in the North East, the Centre for Student Life in the Western Region and Laurus Cheadle Hulme School in the North West to start conversations with the teams about how to reduce lost time incidents in our high risk areas of slips, trips and falls and manual handling. Mark Lockwood said: 'It's great to see our sites around the country embracing the new groupwide safety campaign. I have been impressed with the standard of housekeeping and how well our teams engage with our supply chain on high risk issues.'

BAM Plant is now offering standardised, branded Your Safety is My Safety PPE across the business, including a ladies range. Jason Reed, Director of BAM Plant, said: 'The new PPE will help strengthen the One BAM ethos we're striving towards, as it will create a consistent look throughout the business. Your Safety is My Safety is clearly an important campaign and integral to our day-to-day operations, and the new PPE helps to emphasise that.'

**I WANT YOU
TO BE SAFE**
VISIT BAMSafety.com

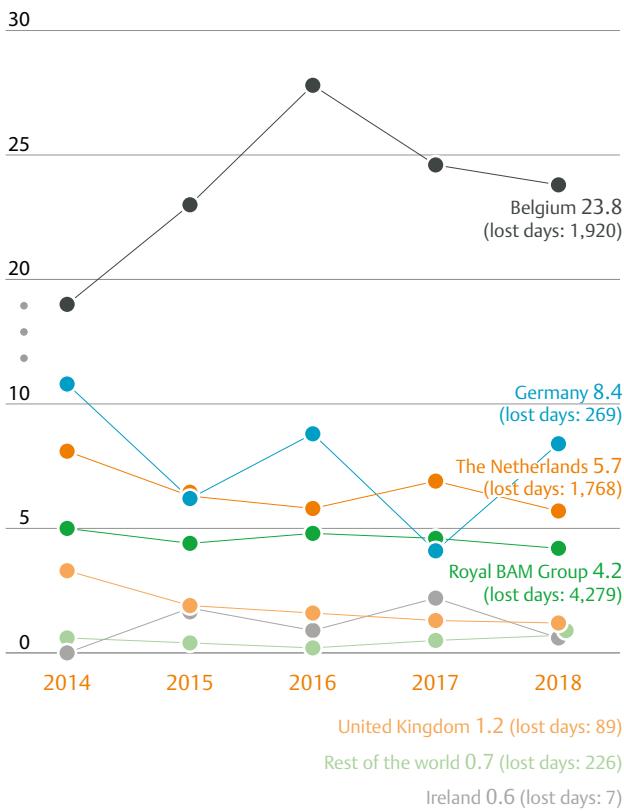
Jelmer Grolleman
Planner BAM Infra



Serious accidents

BAM is highly committed to prevent all incidents. BAM feels responsible for all people who are involved in or are influenced by the activities of the Group. This includes BAM's employees, clients, engineers, partners, suppliers, subcontractors and members of the public. Despite the fact that zero fatalities occurred on BAM sites in 2018, the number of serious accidents (BAM employees, hired, subcontractors' employees, or other) stabilised at 121 in 2018 (2017: 119). 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.

24 - Incident frequency (IF BAM) by country
(x €1 million, unless otherwise stated)



Setting minimum health management requirements

More insidious than the fatal and serious industrial 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 can and must 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.

Organisational development and employee engagement

Building the present, creating the future from a human resources perspective 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. With this strategy HR will support the business with timely attracting the best people in the market, whilst ensuring a competent and engaged work force that will be Building the present, creating the future.

- BAM People

The strategy that leads us to One BAM is reflected in the implementation of BAM's HR system BAM People. BAM People is the new standard within BAM and in 2018 a large number of employees started working with it. This path will be continued in 2019 with companywide implementation. BAM People contributes to the achievement of BAM's strategy through uniform processes, digital collaboration, unambiguous reports and access to personnel data everywhere and at all times for everyone.

- BAM Panel

BAM employees are intensely committed to their work and proud to work for BAM. They have confidence in their managers. These are some of the outcomes of the first groupwide analysis via BAM Panel, the online poll that has been held among employees of all operating companies. The engagement measurement allows everyone to share their thoughts and minds four times a year. Operating companies make individual analyses and take its own measures towards improvement. Looking at trends in BAM Panel allows BAM to make predictions about future behaviours of its employees.

- Spring and autumn meetings

During two meetings, one in spring and one in autumn, more than one hundred staff from all parts of the Group gathered in Amsterdam to discuss the strategy and share best practices. The spring meeting was devoted to BAM's 2018 Operating Plan, 'Focus to perform together'. Through facilitated work sessions the participants shared knowledge and exchanged ideas about – among other topics – a uniform large project approach and high-performing teams. 'One BAM Acceleration' was the central theme for the 2018 autumn meeting, elaborating on the required acceleration in terms of strategy execution and financial performance and updating staff on the various strategic programmes.

- European Works Council

The first meeting of the BAM European Works Council (EWC) took place on 4 September 2018. BAM considers the contribution of all its works councils to be very valuable to its business operations. By the establishment of the EWC employee participation on a European level can take place in a consistent and both practical and workable manner.

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 mirror its client base and execute its strategic agenda.

Through BAM's recruitment website www.bamcareers.com and recruitment campaigns, BAM continues to target talent and to maintain our position as an employer of choice in a scarce labour market. The platform showcases the stories of employees, BAM's projects and innovations, and our vacancies worldwide. It is another positive step towards better knowledge and expertise sharing across the Group and supports BAM's search for the best fitting talent. Furthermore, BAM's recruiters continually evaluate and improve on applicant experience.

Diversity and inclusion

BAM believes that a company with diverse teams at all levels and disciplines is made stronger by the different perspectives that such diversity brings. This is reflected in BAM's vision and values employment and development processes. BAM supports local and national initiatives that want to create opportunities for all groups, particularly those who may not have considered civil engineering as an accessible career choice. BAM considers there to be significant business benefits from integrating equality, diversity and inclusion in day-to-day business practice and are determined to eliminate discrimination and disadvantage within the workplace.

BAM's inclusive approach means that all stakeholders are treated with fairness, dignity and respect. BAM 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 (both physical and mental), religion or belief, working patterns, caring responsibilities, pregnancy or trade union membership. In the UK BAM PPP, BAM Construct UK and BAM Nuttall, have joined forces with Building Equality, an alliance of 19 construction and construction-related companies working together to drive Lesbian, Gay, Bisexual and Transgender (LGBT+) inclusion in the construction industry. More on diversity in the composition of BAM's Executive Board and the Supervisory Board can be found in Chapter 5.1 (Corporate Governance).

Learning and development

Over the past year BAM has been developing two business leadership programmes to complement the existing project management programmes Olympus and Everest. In August the Enterprise Leaders Programme, for directors and managers and the Future Leaders Programme, for young professionals identified as talent with management potential were launched.

The programmes will provide participants with the practical and behavioural tools they need to successfully lead their teams and the business in line with the BAM strategy and values. They will

Supporting International Women's Day 2018

On 8 March, BAM International celebrated International Women's Day 2018 – themed '#Press for Progress' – at its sites and offices around the world. The objective of the event was to support the growing diversity in BAM's own workforce and to support women in their career paths to higher positions worldwide, both of which are among BAM International's key targets.

The operating company's CEO George Mazloumian said: 'In my view, the best team is a balanced team consisting of men and women. And on top of that, also of a variety of ethical backgrounds.' BAM will continue its efforts to improve gender balance and ethnic diversity within its organisation. It will focus on appointing talented women at all levels of the organisation and in all departments, including – and especially – in technical positions.



An impulse to diversity

The more diverse the workforce, the greater the success of a company. In order to give an impulse to its diversity policy, BAM recently organised an international event at Schiphol Airport, where representatives from all operating companies discussed developments related to the issue.

'This is about much more than the male/female balance. That remains a point of attention, of course, but also in terms of ethnicity, educational background, work experience, sexual orientation and age groups. The motto is: the more diverse, the better,' said Niels Scholten, manager of the Tender Desk. He was one of the people behind the initiative. 'What we learned is that good things are happening within BAM, but there is room for further improvement. Together we are working towards an even more diverse company, where all are welcome and all can feel safe and involved.'



25 - Female/male employees by region
(in % of total employees)

	2018	2017
Netherlands	13/87	12/88
United Kingdom	26/74	25/75
Belgium	13/87	12/88
Germany	22/78	21/79
Ireland	21/79	23/77
Rest of the world	7/93	6/94

26 - Employees per gender by employment type
(in %)

	2018	2017	2018	2017
Full-time	94	95	58	57
Part-time	6	5	42	43

27 - Employees per employment contract
by gender in 2018 (in %)

	Permanent contract	Temporary contract
♂	87	13
♀	89	11

28 - Employees per employee category
by gender in 2018 (in %)

	Senior management	Middle management	Operational staff
♂	6	10	18
♀	94	90	82

29 - Employees by age group
(in %)

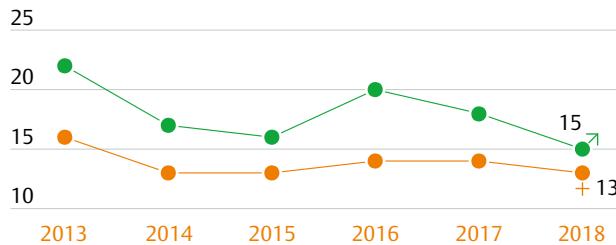
Age group	2018	2017
<20	1	1
20-29	14	14
30-39	24	25
40-49	25	26
50-59	26	25
≥60	10	9

give participants the opportunity to work with colleagues from throughout the Group, building relationships across all BAM's Operating companies, encouraging collaboration and cross-fertilisation of ideas that will help develop an One BAM attitude and mind set. The programmes are designed with a blended learning approach, using experiential learning and with personal case studies at the heart of the programmes.

The Olympus programme has continued in 2018, with a total of 106 project managers and tender managers involved in large and complex projects now having attended. Building upon the success of Olympus, BAM has developed a complementary programme for project managers of less complex projects.

The Everest Programme provides the same focus on personal, team and project leadership as Olympus, but also relates this to the ten critical phases of a project. After a successful pilot in the Netherlands, BAM is in the process of including the BAM Uniform Project Approach in the Business leadership programmes. Early next year the Everest programme will be made available across the Group and will facilitate the development of all those involved in project management.

30 - Average hours of training per employee
(in hours)



Annual total compensation by country

In 2018, the annual total compensation ratios decreased 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. Some German and Belgian senior managers were replaced in 2018 which explains the heavy decrease in salary ratio.

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.

31 - Annual total compensation by country

(in ratio of the annual total compensation for the organisation's highest-paid individual to the average annual total compensation for all employees (excluding the highest-paid individual))

	2018	2017
Ratio of percentage	Increase	ratio
Netherlands	-4%	12
United Kingdom	-13%	6
Belgium	-45%	3
Germany	-23%	5
Ireland	1%	6
Rest of the world	-14%	27
		30

Business conduct and transparency

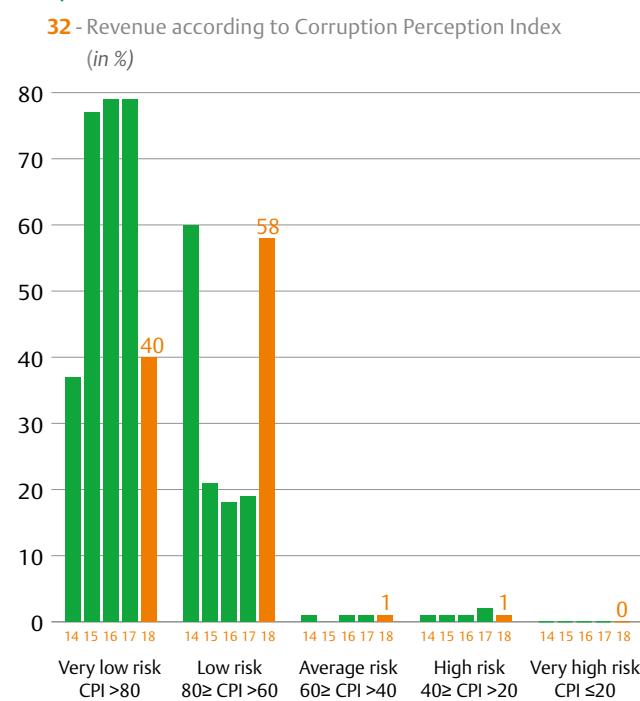
BAM is committed to being an ethical company and to live up to the highest standards of honesty and integrity in the way BAM does business with clients, suppliers and each other. BAM's code of conduct includes principles and guidelines. Furthermore, there is an independent Speak up line and procedure for employees to report suspicions of misconduct. New employees must sign a statement in which they acknowledge to comply with this code as part of their employment contract with BAM. An e-learning tool is used to train and remind employees of these values and standards. The training is available in English, German, French and Dutch and is mandatory for new white-collar BAM employees. Furthermore, BAM's blue-collar employees are trained by so called tool box meetings. BAM strongly believes in a targeted approach for the different working groups within the Group to achieve optimum understanding and adaptation.

BAM's Governance, Risk and Compliance has further harmonised and streamlined the compliance activities. In 2018, BAM has embedded the new privacy regulation in Europe (GDPR). Therefore, BAM developed new policies, completed data inventories, performed data privacy impact assessments and arranged data protection agreements with relevant 3rd parties. Furthermore training and awareness has been rolled out on the changes in regulation, including an e-learning. There has been extensive communication via newsletters, e-learning and classroom sessions. The global compliance community has been working extensively on implementing these new requirements.

Potential cases of misconduct are discussed on a quarterly basis with the Executive Board and every six months with the Audit Committee. No material incidents have been reported by operating companies to BAM's head office with regard to the code of conduct. Furthermore, on a yearly basis the effectiveness of the management approach is assessed and improvement activities are captured in the Operating Plan of the GRC function.

Corruption Perception Index

The Corruption Perception Index (CPI) is calculated annually by Transparency International, which focuses 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. In 2018, two home markets (Germany and the United Kingdom) scored exactly 80 in the CPI, since these countries represent a high construction turnover for BAM. This explains the shift from last year. BAM obtains the 98 per cent of its turnover in countries with a very low or low risk of corruption.



Human rights



BAM 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 the labour and working conditions and to promote a sound worker-management relationship. BAM believes 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, that this creates tangible benefits, such as enhancement of efficiency and productivity of our business.

In 2006, BAM and the international federation Building and Wood Workers' International (BWI), signed a framework agreement to promote and protect employee's rights. As part of 'doing things right' and taking responsibility, BAM facilitates an annual BWI visit to a project to audit local working conditions on human right

practices. On 26 November 2018 a social audit was carried out by BWI and trade union FNV at the Museum of the Future project in Dubai. No anomalies were detected in any of the areas that have been assessed by the BWI. A report, issued by BWI, confirms that there is an extensive safety programme on site, employment is freely chosen, there is no discrimination in employment, child labour is not used, working hours are not excessive and working conditions are decent. These topics are considered as main risk areas and are monitored and assessed in the audit.

Combating slavery

BAM is committed to preventing slavery and human trafficking throughout our operations and those associated with our business. Modern Slavery is also a key issue for BAM and its supply chains. BAM is a 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. Combating slavery is not a standalone issue, but one that is part of BAM's approach to ensure that people are 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 the BAM 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. Large supply categories for BAM are among others concrete works, steel construction, mechanical & electrical engineering and facades. Construction materials like steel, concrete and asphalt are typically sourced close to the sites from preferred suppliers. BAM's supply chain partners are also organised closely to the construction sites and are mainly active in the Netherlands, United Kingdom, Belgium, Ireland and Germany.

In 2018 BAM has progressed its procurement strategy that aims to:

- Improve processes, develop people and systems;
- Strengthen partnerships with suppliers;
- Increase early involvement of procurement;
- Leverage BAM scale and expertise.

BAM completed the roll out of a Group spend and contract tool (Bravo), which enables BAM to have a global overview of all suppliers and subcontractors. This allows BAM to monitor and strategically manage its supply chain. BAM aims to strengthen partnerships by creating trustworthy and sustainable relationships with vendors. Strong partnerships result in more (BIM) innovations and creativity to create competitive advantage, better capacity management in the market, early collaboration in tender phase and lower total cost of use. In 2018, preferred partnerships are established for ready-mix concrete in the Netherlands to enhance low carbon and circular concrete. To increase early involvement of procurement in projects, BAM developed a project procurement strategy as part of the strategic initiative UPA (uniform project approach). Key work packages in a project are assessed, based on 3 different partnering approaches



#BuildingEquality | #PrideMatters



Pride

United Kingdom

This year BAM Construct UK, BAM Nuttall and BAM PPP joined forces with the UK construction industry under the banner of 'Building Equality' to support Pride London and Manchester Pride. We created a 'One BAM' social media campaign supported by branded flags, T shirts and badges. Pride supports the LGBT+ community and its events are attended by people who may identify as lesbian, gay, bisexual, transgender, or allies who may not identify themselves in any of these ways. James Wimpenny, Chief Executive of BAM Construct UK: 'I supported Pride because we are working to create a more inclusive and diverse culture in BAM.'

Support for Lombok orphanage

BAM International has initiated a campaign in support of the earthquake-stricken orphanage of the Peduli Anak Foundation on the Indonesian island of Lombok. Buildings of the orphanage were severely damaged by last August's earthquakes and their aftershocks. Immediately following the first quake, BAM International consulted with the Foundation and sent emergency supplies such as tents, blankets and ready-to-eat food.

BAM International's involvement with the Peduli Anak Foundation began two years ago, when its subsidiary BAM Decorient became a partner in the construction of family homes for the children of the orphanage. BAM colleagues who wish to lend their support can do this by making a donation to the Peduli Anak Foundation.

For more information, please visit www.pedulianak.org.



BAM decides how to tender. Using a uniform approach BAM maximises its leverage on scale and expertise.

BAM uses the Bravo tool to measure supplier performance in order to generate benefits and savings across the Group. During project preparation, implementation and follow-up, the tool assesses suppliers against the themes safety, quality, total cost, logistics and engineering and process. On a scale of 1 to 4, each supplier has to score at least 3 for each criterion. In 2018 a total of 872 supplier performance assessments were carried out (2017: 538). Also Bravo supported BAM's supplier assessment for BIM Level 2 and contributed to certification of the company.

Enhancing lives



BAM will play its part in addressing social issues at local and global level. To structure its efforts on community engagement, BAM launched its 'Enhancing lives' programme in 2016.

Enhancing lives is about increasing, augmenting or adding value to peoples' lives. BAM aims to enhance lives of people with whom BAM comes into contact through its activities and connections with local communities. This involves supporting people and communities by giving them an opportunity to increase 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. This includes:

- Connecting with, Improving and Transforming the lives of people BAM works with – both externally and with regard to our own employees;
- Focus on education and skills, employment, charity and community engagement;
- Recognising that this is the right thing to do and that it adds value to BAM's business through enhanced reputation, greater skills and diversity within the workforce.

In order to start measuring the social value, BAM has started a steering group to understand the maturity in different operating countries and to develop a consistent methodology and reporting framework (roadmap). Ultimately, BAM wants to demonstrate the added value it provides to society through its operations.

All Operating Companies began to monitor Enhancing Lives activities in 2017. The activities varied from one operating company to another as some focused on local communities, others on training or wellbeing and others on volunteering. BAM has decided to sort different activities into categories to improve consistency in reporting. Defining what activities contribute to enhancing lives is an ongoing process. For the first time in 2018, all Operating Companies have started to report on the number of lives they have enhanced. This has allowed the steering group to start to interrogate the data and assess which activities are enhancing lives the most and enhancing the most lives. This has led to changes in

Enhancing Lives in action

the categories to ensure the most life enhancing activities are focus areas for BAM:

Example 1 - 'Meet the buyer'

'Meet the Buyer' type events was previously a category defined as "events providing knowledge and skills to SME's, local organisations and Social Enterprises to help them develop, grow and provide opportunities for the people they support". However, most reported examples are business as usual, namely events which were held to attract new suppliers/sub-contractors. Therefore, the 'Meet the Buyer' category is removed from the list of categories.

Example 2 - 'Site visits'

In some cases a site visit may involve closing site operations and opening it to visitors up to 10,000 people to come onto the site, whereas others refer to a 2-3 hour visit to site for a group of people (usually between 10 and 30 people) where the project team prepares a detailed presentation tailored to the group. To be able to differentiate between different types of visits, the category 'Site visits' now refers to the large visits, and the smaller more focused visits are categorised as 'Education Support'.

Community engagement progress

In 2018, local community engagement programmes that measure and manage the impact of building projects on the local environment were implemented in 33 per cent of BAM's projects. These were initiatives as part of existing programmes, such as the Considerate Constructors Scheme (CCS) and 'Bewuste Bouwers', as well as unique initiatives of engagement managers on projects and site-specific sponsoring or charity work.

Considerate Constructors Scheme and 'Bewuste Bouwers'

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 81 projects were registered in 2018 and 22 awards were won, 3 gold, 11 silver and 8 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. After five years of BAM participation, Bewuste Bouwers decided to involve BAM in a further roll-out of the scheme. During 2018, 74 sites were registered under the scheme in the Netherlands (2017: 79).

Social Return

For most public sector clients in the Netherlands Social Return On Investment (SROI) is a key element in the tender requirements and project delivery. By SROI is meant in general: help people who have difficulty in finding a job to gain employment. In order to support the projects and to gain insight in requirements and status BAM Infra uses the tool WIZZR-BIZZ for reporting on SROI. BAM Infra is currently implementing this tool in all projects with a SROI requirement and has currently registered 18 projects.

2018 saw a year of progress towards understanding the types of enhancing lives activities which BAM are delivering. Having laid the foundations for all operating companies to understand what enhancing lives means, all companies started to report in 2018. This has allowed the sustainability community the opportunity to interrogate these numbers and ask the questions: Which activities is BAM really proud of? Which activities really enhance lives?

The provided examples start to tell the story of how BAM is enhancing lives, with the above questions in mind. There is a clear focus on education and sharing the knowledge and experience BAM's employees have gained in their careers. Through its activities, BAM aims to add value in addition to enhancing lives by strengthening the skills of our workforce and helping to develop the workforce of the future.

Example 1: – No of lives enhanced: 47

Depth of impact – Improving (possibly some transforming if refugees get into employment or education)
Category – Volunteering / mentoring

Details: Helping refugees together with New Dutch Connections (29 BAM volunteers and 18 refugees): During nine evening sessions and two site visits a group of refugees acquired a better understanding of the construction industry. They were also helped with practical problems and they could practice the Dutch language. The benefits were felt by the refugees as they gained confidence, skills, contacts and knowledge. For the BAM employees involved, this was a new experience which allowed them to develop mentoring skills and gain a deeper understanding of issues affecting local and wider communities.

Example 2: – No of lives enhanced: 10

Depth of impact – Connecting and Improving
Category – Education support (connect),
 Work Placements (improve) and
 training/qualification (improve)

Details: Working in partnership with Hub West Scotland and through the delivery of the new build Blairdardie & Carntyne Primary School projects, BAM delivered an introductory employability programme called Ready Steady Girls Construct! The programme focused on attracting female pupils into the construction industry by providing industry insight, training, employability skills and work experience. The programme was delivered over a ten-week period to a group of ten female pupils from Lourdes Secondary School in Glasgow.

During the programme, pupils gained access to industry talks and awareness raising sessions, practical demonstrations on site, site visits, a college taster day, an SVQ Level 1 qualification, employability skills and a real life work experience placement. BAM created a detailed timetable of activities which we felt maximised the students' learning and exposure to industry.

Victory Boogie Woogie tunnel

Rotterdamsebaan, The Hague

BAM Infra connects for the future, in innovative and sustainable ways. It all comes together in the Rotterdamsebaan project. We are building the new road for the City of The Hague, including what is planned to become the most sustainable tunnel (Victory Boogie Woogie) of the Netherlands. Sustainable solutions include solar panels that provide part of the tunnel's energy and dust filters at the tunnel's entrance and exit: the 'fine dust reduction system'. Road surfaces are created using sustainable LEAB asphalt, and noise is reduced mechanically.



3.3 Environmental performance

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

Targets	Performance in 2018	Progress
• To achieve 25 per cent relative emissions reduction scope 1, 2 and 3 (employee travel) by 2020 (base year 2015).	BAM reduced its CO ₂ intensity by 13 per cent compared to 2015.	○ ● ○
• To 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 in 2018 and performance was rated A-.	○ ● ○
• Deliver at least one product or service contributing to wider emissions reduction (zero carbon product).	BAM delivered two projects in 2018: the collaborative project for the ArenA battery at The Johan Cruijff Arena and BAM Infra's proposals for 21 innovations on the N211.	○ ○ ●
• Recycle or re-use 100 per cent of construction and office waste	BAM reduced the amount of construction and office waste to landfill and incineration to 35 kilotonnes (2017: 48 kilotonnes).	○ ○ ●
• Deliver at least one BAM circular project, product or service in each operating company by 2020.	BAM PPP delivered product life extension of existing lighting solution at Cheshire Police.	○ ● ○
• Source 100 per cent sustainable timber by 2020.	BAM increased the completeness of its timber analysis to 79 per cent. Of the covered timber, 94 per cent is certified sustainable.	○ ● ○

Management summary

BAM's CO₂ footprint strongly depends on BAM's project portfolio. Due to an increase in civil engineering projects, BAM's reduction in CO₂ emissions remained slightly behind the company's 2020 reduction target. In order to still meet this ambitious target, BAM needs to accelerate CO₂ reduction initiatives and measures in the coming years.

2018 provided more examples of 'zero carbon products' and 'circular projects' initiated in parts of the company. The Group aspires to scale up these successful initiatives and roll out more products and projects throughout the business.

BAM managed both to reduce the amount of construction and office waste and to increase share of construction and office waste being recycled or reused. The improved performance reduces waste management costs and the environmental burden, and brings the company closer to its goal of zero construction and office waste to landfill and incineration by 2025.

BAM increased the completeness of its sustainable timber analysis in 2018, 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 completeness of reporting and procurement of sustainable timber to be able to source 100 per cent sustainable timber by 2020.

Sustainability strategy

BAM aims to have a net positive impact on the environment and people in the long term (towards 2050), by collaborating with the supply chain, encouraging innovative and digital thinking through our 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 (climate positive strand) and resource constraints (resource positive strand).

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 life-cycle carbon impact of buildings and infrastructure (through material selection, design and/or asset management), deploying renewable energy systems or energy reduction measures for our 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 they are able to work from reversible designs that are regenerative. BAM has made significant progress on reducing construction waste by becoming more efficient, utilising off-site manufacturing and by working with its supply chain to eliminate waste throughout the life cycle of its projects.

Joining the Car Free Challenge

BAM Belgium participated in the European Week of Mobility by means of a Car Free Challenge. By supporting the challenge we underline our ambition to a net positive future, facilitate team bonding, reduce the number of cars on the roads and parking lots. It raises the awareness to continue BAM's efforts to reduce CO₂ emissions. BAM is convinced that the week of mobility is a starting point for awareness of cleaner mobility. The aim is to encourage BAM colleagues to not only carpool, take public transport, cycle and/or walk during this particular week, but also to continue doing this throughout the year.



Climate positive

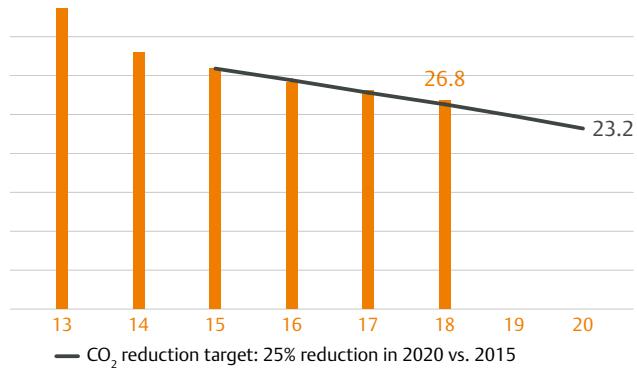


BAM aims to have a net positive impact on the climate by 2050, by reducing its own carbon emissions and helping others to reduce emissions more widely. This means BAM will:

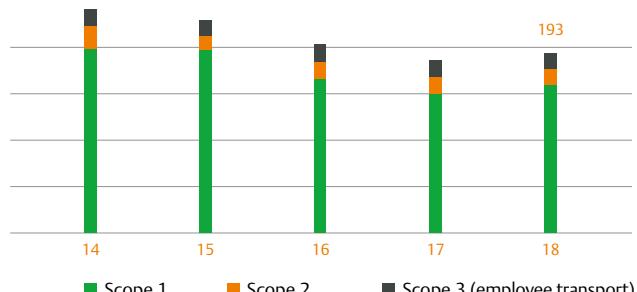
- Reduce the energy it uses by digitalising its business and by improving the efficiency of its operations.
- Use as much power, fuel and heat from renewable or non-polluting sources as possible.
- Work with clients and supply chain partners to reduce carbon emissions in the value chain.
- Bring low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

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. BAM includes greenhouse gas directly emitted from the company's own activities (scope 1), indirect emissions from purchased electricity, heating and cooling (scope 2) and indirect emissions up- and downstream in the value chain (scope 3). BAM reports all material scope 1 and 2 emissions and scope 3 employee transport emissions.

34 - CO₂ emissions intensity
(in tonnes per €1 million revenue)



35 - Total absolute CO₂ emissions
(in kilotonnes)



To reduce direct impact on climate change, BAM has set a target to reduce CO₂ emission intensity by 25 per cent by 2020 compared to 2015 levels (scope 1, 2 and travel-related scope 3). The CO₂ intensity decreased to 26.8 tonnes per million revenue, a 5 per cent reduction to 2017 and a 13 per cent reduction to 2015. The company is slightly behind in meeting its 2020 target of 25 per cent reduction to 2015. Absolute CO₂ emissions increased by 4 per cent to 193 kilotonnes (2017: 186 kilotonnes), which is mainly caused by the higher revenue and corresponding increase in construction activity.

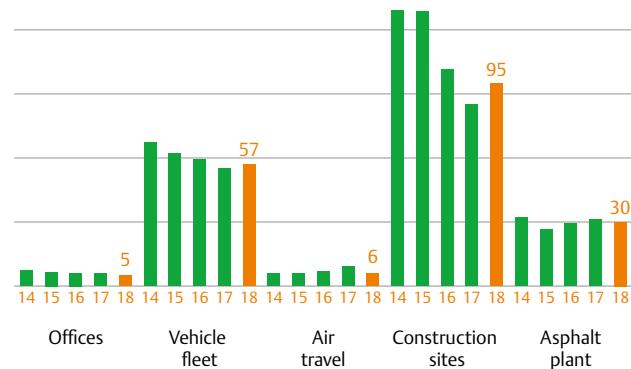
BAM's energy intensity was 0.38 TJ per million revenue (2017: 0.40). To reduce its carbon footprint, BAM continuously initiates energy reduction measures. This is driven by both its own policies and the European energy efficiency directive (EED), a set of binding measures to help the EU reach its 20 per cent energy efficiency target by 2020.

In 2018, emissions from BAM's offices decreased by 18 per cent compared to 2017, as a result of the merging of offices throughout BAM, a continued focus on energy efficiency improvements across BAM operations and the procurement of green electricity. In 2018, BAM used 123 kWh per square metre in its buildings in the Netherlands (2017: 119 kWh). The CO₂ emissions intensity of BAM's office buildings in the Netherlands was 13.7 kilograms CO₂ per square metre (2017: 13.1).

The emissions from BAM's vehicle fleet, which account for 29 per cent of BAM's total CO₂ emissions, increased by 3 per cent compared to 2017. The increase is smaller than the rise in revenue and activity, as BAM continues to pursue a more efficient and sustainable vehicle fleet. In 2018, BAM updated its leasing policy in the Netherlands promoting low-carbon driving with a range of measures. BAM furthermore deploys 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 4.6 million kilometres were driven in 2018 by the company's fully electric cars and plug-in hybrid cars (4.2 million kilometres in 2017).

The largest source of carbon emissions lies in BAM's construction sites, this is further sub-divided into 'building' and 'civil engineering', of which the latter is by far the most carbon intensive. In 2018 absolute emissions from construction sites increased by 11 per cent due to a shift in revenue towards civil engineering activities and a high carbon output on a limited number of heavy civil projects. This is also shown by the CO₂ emissions per sector (► figure 36), where the increase in CO₂ emissions only occurs in civil engineering. BAM continues efforts to reduce the reliance on diesel and gasoil on construction sites, this is led by steering groups in the business and best practices are shared throughout the Group. These efforts include an early connection to the grid and more efficient equipment, and helped to reduce BAM's CO₂ intensity despite the slight shift towards civil engineering activities.

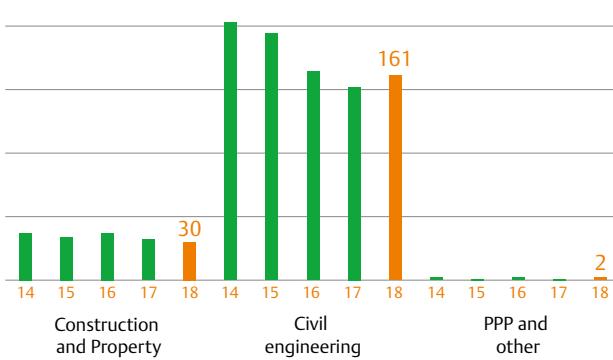
37 - CO₂ emissions per source
(in kilotonnes)



BAM supports its clients to reduce their footprint and environmental impact. In 2018, 19 per cent of BAM's revenue, approximately €1.4 billion (€1.6 billion in 2017), came from projects that have been 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 has again obtained a leadership status on the Carbon Disclosure Project (CDP) climate change benchmark (score A-). This global ranking evaluates the corporate efforts to address and mitigate climate change. The index is produced by CDP, the international NGO that promotes sustainable economies, at the request of over 650 investors (representing more than a third of the invested capital in the world). Information provided by more than 7,000 companies has been independently assessed on the basis of the CDP scoring methodology and ranked accordingly. BAM is recognised for its actions to reduce carbon emissions and assessing the potential role of climate change on the business strategy and performance. Since 2012, BAM has been a leader in transparent reporting on impact on climate change issues. BAM supports the focus on more ambitious targets to drive longer-term progress towards a low-carbon future.

36 - CO₂ emissions per business line
(in kilotonnes)



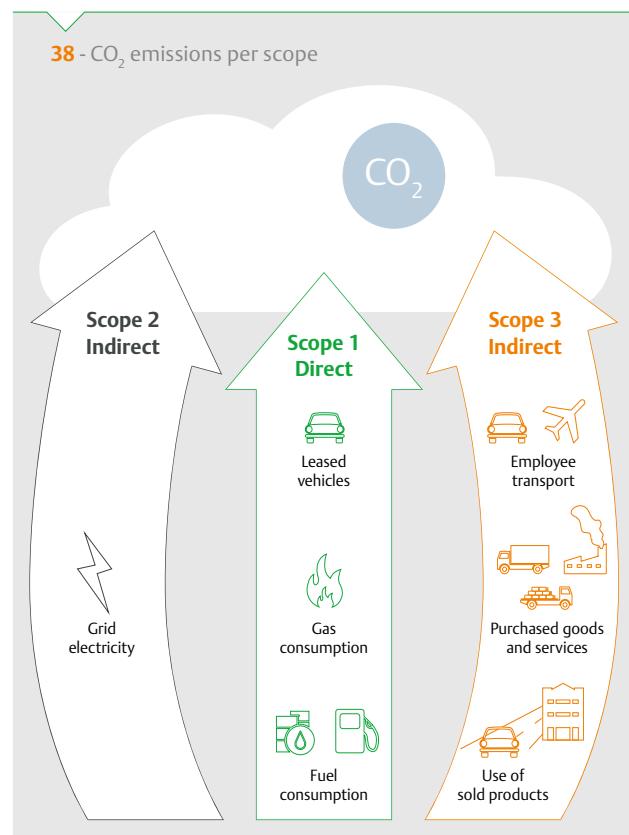
Building the first climate-positive road

The N21, a provincial road between Westland and The Hague, has been reconstructed with a special focus on climate change. On a 2.5 kilometre stretch, 21 innovations have been implemented that reduce CO₂ emissions. The N211 is the busiest provincial road in the country, with around 70,000 vehicles per day.

BAM is saving 14,000 tonnes of CO₂ emissions during the project, taking the full life cycle of the road into account. During construction only 4,000 tonnes were emitted. Innovations include application of sustainable asphalt, heat storage systems, many PV panels and the use of low-carbon materials such as timber. BAM's client, the province of Zuid-Holland, set an ambitious goal to become carbon neutral in a few years. This road serves as a blueprint for the construction of other provincial roads.



In 2018, BAM further improved its assessment of scope 3 emissions in collaboration with a third party. The assessment showed that the majority of the emissions in the value chain are scope 3 emissions and improved 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 BAM started to engage with suppliers exploring reduction measurements focusing on these areas. In 2019, BAM will continue to engage with suppliers, partners and clients in order to further develop a strategy and action plan to enhance its scope 3 carbon emissions measurement and reduction initiatives.



In 2018, BAM developed its science-based target to ensure CO₂ reduction is in line with the latest climate change science. The target is set for 2030 and provides a pathway towards the long-term climate positive ambition. In 2030, BAM targets 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 estimated its entire scope 3 emissions).

BAM aims to have its target accepted by the Science Based Target Initiative by April 2019. BAM also plans to develop more tangible performance indicators related to embodied CO₂ of key materials (concrete, steel and asphalt) to update its scope 3 reduction target in 2020. These new performance indicators will also help to more effectively engage with suppliers to reduce CO₂ emissions in the 'purchased goods and services' area.

Resource positive



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

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

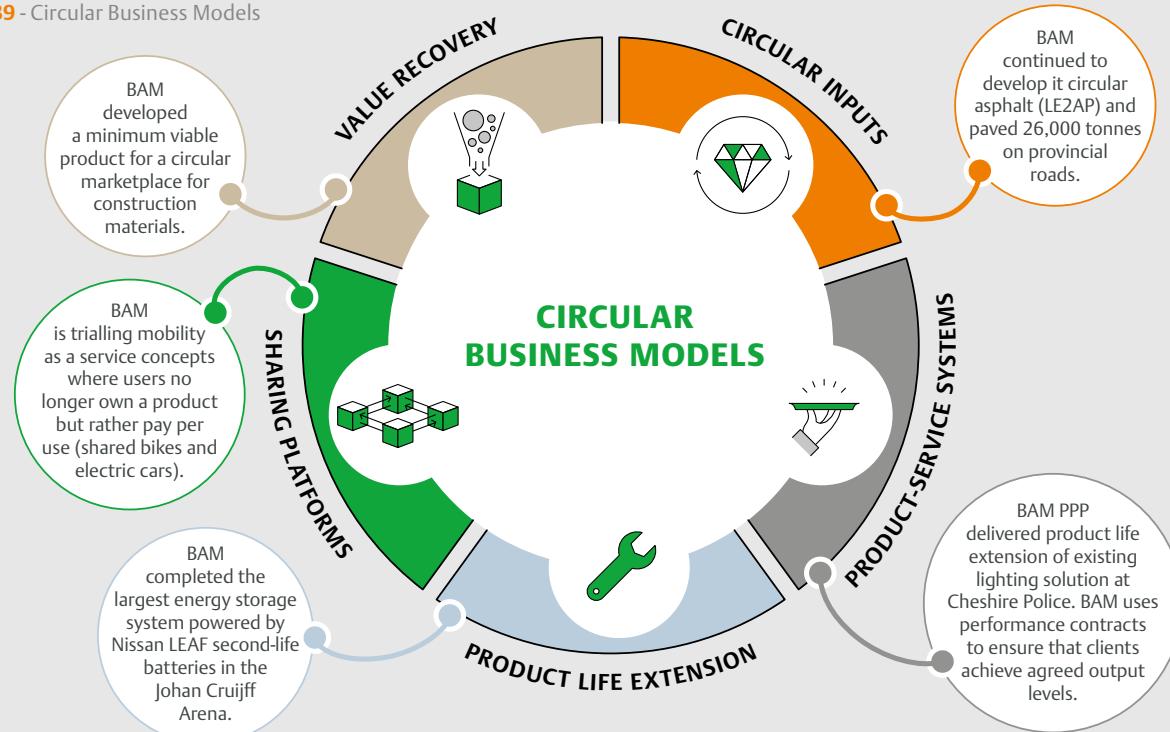
- Eliminate wasteful construction practices, and deliver projects that will produce less waste in operation
- Promote the circular economy by using products and materials that can easily be maintained, reused or repurposed in the future, avoiding low grade recycling wherever possible
- Procure materials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

Circular economy

BAM's activities in pursuing the objectives of the circular economy in 2018 included:

- Collaboration with Horizon 2020's BAMB (Buildings as Material Banks) by assisting with the detailed design requirements of the Green Transformable Building Lab and developing a methodology to calculate the social value metrics attributable to Circular economy business models
- The organisation by BAM Construct UK of a series of circular economy supply chain workshops. BAM is working as an advisor on circular economic opportunities for the Greater London Authority (GLA) planning policy guidance in the UK
- Involvement in committees and programmes:
 - The Ellen MacArthur Foundation CE100 programme
 - London Waste and Recycling Board (LWARB), supporting organisation for the Advance London Accelerator programme to promote Circular economy investments and funding streams for start-up companies in the field of construction
 - Glasgow Chamber of Commerce, 'towards a circular city' participant organisation
 - The Green Construction Board Circular Economy working group.

39 - Circular Business Models



Circular procurement

In collaboration with the VMRG (Association for Metal Window and Facade Industry), BAM is developing a circular facade proposition to clients. The proposition is based on reuse of facade products. The manufacturer remains the owner of the end product. The VMRG and BAM have identified a project in which the ownership model can be applied.

A second project is a circular elevator solution where it is no longer necessary to own the product. This solution M-Use captures the desired and agreed performance contractually. Maintenance takes place on the basis of actual use and predictive insights where performance is guaranteed for 40 years. The materials used are recorded in a materials passport which enables reuse of parts at any moment in the service life. The M-Use is operational in the Circular Pavilion of ABN Amro.

In addition to the above, BAM has developed a minimum viable product for a circular building platform (CBP) together with IBM. The CBP serves as marketplace for supply and demand of used construction materials or assets. BAM wants to stimulate circular business models within the construction industry and is currently discussing opportunities for its development with key stakeholders.

Waste

BAM's waste typically consists of excavation, demolition, construction and office waste. In 2018, BAM saw an increase in the excavation and demolition waste, mainly in the Netherlands, Ireland and Germany. BAM 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 BAM takes on a project. BAM has limited impact in the amounts of this waste types and it is merely a part of BAM's business model to efficiently reuse or remove these materials.

BAM focuses on construction and office waste as indicators of operational performance, since these outputs are based on the Group's own processes and procurement. 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 2018, BAM reduced its construction and office waste by 4 per cent compared to 2017, from 134 kilotonnes to 129 kilotonnes. The construction and office waste intensity was reduced to 17.9 tonnes per million revenue (2017: 20.3).

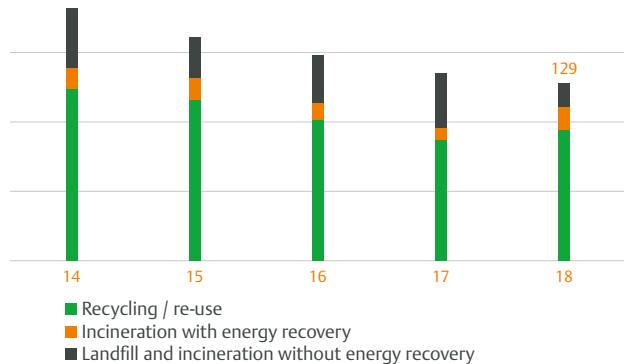
A large contribution to this year's reduction was due to the completion of several large construction projects in the United Kingdom and in BAM's International activities. Efficiencies in BAM's production process were achieved through the use of prefabricated building elements. Moreover, digital construction technologies are helping to reduce construction waste by integrating material use in the early design stage.

BAM has set an objective to improve the separation of construction waste and to completely avoid landfilling and incineration by 2025. In 2018, 14 per cent of BAM's construction and office waste, a total of 18 kilotonnes (2017: 39 kilotonnes) was landfilled or incinerated.

41 - Total waste production per source
(in kilotonnes)



42 - Construction and office waste production per destination category (in kilotonnes)



40 - Material consumption in the Netherlands

Consumption		2014	2015	2016	2017	2018
Ready-mix concrete	m ³	286,000	265,000	189,000	173,000	208,000
Timber	m ³	28,000	32,000	23,500	19,000	19,500
Asphalt	t	1,500,000	1,400,000	1,450,000	1,300,000	1,250,000
Steel	t	79,000	73,000	54,000	61,000	72,500

Recycled content

Ready-mix concrete	%	10%	12%	18%	15%	12%
Timber	%	2%	1%	3%	1%	0%
Asphalt	%	42%	40%	42%	37%	41%
Steel	%	64%	63%	71%	72%	66%

The large reduction of landfilling or incineration is largely the result of an increased share in waste to energy incineration. By engaging with its waste contractors, BAM pursues to improve the waste treatment process and further reduce landfilling and incineration.

BAM also managed to increase the recycle rate of its construction and office waste to 93 per cent in 2018 (2017: 87 per cent) by engaging with waste contractors and increasing waste separation ratios. In 2018, 28 per cent of the Group's construction waste in the Netherlands was separated, compared with 23 per cent in 2017.

Construction materials

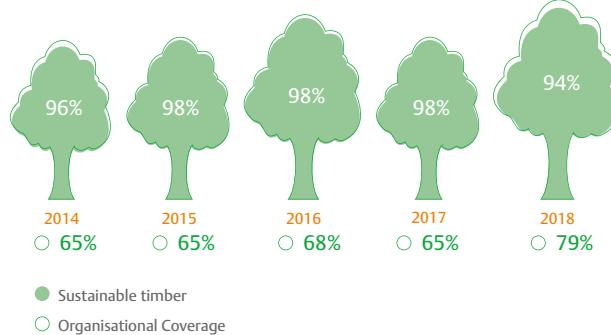
BAM has identified the quantities of materials used in its construction projects in the Netherlands since 2011. The Group has identified the main categories of procured materials as shown in ► table 40. The material quantities and recycled content are based on supplier data, industry averages and data from BAM's asphalt plants.

Sustainable timber

BAM considers sustainable timber a valuable construction material to support the transition to a circular economy. BAM signed a covenant with FSC Netherlands in 2007 and committed to exclusively use certified sustainable timber, as the use of sustainable timber supports forest conservation and biodiversity and helps to combat climate change. In cooperation with FSC Netherlands, BAM continues engage with suppliers to encourage them to improve the identification and reporting of certified timber.

BAM has reported on certified sustainable timber use in the Netherlands and the United Kingdom for many years. In 2018, BAM also started to report certified timber use in Belgium and for BAM International, increasing the coverage (based on revenue) of BAM's operations to 79 per cent. In the Netherlands, BAM requests information from suppliers on the application of certified timber twice a year. The supplied information covers 82 per cent of all timber use in construction works carried out by BAM in the Netherlands, but does not include timber consumption for subcontracted projects. Based on the information received from 16 Dutch suppliers, BAM estimates that 99 per cent of its timber use was certified (84 per cent FSC and 10 per cent PEFC).

43 - Certified sustainable timber use by BAM Group



ArenA battery wins prestigious environmental award

On 12 November 2018, the Green Organisation in London announced that Amsterdam's Johan Cruijff ArenA had won the prestigious Green Apple Award for Environmental Best Practice. This smart energy storage system consists of re-used batteries from electric cars and provides the stadium with a reliable source of renewable energy, even if the city's grid were down. The Johan Cruijff ArenA is one of the most sustainable stadiums in the world.

ArenA's future plans for the battery includes sharing its capacity with neighbouring venues, such as Ziggo Dome and AFAS Live, as well as with the residents of Amsterdam South-East. The total storage capacity is 3 megawatt, enough to power several thousand households.

In addition, the ArenA battery makes an important contribution to the stability of the Dutch energy network, by helping to balance the demand of supply of energy. At peak demand, for instance during music events, the battery reduces the strain on the grid. When supply peaks and there is still some room in the storage system, excess energy from the grid can be used to top up the ArenA battery. The battery also ensures maximum utilisation of the energy generated by the 4,200 solar panels in the ArenA's roof.

This unique project is the result of a collaborative effort by Nissan, Eaton, BAM, The Mobility House and Johan Cruijff ArenA, supported by AKEF (the City of Amsterdam's climate and energy fund) and Interreg.



In the United Kingdom, the origin of certified sustainable timber from both FSC and PEFC sources is registered in BAM's online data monitoring system BAM SMART. In 2018, 98 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 started measuring its sustainable timber use in 2018 by engaging with their suppliers: 69 per cent of its timber use was certified (PEFC). BAM International started to measure its timber use in the Middle East, Asia Pacific and Africa: based on supplier reports, BAM estimates that 19 per cent of its timber use was certified.

In 2018, BAM obtained leadership status on the CDP forest timber benchmark (score A-). This global ranking evaluates the 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.

Asphalt production

The production of asphalt is a process that typically requires large amounts of natural resources and energy. BAM developed a low-energy asphalt concrete (LEAB, after the Dutch name: 'laag energie asfalt beton'), an innovative type of asphalt that requires less energy and fewer natural resources and results in lower CO₂ emissions than conventional asphalt. In 2018, BAM applied 69,000 tonnes of LEAB (6 per cent of the total asphalt production).

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+ program. LE2AP is the next circular milestone towards developing silent (sonic) and sustainable roads that optimise traffic flow. It is produced and paved at a low temperature of 80 degrees Celsius and reduces traffic noise by an average of 7 decibel. In 2018, the application of LE2AP was tested at two provincial roads in the Netherlands, for which 26,000 tonnes of LE2AP was used. The use of LE2AP saved more than

400 tonnes of CO₂ compared to the use of conventional asphalt (15.7 kg CO₂ per tonnes asphalt) and reduced the environmental impacts related to asphalt production (► figure 44).

In 2018 BAM and Heijmans announced that they would investigate the possibility to transfer their current asphalt plants in the Netherlands to a new joint asphalt company. By establishing the 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.

Water

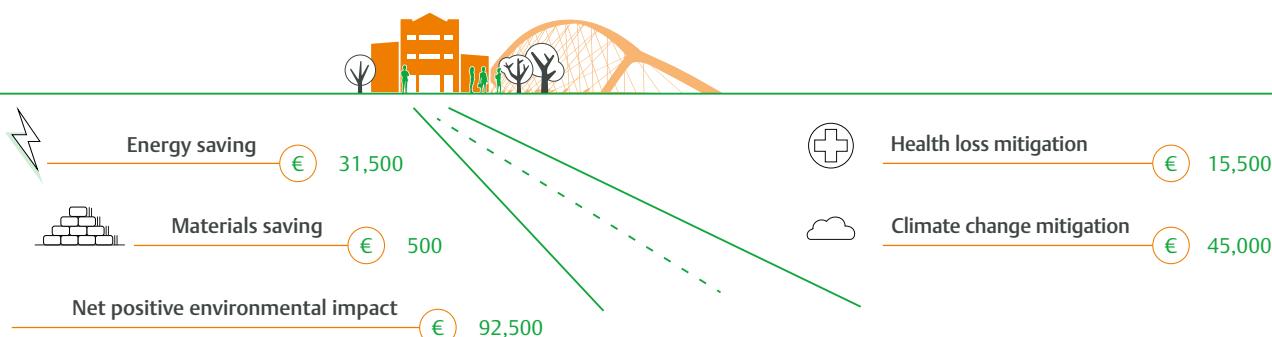
The availability of freshwater is a relevant environmental topic for BAM, mainly in the United Kingdom. In 2018, construction sites and offices consumed 124,000 cubic metres of potable water in the United Kingdom (2017: 138,000 cubic metres). Water use on projects is volatile, depending on the need of water-intensive activities such as drilling and hydro-demolition. BAM aims to limit its water consumption by implementing water recycling or rain water harvesting as much as possible where high volumes are predicted.

45 - Potable water usage in the United Kingdom

(x 1,000 m³)



44 - The positive environmental impact of the applied LE2AP in 2018 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'.

The future

Museum of the Future, Dubai

The Museum of the Future is a unique initiative by HH Sheikh Mohammed bin Rashid Al Maktoum that explores the future of science, technology and innovation and will be located near the Burj Khalifa. In addition to becoming a major tourist destination, the museum will offer advanced courses and specialised workshops, as well as public talks and events. BAM International expects to deliver the museum to Meraas Holding by mid-2019.



3.4 Outlook

Markets

In the Netherlands, the residential construction and property market for new build homes is characterised by high demand, however growth in the supply of new build homes remains constrained by availability of permitted locations. The volumes at non-residential construction continues to improve. The pressure in the supply chain is ongoing. Both markets are benefiting from transition to more energy efficient buildings. At civil engineering volumes have started to grow, but the risk and reward balance remains challenging.

The non-residential and civil engineering markets in the United Kingdom are relatively stable. Brexit uncertainty remains.

In Germany, construction and civil engineering markets are stable with a positive outlook especially for public infrastructure.

The Belgium civil engineering market is growing slowly, however with postponements of major projects. The Walloon region remains at a low level. The construction and property market has a mixed picture; the private market is supportive and the public market is stagnating.

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

The international oil and gas market is still at a low level and some investment decisions coming through.

The market of Public Private Partnerships offers opportunities in most of BAM's home markets and selected international markets.

Sustainability

BAM sees the effect of the 2015 Paris Agreement on climate change through national and European regulations. To align with the Paris Agreement and climate change science, BAM has developed a Science Based CO₂ reduction Target (SBT) in 2018, focusing on bringing down BAM's own emissions and helping other parties in the value chain to reduce their emissions. BAM is involved in many industry bodies to respond to the global challenges of climate change mitigation, resulting in greater demand for more energy efficient and energy positive solutions. Linear consumption patterns ('take-make-dispose') of products are coming up against constraints on the availability of resources. The construction sector needs to develop new opportunities and realise circular economy ambitions faster, which requires rethinking, redesign and innovative construction methods. BAM continues to develop its own medium to long term response to climate change and implementation of its sustainability strategy to have a net positive impact in the long term.

Human resources

BAM continues to face a tight labour market, especially in the field of technology. The Group's challenge to find technically skilled people increases. 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 continues the development of its employees by offering learning and personal development programmes. To understand the needs and interest of BAM's employees, regular engagement surveys are held, and actions are defined based on the outcome. BAM focuses 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 2019. BAM expects investments in strategic and project specific equipment in normal course of business.

Outlook 2019

For 2019, we expect the revenue to be around €7 billion and aim to further improve the adjusted result before tax margin within the strategic target range of 2 to 4 per cent.

Executive Board

Bunnik, the Netherlands, 19 February 2019

CoalDropsYard, King's Cross

David Partridge – Argent LLP

‘By working and learning together we can solve challenges’



David Partridge is Managing Partner of Argent LLP, a leading UK property developer specialising in mixed-use development with a focus on placemaking and regeneration. BAM is a long-term partner of Argent and among other projects was appointed to build Coal Drops Yard, King's Cross, London.

What is the added value of open collaboration in the construction industry?

‘If all parties take time to understand each other’s risks there is a better chance of finding equitable solutions in the best interests of all stakeholders. Honest, open collaboration is a two-way process. So I would say to contractors: do not be afraid to challenge us. It’s important to take time to understand each other’s drivers as early as possible and be courageous and imaginative in offering solutions.’

Can you give an example?

‘We involved BAM and their supply chain early on, some twelve months before the start of our project to create an innovative retail quarter at Coal Drops Yard, King’s Cross, in London. It was important that BAM understood the risks associated with a listed building and the particular geometry and interface of a new roof that would overarch and link the structure of the former yard buildings. Early involvement enabled BAM to de-risk the

construction and to meet key dates.’

How can we learn from each other?

‘The way we deliver projects and the way the construction industry works has to change. We need to be innovative and push the boundaries of traditional contracting. By working and learning together we can solve challenges and continue to deliver exceptionally high quality results.’

What are the benefits of digitalisation for the construction industry?

‘Looking to the future, the linkage between design and off-site manufacture is key. But without digitalisation, design would be the weak link. Although BIM has become embedded in what we do, there is still some work to do to get everyone on the same page.’

What is the benefit of digitalisation for your organisation?

‘Digitalisation enables us to innovate. It offers the opportunity

to better co-ordinate the design and leads to greater efficiencies and less waste in the delivery process.’

Can you give an example?

‘We are interested in the contribution digitalisation can make to asset management by extending the digital building model to include a fully digitised building management system to enable efficient facilities management. We need to consider more fully the potential of digitalisation in sequencing and managing all projects prior to executing them.’

What message would you like to give BAM?

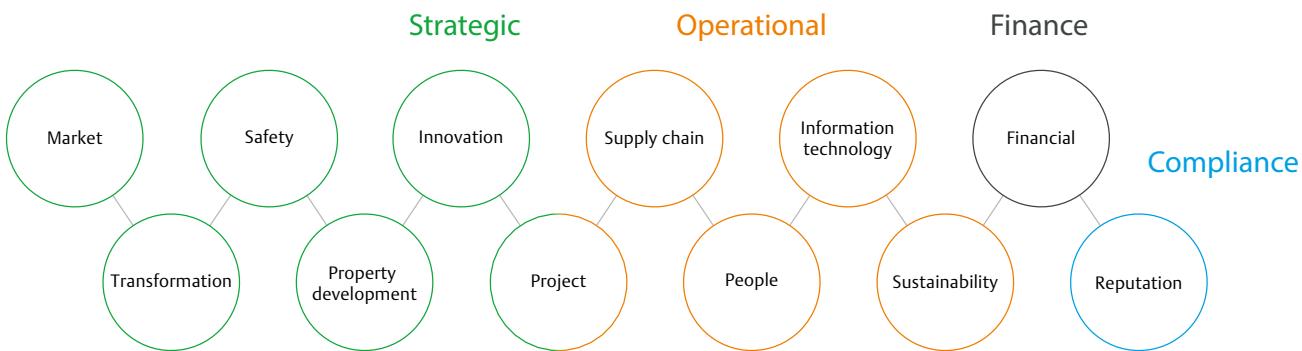
‘Argent and BAM have had a collaborative relationship stretching back more than 22 years. We want BAM to continue to push boundaries and seek ways to embrace circular economy principles to deliver a more sustainable built environment as well as utilising digitalisation to improve the design, delivery and occupier experience.’



Building information modelling

Worldwide

The advantage of building information modelling (BIM) is that models are coordinated, making any issues visible early on. These can then be resolved in the design phase, which prevents mistakes occurring during construction. The implementation of the BIM method does require some extra effort, which is why BAM ensures support. BIM standards are a key topic of discussion and knowledge exchange at the BAM Digital Construction Community Table. BAM is also exploring 4D (which includes planning), 5D (which includes costs) and BIM 360 for construction project management in many of its projects. A new development is that the model, including all product information, is transferred to the operation phase for facility management. This was implemented for the first time at the Felix Platter-Spital in Basel, one of the first ever BIM projects in Switzerland.

46 - Main risk areas

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 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 the 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 BAM builds. The new strategy also places a stronger emphasis on cultural values, to further support the brand and the strategy of BAM. 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 of BAM is to balance risk and reward and 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: 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 customer and BAM. Outside the home markets, BAM operates worldwide in niche areas, provided they are in line with the Group's business principles. In PPP investments, BAM only invests in Design Build Finance Maintain Operate contracts in home markets where payments are based on availability of the asset. BAM invests selectively in property development projects on condition that they 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 for ensuring access to the financial markets and retaining its customers, supply chain and other partners. BAM wants to minimise its (financial) reporting risks.

Compliance: Compliance with all applicable laws and regulations including BAM's code of conduct is of fundamental importance for 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 further strengthened baseline requirements for the management of tenders, worked on the development of a unified project approach and using more extensively the business intelligence from the tender and project database. 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 focusing 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.

47 - BAM's risk management framework



There is an annual risk assessment for the Group in relation to the strategic agenda and operating plans.

BAM'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. The Executive Board receives progress updates on the status of the strategic objectives, initiatives and leading indicators through dashboards in periodic reports and in management meetings. This is also periodically shared with the Supervisory Board.

At the operating company 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 the opportunities and actions going forward in periodic reports and in project and management meetings. Furthermore, there is close attention to strengthening processes, systems and its people capabilities.

At project level, the project team manages the contract and the expectations of customers 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, identified in the tendering phase as input for the periodic reporting of project performance. The

periodic reporting also includes a bandwidth for the best and worst case scenarios to be reported to management.

The risk management and control system provides a platform for the structured sharing of knowledge and expertise between the operating companies, 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 that 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 uniform guidelines and policies (for accounting, treasury, legal, compliance, information security, and so on). The internal control framework ensures insight in the effectiveness of internal risk management and control systems, as well as the reliability of the financial reporting and compliance with laws and regulations. Moreover, the internal control framework uses COSO as an external reference framework.

Comfort on the effectiveness of the internal control framework is obtained by a semi-annual assessment of the requirements in the framework. The Group and operating companies carry out self-assessments and the results are reported to the Group Governance Risk & Compliance function. No significant deviations are identified but improvement areas are defined. The most important improvement areas are finance, IT, procurement and project execution. The results of these self-assessments are challenged by the Group and improvement actions are discussed and monitored. Furthermore, Internal Audit has challenged the results and provided 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' at the end of this risk management chapter. 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 confirmed and signed the letter of representation, which supports the Executive Board in their assessment of the effectiveness of the design and operation of the internal control and risk management systems. Operating

companies confirmed that the deficiencies in the minimum requirements framework do not have material impact on their level of internal control.

Core values supporting the right risk culture

BAM's risk management and internal control system is supported by BAM's core values. 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. BAM's people are fundamental to its success. This is why project and business careers are being aligned. A stronger culture will be promoted to make the Group more attractive as an employer and a partner par excellence.

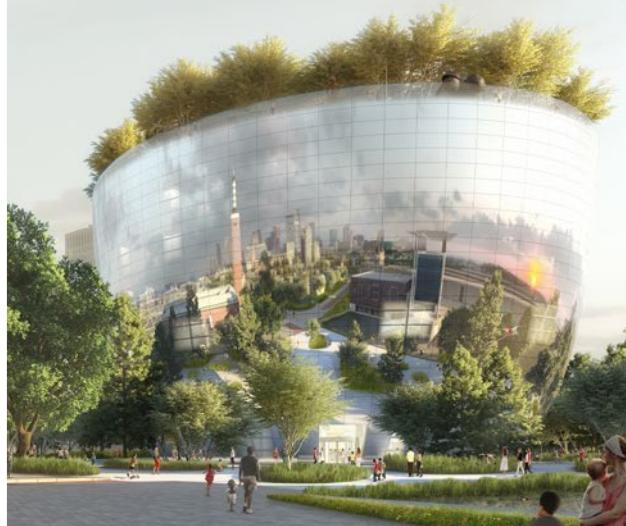
Digital construction masterpiece

BAM is constructing the new Museum Boijmans Van Beuningen depot, which will become an architectural icon for the city of Rotterdam. The design of architectural firm MVRDV is incomparable to any other building in the world. Its unique shape results in double curved formwork panels with very high accuracy. BAM is convinced that if it weren't for BIM, the depot could not be constructed.

In accordance with BAM's digital construction vision, the project team focuses on optimising building preparation and execution. The team on site has been extensively trained and uses these models every day, 'this is how we work'. Supported by 3D models (also from co-makers and suppliers), they first build the depot virtually into the smallest little detail before the actual building is made on the construction site.

The team of model builders and colleagues at the construction site learn together and learning from each other ensures that they can quickly take the next step in digitalisation. Knowledge of how to make it and technological developments are combined. 'I believe that it is not possible to achieve the next phase of digitisation without each other and that collaboration is the essence of digital construction,' says Timothy Lievendag, BIM Manager at the project.

Valuable learnings from the project benefit continuous improvement, completely in accordance with the One BAM philosophy; 'I share, so we all gain.'



Data-driven tendering

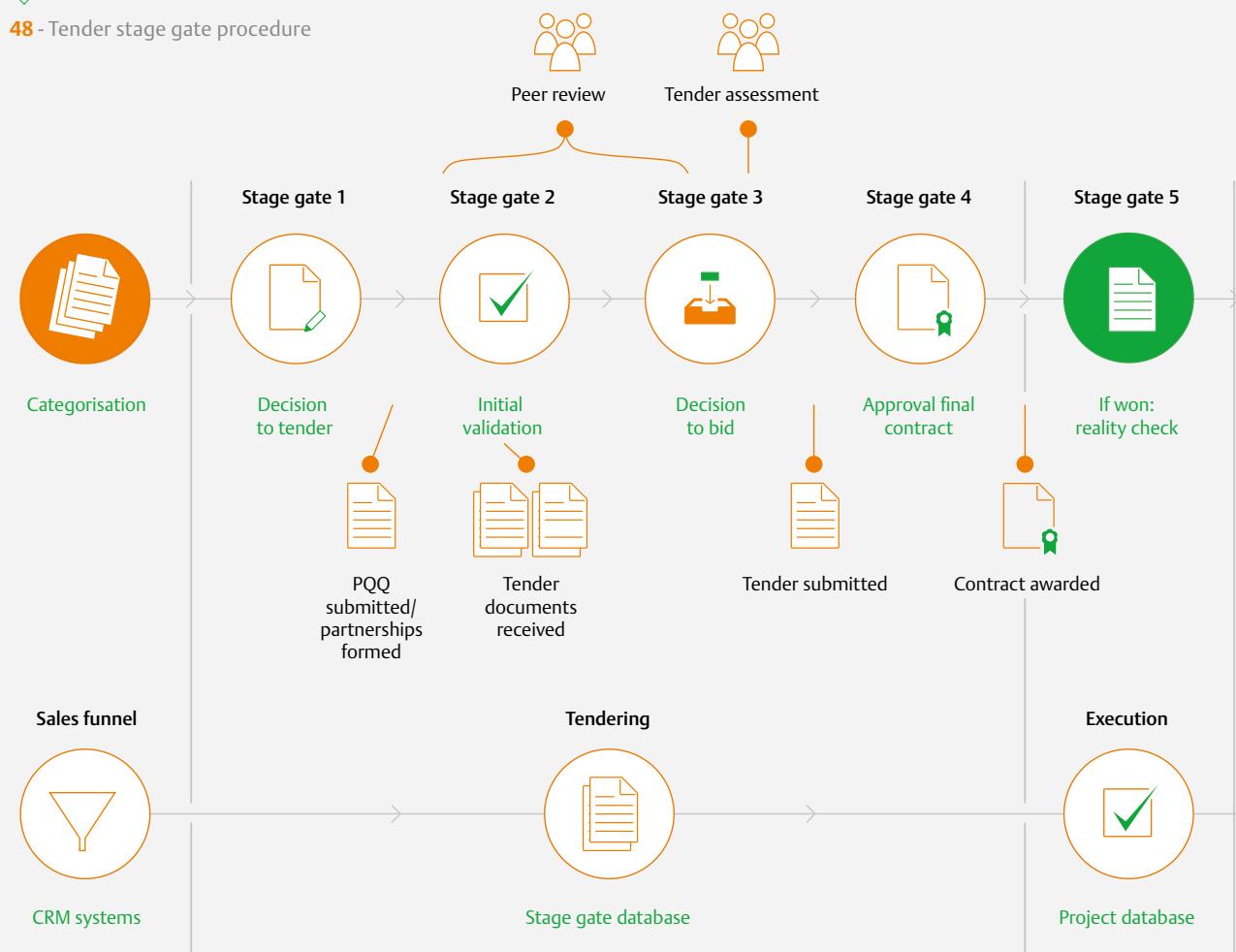
Extensive tender data have been collected over the years to make better data-driven business decisions. Lessons learned from these tenders are shared with the management of the operating companies, focusing on product type, client relationship, geographical location, contract type and preferred partners for the tender at hand. Combining this data with project execution data ensures even better focus on business development and selective tendering.

Fundamental behind managing a healthy order intake is BAM's tender stage gate procedure (see scheme below). Material tenders are guided through various stage gates based on the complexity and size of the tender (tender category). Through the process, qualitative and quantitative risks and opportunities that may impact the success of the tender are considered. Areas considered include client, contract, team, work schedule, finance, partners, safety, location et cetera.

The tender stage gate procedure also includes several approval rounds depending on the risk profile. The procedure follows a governance structure based on tender categories to ensure tenders are reviewed and approved by the right level of management. Bids for major projects or projects involving exceptional risk are submitted and presented to the Executive Board and – if necessary – the Supervisory Board for approval.

Peer reviews and tender assessments are performed by experts from other operating companies in the Group during the tender phase of major projects. These reviews mobilise the full knowledge of the Group and contribute in robustness of the proposal made to the client. Operational audit performs reviews of high-risk-projects shortly contract award to assess the effectiveness of the project control system.

48 - Tender stage gate procedure



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. The main risk areas are specified on the following pages.

Risk description	Possible impact	Management measures
Market risk		
The markets in which BAM operates are subject to fierce competition in most of the Group's home markets.	Intense 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 customers.	Based on the Group's strategy, BAM applies a more 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 thus develops new solutions for customers and invests in digitalisation to be a market leader in how and what BAM builds.
Transformation risk		
The strategic programme 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 Group's strategic (One BAM) agenda, together with other strategic initiatives and targets.	The Executive Board 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 will change the top structure of the company in the first quarter of 2019 to bring it more in line with the priorities.
Safety risk		
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 or even fatalities and may lead to project disturbance. Incidents may lead to loss of time, additional costs and as a result impact BAM's performance.	Chapter 9.7 'Material themes and management approach' describes BAM's management measures as part of section Health and safety.
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. BAM's capital employed position is important to adequately finance the projects.	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 again has consequences for the financial results (level and duration of the capital employed, profit).	If the Group intends to take on property development risks, this requires the prior consent of the Executive Board. The latter 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. However, the United Kingdom – where BAM only operates in the non-residential property sector – is an exception to this. There, the inventory risk is mitigated by a system of phased project execution.

Risk description	Possible impact	Management measures
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.	Chapter 9.7 'Material themes and management approach' describes BAM's management measures as part of section Innovation.
Project risk		
BAM is 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 litigations 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 and peer reviews. During the execution phase, much 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.	Chapter 9.7 'Material themes and management approach' describes BAM's management measures as part of section Procurement.
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.	BAM strives for an open culture of learning and exchanging knowledge in the form of training and education, building on the available knowledge and expertise. To attract top talent, BAM has a professional recruitment team that works together with recruitment agencies through advertisements, but also with various training institutes. BAM increases the mobility of employees between the core businesses. The Group invests in the further 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 confidentiality and continuity measures as well as the integrity of data. Training and communication increase familiarity with safe IT use among BAM people and partners, as this is considered essential.
Sustainability risk		
The construction industry relies heavily on natural resources, which will be depleted as soon as consumption goes faster than the natural supplement. Global warming and climate change cause more frequent extreme weather conditions, such as storms, heat waves, droughts, heavy rainfall with flooding and heavy snowfall.	Failure to deliver more sustainably and innovatively could disrupt BAM's position vis-à-vis customers and chain partners. Extreme weather events and material shortages can lead to disruption of the building process.	BAM has a strong corporate team to support continuous improvement and makes considerable efforts to reduce the 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 customers 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 customers, 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.	Chapter 9.7 'Material themes and management approach' describes BAM's management measures as part of section Business conduct and transparency.

What impacted BAM in 2018?

Some risks and uncertainties related to the nature and complexity of BAM's business environment had an impact on BAM in 2018. Some examples are given in this section.

Brexit

The United Kingdom is BAM's second largest home market after the Netherlands. BAM's UK activities 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. They are widely diversified by location (strong regional presence across the United Kingdom), client base (public and private) and market (retail, office and industrial construction, and across all civil sectors). The operating companies are among the leaders in their markets. BAM has performed a risk analysis on the potential scenarios, ranging from 'No Deal' to 'No Brexit'. The risk analysis covered potential impacts from a contract, supply chain, trade tariffs and customs, regulation and people perspective, including follow up actions to mitigate risks. The primary exposure for BAM in the United Kingdom relates to the short-term 'No Deal' scenario, creating potential changes in the cost and availability of materials and consumables, with foreign exchange being a significant secondary contributor. Any new insights and developments are being monitored.

Asymmetric risk profile

BAM's performance in 2018 was impacted by an asymmetric risk profile, especially on large infrastructural projects within Belgium, Germany and the Netherlands. For example, there was an additional cost overrun of about €30 million on the project sea lock IJmuiden. The new planning showed a delay in realisation of the sea lock and additional cost for realisation. BAM continues to be selective in tendering for large projects, and is discussing with its public sector clients on ways to improve the risk and reward balance and contract conditions.

Impairments

BAM recognised an impairment on its assets. There was a non-cash property impairment mainly related to a Dutch regional land position adjacent to the development of a large wind farm, which is now reduced to the value of farmland. Furthermore, there is an impairment taken on the deferred tax assets, triggered by changes in the Dutch corporate income tax rates and lower performance in the Dutch fiscal unity.

Resource pressures

There are positive marked developments in most of BAM's home countries. This resulted in supply chain pressure and increased labour costs especially in the Netherlands and Germany. The HR and Procurement functions work closely together with the business to ensure that projects are being executed by the right people with the right quality. Furthermore, BAM is more selective in tendering for the projects the Group can execute in line with internal and external requirements.

Safety

This year, BAM did not have any fatal incidents. 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.

Accelerate strategy execution

In 2018, BAM concluded that the implementation of the strategy required reinforcement. It was decided to change the top structure of BAM to bring it more in line with the priorities, as stated in the strategy Building the present, creating the future. With the appointment of a COO for each of the two business lines and a chief business excellence officer, BAM creates more focus on its strategic and operational priorities. This leads to more synergy, more efficient working, faster innovations and better project management, with the purpose of achieving predictable performance in line with BAM's financial targets.

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, the Executive Board has made an assessment of the effectiveness of the design and operation of the internal control and risk management systems (as described in this risk chapter). Furthermore, the Executive Board has determined the outlook based on market developments, financing (as described in chapter 3.4 Outlook) and 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 significant failings in the design and operating 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; and
- 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; and
- The management report describes the principal risks and uncertainties that Royal BAM Group faces.

Wattway: solar panels in road surface

In a small and crowded country such as the Netherlands, room to create solar parks is scarce. In addition, solar parks have an impact on the landscape. But the demand for renewable energy is high and will only continue to grow. And so the quest for space calls for a bit of creativity. What if we could use the existing infrastructure?

With Wattway, developed by the French Colas Group, BAM Infra is proposing a solution to use the Dutch road network as a generator of renewable energy. Wattway's wafer-thin photovoltaic cells are integrated into the road surface and covered in a transparent resin. Without interrupting the flow of traffic, the solar mats catch the rays of the sun to harvest their energy. The natural landscape, meanwhile, stays unspoiled.

The first results of a test in the province of Utrecht (on the N401 near Kockengen) show that on an annual basis a 50m² solar mat is enough to harvest the energy to power a single household.

A little further down the road, BAM Infra and Rijkswaterstaat have set up a second test section. Here, Wattway is integrated in the emergency lane. No scarcity there: alongside the Dutch motorways the total number of square metres runs into the millions.





Enhancing lives

M5 Oldbury Viaduct Renewal, United Kingdom

BAM Nuttall is involved in extensive repairs of the viaduct, which opened in 1970. For 3km of the M5, to the west of Birmingham between junctions 1 and 2, the waterproofing system had reached the end of its lifespan resulting in deterioration of the reinforced concrete. This is the highest investment for a concrete repair project undertaken in the UK, and the largest scaffolding project in Europe.

The project placed importance on enhancing lives in local Black Country communities. The BMV team involved recruitment experts Think Sandwell and Women into Construction to find the right candidates and attract people from all sectors of the community, using both traditional and new approaches to recruit.

5.1 Corporate governance

Legislative and regulatory developments

The latest version of the Corporate Governance Code was published on 8 December 2016 (the 'Code'). By means of a Decree dated 29 August 2017 the Dutch government has designated the Code as applicable for 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 integrated report

This chapter reports on the application of the Dutch Corporate Governance Code at Royal BAM Group nv. 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 ('Besluit inhoud bestuursverslag').

Information about BAM's corporate governance structure and compliance with the Corporate Governance 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 chapters 5.3 and 6.1 and the diversity policy for both boards is explained in this chapter and chapter 5.1. A declaration with regard to the Decree on Article 10 of the Takeover Directive (clause 3d of the Decree with respect to the contents of the Executive Board report) can be found in chapter 5.2.

Corporate governance review 2018

In the year under review only a limited review of the corporate governance structure took place due to the extensive review in 2017, when, following the publication of the revised Code (see www.mccg.nl), the Executive Board and Supervisory Board, assisted by the Company Secretary, assessed BAM's corporate governance and the consequences of the new Code for BAM.

Diversity

Best practice 2.1.5 of the Corporate Governance 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.

As part of the implementation of the new Corporate Governance Code in 2017, the Supervisory Board adopted new rules, which included an updated profile for the Supervisory Board. In this profile diversity aspects are included, providing 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. As per the General Meeting in 2017 the composition of the Supervisory Board is in line with this target, given that two out of six 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.

When adopting the new rules and profile for the Supervisory Board, the latter resolved that the diversity aspects set in the profile for the Supervisory Board will apply equally to the Executive Board. Since Mrs Menssen stepped down as CFO of the company per 1 July 2018, the composition of the Executive Board is no longer in line with the target as far as gender participation is concerned. In the search for her successor, the Supervisory Board put a lot 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, Mr Den Houter turned out to be the best candidate for the position.

The diversity policy as described above will apply equally for the Executive Committee, once this corporate body has been established in 2019. Also here the added value of a diverse composition is clearly acknowledged.

Although the Company strives for a diverse composition of its corporate bodies, it should be noted that especially achieving the gender target at the executive level 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. To achieve it, the Company pays specific attention to women in our management development programs 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.

XblocPlus is well received

With the arrival of XblocPlus, BAM Infraconsult has extended its product line of innovative breakwater armour units. XblocPlus is cost-efficient, easier to manufacture and even quicker to position than the original Xbloc. In advertising terms: it's new and improved!

Xblocs have been protecting coastlines across the globe since 2003. After initial hesitations, the market has embraced the design of Bas Reedijk and this team, and today some 400,000 Xblocs are protecting breakwaters around the world. And while the Xbloc still sees its numbers growing every day, BAM Infraconsult saw enough reason to take the product development a step further.

'A typical characteristic of the Xbloc is that each new unit should be positioned differently from its neighbours – this improves their interlocking, which increases protective strength,' says Reedijk, who heads the Coastal Engineering and Water Management department at BAM Infraconsult.

'Although we always make sure contractors on site are properly instructed, we still sometimes see that crane operators are inclined to place the elements in a regular pattern. This can lead to discussions between clients, contractors and ourselves about the desired method of placement. For this reason, we have been considering the idea of designing a prefab element that is easier to position – i.e. in a uniform pattern – while still achieving optimal interlocking.'



CSR responsibility and delegation

The Executive Board is responsible for defining the CSR policy, in consultation with the Director Strategy and Director 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. Safety ambitions, the reduction of CO₂ emissions, waste management, and enhancing lives, along with business integrity, 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 has the responsibility for BAM's sustainability activity. The operating companies report progress quarterly to the Executive Board, Director Strategy and Director Sustainability together with details of actions taken to support the Group's business objectives. They interpret BAM's objectives based on their unique operating conditions. CSR is part of how managers and employees do their day-to-day jobs. 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.

Compliance with the Corporate Governance Code

Compliance with the Corporate Governance Code is described in the BAM Corporate Governance Compliance Overview, which is available on the website of BAM (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 Corporate Governance Code the company will submit any substantial changes in the main features of the corporate governance structure to the General Meeting for discussion purposes. This includes the changes to the top structure of BAM as announced in a press release on 6 December 2018. The corporate governance structure will be discussed with the shareholders during the Annual General Meeting on 17 April 2019.



Protection by Xblocs

Container Terminal, Moín, Costa Rica

The consortium Van Oord/BAM International is responsible for the construction of this new terminal and marine access for APM Terminals. The scope of work consists of the construction of a 1.5-km rock breakwater (14,000 Xblocs), reclamation of an area of 40 hectares, including soil improvement works, and the construction of a 650-metre quay wall, as well as the pavement, associated buildings and all utilities. In June 2018, BAM International's project team completed the final pour of the 650-metre-long and 35-metre-wide concrete wharf deck.

5.2 Decree on Article 10 of the Takeover Directive

The following information and explanations relate 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.

Capital structure

The company has three classes of shares: ordinary shares, preference shares B and series of preference shares F. Note 15 of the financial statements may be used as a reference for the company's capital structure. At the balance sheet date only ordinary shares have been issued. The ordinary shares are traded on the Euronext Amsterdam stock exchange. 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 and an ordinary share. As all ordinary shares, preference shares F and preference shares B have the same nominal value (EUR 0.10) every issued and outstanding share of a class gives the right (i) to cast one (1) vote in the general meeting and (ii) to cast one (1) 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 do 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 holders of preference shares 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. According to 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 Class B and Class F preference shares. A brief summary of that article is provided in the following subparagraph.

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 chapter 7.3 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 Class B preference shares contained in the Articles of Association. Article 13 of the company's Articles of Association stipulates that approval is required from the company's Executive Board for the transfer of Class B preference shares. 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 Class B preference shares, 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 than the said foundation without the foundation's permission. The foundation will not dispose of or encumber any Class B preference shares, nor renounce the voting rights relating to them, without permission from the company. Please refer to page 212 onward of this Integrated Report 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 70.

Special control rights

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

Employee share plan 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, which replaces the previous long-term incentive plan which was based on phantom shares. The new 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 company's 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:

- (i) Restricting the transfer of shares or of depositary receipts issued with the company's cooperation, or
- (ii) 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 company is managed by an 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 Executive Board rules. The Executive Board was authorised by the General Meeting held on 19 April 2017 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, plus an additional 10 per cent, which additional 10 per cent may be used exclusively for mergers, acquisitions or strategic partnerships by the company or by operating companies. However, the General Meeting rejected the proposal to authorise the Executive Board to restrict or exclude pre-emptive rights in the event of an issue of or granting of rights to acquire ordinary shares.

The General Meeting held on 18 April 2018 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 18 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 n.v. issued €125 million in subordinated unsecured convertible bonds (see note 18 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 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, Mr Noy served as CEO and Chairman of the Executive Board of Arcadis. Mr Noy is a Dutch national and does not own any shares in the company's capital.

Other offices: Chairman of the Supervisory Board of Fugro; Chairman of the Board of Stichting Administratiekantoor TKH Group; extraordinary member of the Dutch Safety Board.

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.

K.S. (Klaas) Wester (1946) *Vice-chairman*

Mr Wester graduated in civil engineering from Delft University of Technology in 1969. He then worked briefly for Fugro as a geotechnical engineer, after having performed military service. He went on to work at Costain Blankevoort and later at Ballast Nedam, working in the United Kingdom, the United Arab Emirates and Kuwait. In 1981, he returned to Fugro, where he held various management positions before being appointed as a member of the Fugro Executive Board under the Articles of Association in 1996. Mr Wester went on to become Chairman of the Executive Board in 2005, a position he held until his retirement in 2012. Mr Wester is a Dutch national and does not own any shares in the company's capital.

Other offices: Chairman of the Supervisory Board of ACTA, Chairman of the Supervisory Board of Iv-Groep.

Mr Wester was appointed to the Supervisory Board in 2011 and reappointed in 2015. He was appointed as vice-Chairman of the Supervisory Board in 2017.

G. (Gosse) Boon (1959)

Mr Boon studied both quantitative business economics and Dutch law at Erasmus University Rotterdam. He also completed the RA (Chartered Accountant) study at the 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 the CEO of DiverseyLever Netherlands, a position he fulfilled until 2004. Subsequently, Mr Boon held the position of CFO and member of the Executive Board with Rijnmond Waste Processing and Van Gansewinkel Group respectively. In 2010, he transferred to Nutreco, being appointed CFO and Executive Board member in

2011. In 2015, following the delisting of Nutreco, he decided to leave the company. He is a Dutch national and does not own any shares in the company's capital.

Other offices: Chairman of the Supervisory Board of Albron, member of the Supervisory Board of KPMG, lay judge (expert member) of 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.

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 as a consultant, Mrs Mahieu joined Royal Philips Electronics as Senior Vice-President 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 does not own any shares in the company's capital.

Other offices: member of the Supervisory Board of VodafoneZiggo.

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

M.P. (Paul) Sheffield CBE, BSc, CEng, MICE (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 was involved as an engineer in various projects in New Guinea, Turkey and the United Kingdom. Thereafter, he was responsible for projects in the United Kingdom, Saudi Arabia and Hong Kong as a project manager. In 1998 he became Director of Operations and in 1999 was appointed Managing Director of the 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 Group Executive Committee until 2017, responsible for their activities in Europe and the Middle East. Mr Sheffield is a British national and does not own any shares in the company's capital.

Other offices: Non-Executive Director at Southern Water Services Ltd, Industry advisor to the board of Manchester Airport Group and Senior Vice President of the Institution of Civil Engineers.

Mr Sheffield was appointed to the Supervisory Board in 2017.

G. (Helle) Valentin (1967)

Since 2018, Mrs Valentin has served as Managing Director within IBM and in that capacity, she is overall responsible for one of IBM's Global Accounts. Prior to this, Mrs Valentin has served as Global COO of IBM's Watson Internet of Things, responsible 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. She started her career with IBM in 1992, after

graduating as a Master of Engineering at the Technical University of Denmark and has held many international executive positions within IBM. Mrs Valentin is a Danish national and does not own any shares in the company's capital.

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.

49 - 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*, <i>Chairman</i>	RC, NC	25-04-2012	2016	2020	2020
K.S. Wester, <i>Vice-chairman</i>	AC	20-04-2011	2015	2019	2019
G. Boon	AC	19-04-2017	-	2021	2025
C.M.C. Mahieu*	RC, NC	20-04-2011	2015	2019	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.

From the left: G. Boon, C.M.C. Mahieu, H.L.J. Noy, M.P. Sheffield, H. Valentin and K.S. Wester.



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 a 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 97 - 99.

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, Infratruitres & Mobility Initiative).



L.F. (Frans) den Houter (1974), *CFO*
Mr Den Houter was trained as a hydrographic surveyor at the Amsterdam University of Applied Sciences, 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 worked as controller at Shell Global Real Estate, project manager at Shell Energy Europe and financial manager for joint ventures at Shell Upstream International. He joined Heerema Marine Contractors (HMC) in 2010 as Finance and Control Manager and then held the position of Senior Vice President Finance before being appointed as CFO in 2012. Mr Den Houter is a member of the Executive Board of Royal BAM Group since August 2018. He is a Dutch national. Mr Den Houter does not own shares in the Company's capital.



E.J. (Erik) Bax (1957), *COO*
Mr Bax studied engineering, building and construction at the Tilburg Institute for Technology and obtained an MBA at Erasmus University Rotterdam and Georgia State University in Atlanta, USA. He joined CRH, the international leader for production and distribution of building materials, in 1984 and held various management positions at CRH's different operating companies and divisions. He then

fulfilled a number of positions in CRH's senior management. As of 2010 he was Managing Director CRH Europe and member of the Executive Committee of CRH in Dublin. Mr Bax has been a member of the Executive Board of Royal BAM Group since May 2014 and COO since October 2014. He will step down from the Executive Board with effect from 1 March 2019. Mr Bax is a Dutch national and holds no other offices. Information about Mr Bax' shareholding position is on pages 97 - 99.

50 - 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, <i>Chairman</i>	21-07-1961	07-05-2008	2012, 2016	2020
E.J. Bax	21-04-1957	01-05-2014	2018	2019
L.F. den Houter	20-05-1974	01-08-2018		2022

From the left: E.J. Bax, R.P. van Wingerden and L.F. den Houter.



5.4 Management Board

In addition to the Executive Board and Supervisory Board, BAM's governance structure is complemented with the Management Board. This corporate body was established to strengthen the One BAM approach and supports the Executive Board in achieving the objectives of the strategic agenda. The Management Board consists of the members of the Executive Board, the managing directors of the ten operating companies (see the organisational structure at page 9) and a number of selected corporate function directors.

In a press release issued on 6 December 2018, BAM announced that it will change the top structure of the company. This change includes the establishment of an Executive Committee that consist of the two members of the Executive Board (the Chief Executive Officer and the Chief Financial Officer), two newly to be appointed Chief Operating Officers (one for Construction and Property and one for Civil Engineering), the Chief HR Officer and a new Chief Business Excellence Officer. The latter will be responsible for further improvement of tender procedures, the

From the left: M. Peeters (BAM Belgium), K. Meade (BAM PPP), T.M. Cullinane (BAM Contractors), R. Vollebregt (BAM Bouw en Vastgoed Nederland), M. Koch (BAM Deutschland), S.J.J. van de Wynkele (Director of Human Resources Royal BAM Group), E.J. Bax (COO Royal BAM Group), S.H.A.J. Beckers (General Counsel / Company Secretary Royal BAM Group), R.P. van Wingerden (CEO Royal BAM Group), S.C. Fox (BAM Nuttall Ltd), L.F. den Houter (CFO Royal BAM Group), J. Wimpenny (BAM Construct UK Ltd), S. Capper (CIO Royal BAM Group), M.H. Schimmel (BAM Infra Nederland), M. Blaschko (Wayss & Freytag Ingenieurbau AG), T.W. Muntinga (Director of Finance Royal BAM Group) and G.K. Mazloumian (BAM International)



realisation of procurement synergies, the acceleration of digital construction and the improvement of project management. The Executive Committee will decide on strategic issues and groupwide policies, systems and processes and will be responsible for strategy implementation and the performance of the Group. The final responsibility remains with the Executive Board.

The change of the top structure is aimed at reinforcing implementation of the Group's strategy by better alignment of senior management, creating more focus on the strategic and operational priorities and getting more synergies from the Group's scale through the One BAM program. The Supervisory Board will meet mostly with the full Executive Committee, but might decide to meet with the Executive Board only. Size and composition of the Executive Committee need Supervisory Board

approval. The remuneration structure for the Executive Committee members will be similar to that for the Executive Board. Actual remuneration, including short and long term incentives will need approval from the Supervisory Board. Amended rules of procedure of the Executive Board and the Supervisory Board, to include the functioning of the Executive Committee, will be published on the Company's website.

Bunnik, the Netherlands, 19 February 2019

Executive Board:
R.P. van Wingerden
L.F. den Houter
E.J. Bax





State of the art

WTC, Utrecht

The WTC formula stands for state-of-the-art office space in the most accessible locations in the Netherlands. WTC Utrecht is the ultimate fulfilment of this ambition: it stands right next to the country's most central location, Utrecht Centraal Station. Sustainability has been an essential element of the development. WTC Utrecht will be one of the first WELL Buildings in the Netherlands, which means the building meets the highest standards in health and welfare of its occupants. The 18-storey building comprises functionalities such as food and beverage, retail, flexible workplaces, and meeting rooms. WTC Utrecht is the perfect networking location for organisations in the public and private sector as well as the general public.

6.1 Report of the Supervisory Board to shareholders

The year 2018 marked the halfway point of BAM's strategy *Building the present, creating the future*. This strategy for the period 2016 – 2020 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 its scale to improve its competitiveness and that applies digital innovation and industrialisation as key elements in the construction process. The strategy also includes clear objectives on people, planet and profit, with specific and in our view realistic targets.

In our discussions with management as part of the mid-term review of this strategy, we jointly concluded that the strategy is still valid but that the implementation requires reinforcement. To achieve this, it was decided to change the top structure of the company by establishing an Executive Committee, in addition to a two-person Executive Board. This should lead to more focus on the strategic priorities and further enhance the implementation of the One BAM philosophy.

Overall, the economies in our home markets in Europe are doing well with healthy investment levels in both construction and property and in civil, while the oil and gas market, relevant for BAM International, is gradually recovering. The outlook however shows a mixed picture, with certain developments warranting a more cautious approach. Brexit, the trade war between the USA and China, social unrest in several countries 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 lots of opportunities for BAM.

Despite an additional €32 million cost overrun at the sea lock IJmuiden project, the margin based on adjusted profit before tax was above 2 per cent, a considerable improvement compared to 2017. Cash flow was positive, although financing issues related to the sea lock project had a negative impact. We regularly discussed cash flow developments with management and agreed with the measures taken to reinforce the working capital program. This is necessary to maintain a financially healthy condition of the Company.

Due to the volatility and level of profitability, investor confidence in BAM and in the construction industry in general is relatively low. To become more attractive for investors, improvement of profitability and predictable performance are absolutely key. We fully support the measures management has taken to achieve this, including the tender stage gate process for early identification and mitigation of risks, strengthening of project management during the execution of projects and structured learning from past experiences. Although we are not yet where we want to be, we agree with managements' view that with all the actions taken, the company is on the right track to prevent major project losses and achieve its strategic and financial targets.

Most of the major project losses come from large civil projects for the public sector where BAM is not only responsible for the construction, design, and in several cases also for financing and maintenance. This type of usually unique and complex projects should enable BAM to win work through its engineering expertise and capability, thus giving access to higher margin work. In addition, these projects are important to retain high level expertise, attract talented professionals and maintain an internationally competitive construction industry. However, these projects need to have a better balance in risk distribution and a better balance between risks and rewards. We support managements' position that BAM will no longer tender for projects where the rewards are not in line with the risks it is willing to assume.

2018 Financial statements and dividend

This annual report, which is based on the International Integrated Reporting Framework, includes the 2018 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 201 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 annual 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 2018 financial statements. We agree with the Executive Board that a predictable dividend, based on a solid performance in line with the financial targets and taking into account the financial condition of the company, is important for the attractiveness of the BAM-share. We therefore agree with the proposal of the Executive Board to distribute a dividend of €0.14 per share.

We recommend the Annual General Meeting to be held on 17 April 2019, to adopt the 2018 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

We discussed the status of the implementation of the 2016 – 2020 strategy extensively with management. To reap the benefits of its

scale, the One BAM philosophy was introduced in 2016 as an important part of BAM's strategy. This means sharing knowledge, resources, systems, processes and innovation across operating companies. Since BAM comes from a very decentralised model with a high degree of local autonomy, this One BAM approach means a major change. We agreed with management that acceleration was required as a consequence of which it was decided to change the top structure. By establishing an executive committee with – besides the Executive Board – a COO for each of the two business lines, a Chief Business Excellence Officer and the Chief HR Officer, BAM will be better able to use its economies of scale while maintaining local entrepreneurship. This should lead to more synergies, additional efficiencies and cost savings, faster innovations and better project management, with the ultimate goal of achieving predictable performance in line with the financial targets.

Based on the BAM strategy, the operating companies and corporate functions have prepared operating plans for 2019, which were consolidated into the operating plan for the Group. We discussed a first draft in our meeting in November and approved an updated version in our January 2019 meeting.

Risk management

For a construction company such as BAM, risk management is key to achieve predictable performance. Risk management was therefore high on our agenda. We regularly discussed the need for selective tendering with management. The tender stage gate process plays an important role in the early identification of potential risks and taking appropriate measures to mitigate these. Although this process is continuously being improved, it cannot prevent any risk from occurring. But it certainly helps to focus on projects where BAM can achieve decent margins without running too high risks.

In 2016, the company launched a project database, which provides extensive information on projects executed by the Group. Management informed us that the database is increasingly being used as a source for management decisions. It is a good example of sharing information and data driven decision making across BAM. We were also informed on the development of a uniform project approach for large projects and the establishment of a groupwide dashboard for project information, both aimed at providing project managers with tools that support them in better managing projects.

The Internal Audit team continued to audit a number of high exposure projects, resulting in recommendations to improve risk control. Several large projects in the tender phase were presented to the Supervisory Board in regular and extra meetings. We reviewed these projects by asking critical questions mainly focused on risks and how these were managed and how these impacted the pricing of the project.

As part of our annual risk management review, we discussed the outcome of the 2018 Enterprise Risk Management assessment in

our November meeting in the presence of the Governance, Risk and Compliance officer. This annual assessment provides an overview of the biggest risks the company is facing, including an indication of the chances that these risks occur and the impact they might have on achieving the company's objectives, both strategic and operational. The top 10 risks and related mitigation measures were discussed. In the 2019 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 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 introduction of the new governance structure in 2019 will lead to further strengthening of the company's business control framework and its ability to manage risks properly.

Safety and sustainability

Safety continues to be a very high priority for the company. Although zero fatalities should be the norm, we are very pleased that BAM for the first time in many years did not face any fatalities throughout the Group. BAM's safety performance measured by the incident frequency, also improved (from IF BAM of 4.6 in 2017 to IF BAM of 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 behavioral aspects. The safety behaviour audits which are being held throughout the company support this effort.

Following the partially collapse of the parking garage at Eindhoven Airport in July 2017, the Dutch Safety Board investigated this serious incident and published a report in October 2018. We discussed this report and particularly the conclusions and recommendations with the Executive Board. In addition, management of the operating company responsible for the project gave a presentation on the lessons learnt and measures taken to prevent the issues identified. We concluded that BAM's management acknowledges its responsibility for structural safety in general and has taken initiatives in order to ensure sufficient attention to structural safety, both internally and industry wide.

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 and on the roadmap towards the 2020 targets. Management informed us on the stakeholder dialogue with clients, partners and suppliers in which important challenges in society were addressed, such as energy transition, the circular economy and smart cities and the impact these challenges will have on all the participants in the dialogue.

V&A Dundee

Kengo Kuma – Kengo Kuma & Associates

‘I’d love to work again with BAM’



V&A Dundee was designed by renowned, award-winning Japanese architects Kengo Kuma & Associates, following an international competition, and is Kuma's first building in the UK. BAM completed construction in the spring of 2018 and the design museum opened to international acclaim the following September.

The vision

‘The location for this project was very unique, between water and land. We tried to show the uniqueness of this location by designing a sea cliff between the water and the land, which is the result of a conversation between nature and artefact. Creating a man-made form that could echo the wind-swept process of erosion from crashing waves required a new level of technology and engineering. We tried to achieve that natural, organic quality by designing this unique facade and the unique shape. New technologies made the organic form possible.’

Focus to perform

‘It was a very technically challenging project as the form of the building was so original and had never existed in the past. BAM bravely undertook the task of constructing it and I enjoyed working with BAM enormously.’

‘BAM was an ideal collaborator and a partner in realising this complicated architecture. They

shared my vision not only for the V&A building but also for KKA&A’s philosophy of design. I thought our challenge was worthwhile and the result was far better than expected. It was our first time to apply concrete for the 3D building. It was a fresh and eye-opening experience to see that straight lines of pre-cast concrete could be installed in the complicatedly dimensioned structure.’

‘We’ve learned a lot about the technique from BAM’s work and that of its supply chain, and we now think it can be further developed in our future works.’

‘When I visited the site in spring 2016, about a year into its construction, I felt very happy with its progress. I could feel the scale of the spaces and the scale was as I expected. I also felt certain that BAM had all the skill and technical ability to deliver the complexity of the form.’

‘When I returned again after the exterior had been completed, I

felt delighted and satisfied with the way the strong façade had been realised and the dynamic scale of the interior, too – just as we had planned.’

The future

‘I really hope the building will attract many people from the UK, and around the world, to Dundee and to the museum.’

‘I hope as well that people from Dundee will use it as an everyday part of their City; that they will go there to enjoy the building with its surrounding public space and find a harmonious relationship between the museum, the riverside, the City and themselves.’

‘Everyone who worked on the design and construction should be incredibly proud of what they’ve achieved. I give my thanks to BAM for their hard work in creating this complex structure.’

‘I’d love to work again with BAM sometime in the future.’

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.

Together with the Executive Board, we prepared the Annual General Meeting and evaluated it afterwards. Based on last year's rejection of the proposal to restrict or exclude preferential rights upon issuing respectively granting rights to acquire ordinary shares, we limited the proposal to authorise the Executive Board to issue and/or grant rights to acquire shares up to a maximum of 10 per cent. We were pleased to note that this amended proposal was adopted by the General Meeting.

Corporate governance

In April 2018 the outline of our corporate governance structure and compliance with the new Dutch Corporate Governance Code was submitted to the General Meeting. BAM complies with the principles and best practices of this code. A corporate governance compliance overview was published on BAM's website, providing transparency on how BAM complies with the code. At the meeting shareholders were given the opportunity to discuss this topic.

In addition, the amended profile of the Supervisory Board, including a diversity policy which is also applicable to the Executive Board were submitted to the General Meeting for discussion. The changes to the profile relate particularly to the required experience and expertise in the construction industry and in the field of information technology and digital innovation and the related organisational transformation.

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 this report and the overview on the company's website concerning the company's compliance with the Code.

Discussions with external auditor

In the Annual General Meeting on 22 April 2015 Ernst & Young Accountants LLP was appointed as external auditor for the financial years 2016, 2017 and 2018. In early 2018, we assessed the performance of and relationship with the external auditor, based on a report 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

2019 financial statements of Royal BAM Group, which the General Meeting subsequently approved. Ernst & Young Accountants LLP attended the Annual General Meeting of 18 April 2018 and was available to answer questions.

The audit plan for 2018 was presented to and discussed with the Audit Committee and our full Board and subsequently approved. During our review of the 2017 full year results and the 2018 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 2018 meeting, we discussed with the external auditor and the Executive Board the key items as presented by the auditor, being: revenue recognition (including variation orders and claims), company tied costs, capitalisation of development costs, valuation of goodwill, treatment of success fees with PPP's, IFRS 15, classification of German joint arrangements, compliance non-financial reporting requirements, valuation of deferred tax assets and completeness of registration of safety incidents. Several of these topics were also discussed with the external auditor during our meeting in August. In preparation of that meeting several bilateral discussions with the external auditor took place on the impact of IFRS 15, on the figures of 2018 and the comparable figures of 2017.

Other activities and meetings

In addition to the items mentioned before, in each of our regular meetings, we discussed with the Executive Board the state of affairs, the financial performance of the Group and the operating companies, 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, major projects with a higher risk profile and the quarterly press releases. 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 2017, the 2018 half-year report and interim statements, the reserve and dividend policy and the dividend proposal for 2017, 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 Board regularly updated us on the situation regarding the sea lock IJmuiden project and other critical projects and tenders. Management of operating companies and key staff involved gave presentations on several large projects,

including the redevelopment of the Bajes Kwartier in Amsterdam, development of the Zalmhaven project in Rotterdam and the reconstruction of the Afsluitdijk. Discussions focused mainly on the risks in these projects and how these are managed and on the financial aspects.

The corporate HR director informed us on the outcomes of the first Employee Engagement Survey that was introduced in BAM. The corporate Compliance officer gave an update on compliance within the Group and we discussed the procedures the company has in place for reporting misconduct. The corporate director Procurement gave a presentation on what is being done to further professionalise procurement.

In September 2018, we stayed in the Netherlands for our annual work visit. Key items during this multiple day event were the mid-term review of the strategy implementation and the preferred governance model going forward. The corporate Strategy director gave a presentation on profitability of projects which showed that overall the company is making progress regarding margin improvement. We had an extensive discussion with the Executive Board on the governance changes regarding both the business and the functions. Management of BAM International presented the strategy for their operating company. We met with management and key staff of BAM Bouw en Vastgoed and BAM Infra Nederland and got presentations on market developments, business performance and major projects. We visited the sea lock IJmuiden project and discussed progress and lessons learned with the project team. We also visited the Homestudios in Utrecht, an initiative of BAM Wonen (part of BAM Bouw en Vastgoed) to assist buyers of newbuilt houses with ideas and inspiration for the interior of their future home.

A delegation of our Board met with the Central Works Council on several occasions. In addition, our full Board together with the Executive Board met with the Central Works Council 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 while the chairman and other members met with senior managers in order to be briefed on specific topics such as HR, Finance, Corporate Governance and Operational Audit.

In consultation with the Chief Executive Officer, the chairman of our Board together with other board members met with each of the managing directors of the operating companies individually to get their views on BAM's strategy, including the One BAM philosophy and the intended changes in BAM's governance structure. This provided valuable insights that we shared with the Executive Board.

We approved the remuneration report prepared by the Remuneration Committee. The remuneration report is included in chapter 6.2 of the Integrated Report. The remuneration policy was not amended in 2018.

In 2018, we met on eight occasions in the presence of the Executive Board. In addition, one telephone conference call was organised. The attendance rate of the individual members at the meetings was as follows:

51 - The attendance rate of the individual members at the meetings

	SB	AC	RC	NC
Mr H.L.J. Noy	100%		100%	100%
Mr K.S. Wester	100%	100%		
Mr G. Boon	100%	100%		
Mrs C.M.C. Mahieu	100%		100%	100%
Mr M.P. Sheffield	100%	100%		
Mrs H. Valentin	87,5%		100%	100%

We also met without the Executive Board being present, to prepare for and evaluate each board meeting. In addition, we met without the Executive Board 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 2017 and the targets for 2018.

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 2018 the Audit Committee was composed of Mr Boon (chairman), Mr Wester and Mr Sheffield. The composition of the Audit Committee is in line with the provisions of the Dutch corporate governance 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 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 2018: assurance plan 2018 of the external auditor EY, internal audit plan for 2019, impact of new reporting standards IFRS 15 and 16, material legal proceedings, development of working capital, developments and valuation of key projects, valuation of assets, accounting treatment of German joint operations, financing of the company and developments relating to taxes, IT, insurance and governance, risk and compliance.

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 2018 the Remuneration Committee was composed of Mrs Mahieu (Chairwoman), Mrs Valentin and Mr Noy. The composition of the Remuneration Committee is in line with the provisions of the Dutch corporate governance 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 members of the Executive Board and the remuneration of the members of the Executive Board and the Supervisory Board.

The Committee submitted a proposal to the Supervisory Board regarding the short term incentive for members of the Executive Board, based on the 2017 performance and the applicable criteria. The committee also prepared a proposal for the vesting of the long term incentive plan 2015-2017. In addition, the Committee submitted a proposal for the target setting 2018 for variable remuneration (both short and long term incentive). The Remuneration Committee prepared the remuneration report which explains how the remuneration policy has been implemented in practice.

The Remuneration Committee met five times. The Chairman of the Executive Board was present during parts of these meetings as was the corporate HR director. The committee members consulted each other a number of times outside the context of a formal meeting.

Nomination Committee

During 2018, 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.

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 vacancies in the Executive Board, the required profile for the individual positions, review of and interviews with a number of candidates and the final selection of the preferred candidates. A proposal for the re-appointment of Mr Bax and the appointment of Mr Den Houter was submitted to the Supervisory Board. The Committee discussed with the Chief Executive Officer and with the corporate HR director the succession planning process within the company, the changes in the top structure and the profile for the members of the newly to be established Executive Committee.

Composition and functioning of the Executive Board and the Supervisory Board

Executive Board

As announced in a press release on 22 January 2018, Mrs T. Menssen stepped down as CFO and member of the Executive Board of the company effective 1 July 2018. This decision was reached by mutual agreement as the further implementation of the strategic agenda required a different fulfilment of the CFO role. We thank Thessa Menssen for her contribution and dedication to BAM.

At the General Meeting of 18 April 2018, Mr E. J. Bax was re-appointed as a member of the Executive Board for a period of

Courts Bundle PPP

Waterford Courthouse, Waterford

The Courts Bundle PPP Project comprises the development of new courthouse buildings in Drogheda, Letterkenny, Limerick and Wexford and also the refurbishment and extension works to existing courthouses in Cork, Mullingar and Waterford.

Five of the sites incorporated protected structures which required a lot of work from our team to ensure that the surviving fabric and features of the buildings were preserved and enhanced as part of a modern courthouse suitable for use in the 21st Century.



West Dunbartonshire Schools

Stephen Ross - West Dunbartonshire Council

'There's been no drop in standards, no drop in commitment'



Stephen Ross is Public Private Partnership (PPP) Monitoring Officer - Asset Management for West Dunbartonshire Council, in Scotland, where BAM has delivered four schools under a PPP and is responsible for the maintenance of them as part of a thirty year concession.

What stood out about BAM?

'West Dunbartonshire has some of the highest levels of social deprivation in Scotland and in 2007 the Council decided to create four new schools that would also reach out into the communities by providing much-needed, improved access to community sports and leisure activities.'

'We wanted each school to be unique and what stood out about BAM from the start was that they really listened and understood

what we wanted. Other bidders tried to shoehorn us into off-the-shelf or one-size-fits-all solutions.'

Focus to perform

'I have been manager of the concession with BAM for the Council since the start of procurement. We are one third of the way through the 30 year concession and what pleases me – ten years on – is that there's been no drop in standards, no drop in commitment. I think BAM's ability to listen and their responsiveness is still a feature of the relationship. I don't really see it as client v provider dynamic, where we are always on different sides of the table, but more as a partnership. Of course the Financial Close agreement is a hard-nosed contractual document. Sometimes it limits what I can ask for, and it limits what BAM can deliver. But BAM often goes over and above what they have to do contractually. The teachers in the schools, for example, feel they can go direct to BAM and that they get

a high level of service. I think we get a first class level of responsiveness from BAM. They are quick to react and willing to go above and beyond the strict terms of the contract in order to deliver a quality service.'

Adding value and evolving together

'BAM have gone out of their way to help us reduce our carbon footprint. The WDC Schools were among the first to use geo-thermal renewable energy. And, even though the Council is responsible for utilities usage, BAM constantly prompts us with options for better energy performance, such as switching to LED lighting and educating us in best practice on monitoring energy usage. They've guided us on lifecycle maintenance, so that we do not necessarily do like-for-like replacement but make the most of technological advances. Even on a practical level, they are great in the schools in educating the children about energy efficiency.'

'Ten year on, we are at the stage where the buildings are getting older, so maintaining the schools to the highest standard is taking more effort. But I feel very confident in the level of service delivery and our ability to achieve that working together. I think it helps that BAM can deliver every element of a PPP arrangement under one roof, from the financial

funding, through to the design, construction, and then the day to day facilities management. Most other contractors have to outsource some of these elements. So, for example, soon we will need to undertake some substantial remedial work on the sports pitches, and it's good to know that the people who have been maintaining the school also have the capability, capacity and technical competence to undertake this work.'

Benefits and outcomes

'I think the Council is achieving its vision. From the start, the new schools became focal points in the communities. The demand for community usage of the sports facilities has exceeded our expectations. We aimed for 2,350 hours' usage out of school time but last year had to increase the provision by 1,400 hours. Head teachers, I think, would also say that there is a much higher level of engagement among pupils.'

'I am proud that the way we are running the concession together is highly regarded by our stakeholders such as the Scottish Futures Trust and the Scottish Government. As an asset manager, I network with my peers within West Dunbartonshire and in other Councils to share our experiences and I think the partnership with BAM stands out as a template of how to do it. Much of that is down to BAM's collaborative approach.'



one year. Mr E. J. Bax had informed the Supervisory Board that he wished to explore other opportunities and would therefore not seek re-appointment for four years. The Supervisory Board therefore decided to nominate Mr Bax for re-appointment as member of the Executive Board for a term of one year. This also ensured continuity and a smooth transition of responsibilities, also in light of Mrs Menssen stepping down as described above.

In an extraordinary General Meeting on 26 June 2018, Mr L.F. den Houter was appointed as a member of the Executive Board per 1 August 2018 for a period which will end at the closing of the Annual General Meeting in 2022. Mr Den Houter succeeded Mrs Menssen as the Chief Financial Officer of the company.

In December 2018 it was announced that in the first quarter of 2019 an Executive Committee will be established and the size of the Executive Board will be reduced to two members, being the Chief Executive Officer and the Chief Financial Officer. In that context, Mr Bax decided to step down as Chief Operating Officer and member of the Executive Board of the company, effective 1 March 2019. We thank Erik Bax for his contribution and commitment to BAM.

We reviewed the performance of the Executive Board, also based on the discussions we had with management of the operating companies. The Nomination Committee met with the individual Executive Board members and gave feedback on personal performance. The non-financial targets that had been set were evaluated as well as the functioning of the Executive Board as a team.

We have 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.

We have no evidence of any conflicts of interest between the company and members of the Executive Board.

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

Supervisory Board

In 2018 the composition of the Supervisory Board did not change. The profile of the board was updated and submitted to the General Meeting for discussion in April 2018. There were no regular re-appointments. Information about the individual members of the Supervisory Board is available in chapter 5.3 of the Integrated Report, which is an integral part of this report.

The Supervisory Board meets the requirements of the new Dutch corporate governance code with regard to independence. In 2018 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, or between the company and natural persons or legal entities that hold at least 10 per cent of the shares in the company.

In early 2019 we performed our annual self-assessment. It was based on an extensive questionnaire that was completed by all board members prior to the evaluation session. We concluded that the board is operating well, with open discussions and constructive contributions from all members. We also assessed the expertise of the individual board members and concluded that the combined expertise is in line with the characteristics of the company and its business. Several suggestions were made for further improvement. These relate among others to continuous professional development, timely provision of information, succession planning and the need for continuous attention to strategic matters and compliance.

Diversity

Both the Supervisory Board and the Executive Board recognise the importance of diversity in the Group's managerial bodies. In our view diversity is not limited to gender, it also involves age, nationality and background. The profile for the Supervisory Board includes a minimum 30 per cent target for female and male board members. This gender target applies mutatis mutandis to the Executive Board.

We note that our present composition is in line with the profile for our board. We meet the specific target on gender diversity. However, since Mrs Menssen stepped down from the Executive Board and was succeeded by Mr Den Houter, this no longer applies to the Executive Board.

With the new top structure in place in the first quarter of 2019, the gender diversity target should apply to the Executive Committee (which includes the Executive Board). In filling the vacancies in this Committee, gender diversity got a high priority, without compromising on the other criteria for these roles. Although serious efforts are being made to find suitable female candidates, this appears to be challenging. This is due to the nature of the business – the construction industry is traditionally male dominated – and the lack of female candidates with sufficient managerial experience in this industry. 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 capable female candidates for senior management positions. Finally, the company will give preference to women in case of equal suitability. It will however take time before these measures lead to achieving the target on gender diversity at the executive level.

Zero on the meter for Dutch homes

BAM Wonen was the first in the Dutch residential building sector to receive full NOM certification. Kajsa Ollongren, the Dutch Minister of the Interior, presented the certificate to Joost Nelis, Director at BAM Bouw en Vastgoed. 'This confirms that BAM Wonen meets the highest standards in zero-on-the-meter housing,' said Nelis.

'NOM Keur' certification guarantees that a zero-on-the-meter home (a home that generates enough energy for the household that lives in it or even more) meets all the standards and performs as promised. In addition to technical criteria, performance is measured in terms of comfort, health and resident satisfaction.

When it comes to developing and realising zero-on-the-meter housing, BAM is a frontrunner in the Netherlands. 'We have already hit the 800 mark in building or adapting zero-on-the-meter homes. The results are highly positive: households have reduced their energy consumption, while energy generation exceeds all expectations.'

Final comments

BAM is going through a major transformation process. At the same time, winning work and executing projects in cooperation with clients, have to continue. We are aware that this causes a stretch for many people in the organisation. The company made good progress with the implementation of its strategic agenda, and although not yet fully visible in the financial results, we are on the right track to achieve a better and more predictable performance. We want to thank all involved for their contribution and dedication to BAM.

Bunnik, the Netherlands, 19 February 2019

On behalf of the Supervisory Board,
Harrie Noy, Chairman



39 'zero on the meter' homes

NOM, Woerden

These 39 homes built in 1960s were transformed into 'zero on the meter' homes and taken off the gas grid. In addition to the usual measures that ensure the houses produce as much energy as they consume, we also replaced all floors with ready-made, fully insulated floor constructions. This BAM Bouw en Vastgoed project saw a further development of the 'zero on the meter' energy modules, which were installed back to back in the front gardens. By storing excess energy not only in individual batteries but also in area batteries, the entire Schilderskwartier has now been made 'smart'. Energy from the batteries can be fed back into the homes whenever natural sunshine is insufficient to power the households. This way, the system is prevented from overloading.



6.2 Remuneration report

This remuneration report has been prepared by the Remuneration Committee of the Supervisory Board and has been adopted by the Supervisory Board in its meeting of 19 February 2019. The Remuneration Committee is a permanent committee of the Supervisory Board and consists of at least two members of the Supervisory Board. The Remuneration Committee is subject to rules established by the Supervisory Board. At the end of the year under review it consisted of Mrs Mahieu (Chairwoman), Mrs Valentin and Mr Noy. The composition of the Remuneration Committee is in line with the provisions of the Code.

This remuneration report contains:

- Remuneration of the Executive Board in 2018, based on application of the remuneration policy in 2018
- Internal pay ratio in 2018
- Overview of the remuneration policy and remuneration level for the Executive Board
- Term of appointment of the Executive Board members
- Share ownership of members of the Executive Board
- Remuneration of the Executive Board in 2019
- Remuneration of the Supervisory Board

Remuneration Executive Board in 2018

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

Fixed remuneration

A benchmark and adjustment of the fixed remuneration of the Executive Board took place in 2016. After the annual evaluation beginning 2018 as described in the remuneration policy, it was decided not to modify the fixed remuneration in the year 2018. The Remuneration Committee took note of the individual Executive Board members' views on their own remuneration.

Short-term incentive

Based on input from the Remuneration Committee, the Supervisory Board evaluated the performance of the Executive Board in 2018 in relation to the targets that had been set for the year. From the list of financial metrics included in the remuneration policy, the metrics that had been selected were: adjusted profit before tax (weight 40 per cent), trade working capital (weight 20 per cent) and business cash flow (weight 10 per cent). The actual 2018 performance in relation to the performance zones that had been set for each of the financial targets resulted in a bonus of 27.5 per cent of the 2018 fixed remuneration. The non-financial targets (weight 30 per cent) were related to the implementation of One BAM initiatives for finance, IT and HR. The evaluation of the performance of the Executive Board in relation to these non-financial targets resulted in a bonus of 22.5 per cent of the 2018 fixed remuneration. In total, the members of the Executive Board were awarded a short-term incentive of 50 per cent of the 2018 fixed remuneration for their performance in 2018.

With Mrs Menssen, who stepped down as CFO and member of the Executive Board as of 1 July 2018, it had been agreed that she received a short-term incentive of €50,000 for the period that she served on the Executive Board in 2018.

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 each year received so-called phantom shares which - depending on the TSR performance - vested after three years and resulted in a payout of the vested phantom shares two years after vesting, based on the share price at that moment. In 2018, the lock-up period for the vested phantom shares awarded under the 2013-2015 plan ended, resulting in a payout that is shown in ► table 58. The value per the end of 2018 of the vested phantom shares awarded under the 2014-2016 plan is shown in ► table 59. These shares will result in a payout in 2019.

As of 2015, the remuneration policy for Executive Board members has been adjusted. This adjusted policy, adopted by the Annual General Meeting on 22 April 2015, includes as long-term incentive the award of conditional performance shares which vest after three years, depending on meeting certain criteria. The conditional performance shares granted in 2018 to the members of the Executive Board under the performance share plan 2018-2020 are stated in ► table 63. ► Table 61 and ► table 62 show the performance shares granted in respectively 2016 (performance share plan 2016-2018) and 2017 (performance share plan 2017-2019).

The conditional performance shares that were granted under the performance share plan 2015-2017 vested on 30 April 2018 based on the following performance against measures:

- Relative TSR (weight 1/3): BAM ranked 5th resulting in 50 per cent vesting;
- ROCE (weight 1/3): performance below threshold resulting in 0 per cent vesting;
- Sustainability (weight 1/3): performance at target resulting in 100 per cent vesting.

In total, 50 per cent of the conditionally granted shares under the performance share plan 2015-2017 have become unconditional (► table 60. These shares have a lock-up period of two years after vesting.

Remuneration overview

A summary of the remuneration of the individual members of the Executive Board can be found in ► table 57.

Mrs Menssen, who stepped down from the Executive Board by mutual agreement, was according to her management services agreement eligible for a severance payment of one year's fixed remuneration. The phantom shares that vested in 2017 were paid out in July 2018. The lock-up period and minimum share ownership requirements for the performance shares that vested in 2018 ended per 1 July 2018. In line with the Company's insider dealing policy, Mrs Menssen was not allowed to sell the vested performance shares during closed periods up until 1 January 2019.

The conditionally granted performance shares in 2016 and 2017 have lapsed. In 2018 no conditional performance shares were awarded to Mrs Menssen.

The Company has not awarded any options to members of the Executive Board, members of operating company management teams 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 members of the Executive Board.

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.

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 the internal pay ratio should be reported in the remuneration report. BAM applies a methodology to calculate the internal pay ratio based on the employee benefits and the CEO compensation according to the financial statements. Furthermore, the approach is in line with common practices in the market.

BAM's internal pay ratio is calculated as the total annual CEO compensation divided by the average employee compensation (employee benefit expenses excluding restructuring costs and termination benefits divided by the average number of FTE).

Consequently, BAM's calculated internal pay ratio in 2018 is 23 (2017: 20), implying that the CEO pay is 23 times the average pay within the organisation.

Remuneration policy

The Supervisory Board draws up the Company's remuneration policy 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 Remuneration Committee's regulations are published on BAM's website. The current remuneration policy was adopted by the General Meeting on 22 April 2015 and is applicable as of 2015.

Design principles

The remuneration policy is geared to attract and retain qualified people and motivating 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. In the design of the policy and in determining the remuneration levels of the members of the Executive Board, the Supervisory Board has benchmarked several remuneration elements (fixed remuneration, short-term incentive and long-term incentive)

BIM, BAM, award

Site Engineer Daryl Charlton won an award for her work with BIM 360 Field software at the 2018 BIM Show Live conference in Newcastle, UK.

Charlton (26), who works at BAM Nuttall: 'On the Blyth offshore demonstration project, which involved the immersion at sea of gravity base foundations for wind turbines, I used BIM 360 Field to set up a system for quality assurance and safety.'

But that wasn't all: she also developed a barcode system for tracing prefab elements and was in charge of the training programme for the project team as well as their co-creators of the subcontractors and the client. 'I consider this award an encouragement to continue the search for innovations that can contribute to the digitalisation of the construction process.'



against market standards. Also the internal pay differentials have been taken into account, as well as scenario analyses which were 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 policy also aims to stimulate profitable growth and long-term value creation, to motivate individuals and to increase the attractiveness of the Company to highly qualified executives, including those from other industries, so as to interest them in Royal BAM Group. The policy contributes to long-term value creation by not only focusing on financial targets but also on non-financial targets like sustainability and safety. In addition, a long-term incentive plan is operated for this purpose. The remuneration level and structure are based on the development of results, as well as other developments that are relevant to the Company, including non-financial indicators which are relevant for the Company's long-term objectives.

In order to achieve these design principles, remuneration is set at a competitive level for the relevant national general remuneration market for directors and other senior managers of large companies. The Supervisory Board will regularly review the remuneration package to ensure that it complies with the assumptions underlying the remuneration policy. The remuneration policy will also be evaluated regularly; changes in the policy will be put forward for adoption at the General Meeting.

Remuneration level

The Supervisory Board uses external benchmark information to assess market comparability of the remuneration levels. Remuneration levels are aimed at the median of a labour market reference group of fourteen companies as listed in table 52. The reference group was selected based on industry, ownership structure, geographical business scope and size parameters. Carillion has been removed from the labour market reference group as of 2018 due to its liquidation per 15 January 2018.

52 - Labour market reference group

Arcadis	Heijmans
Balfour Beatty	Hochtief
Bauer	NCC
Besix	Post NL
Boskalis	Skanska
Eiffage	Strabag
Fugro	VolkerWessels

The remuneration levels are presented in table 53.

53 - Remuneration level

STI (% of fixed remuneration)

CEO	55% (target) 75% (maximum)
Members	55% (target) 75% (maximum)

LTI (Award value as % of fixed remuneration)

CEO	70%
Members	60%

Share ownership guidelines

CEO	1 times fixed remuneration
Members	0.75 times fixed remuneration

Remuneration package

The remuneration of the Executive Board consists of four elements:

- Fixed remuneration
- Short-term incentive (STI)
- Long-term incentive (LTI)
- Post-employment benefits and fringe benefits.

Ad a. Fixed remuneration

The Supervisory Board determines the development of the fixed remuneration of the individual members of the Executive Board. The annual evaluation and change in fixed remuneration generally take place per 1 January of each year. The evaluation considers 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.

Ad b. Short-term incentive

To ensure continued alignment of the short-term incentive with BAM's strategy, flexibility with respect to the STI metrics is important to enable adequate responses to the challenges the Group is facing. At the start of the financial year the Remuneration Committee selects two to three financial metrics for the STI of the members of the Executive Board. It also determines their relative weighting.

The financial metrics will be chosen from the following list:

1. (Adjusted) profit before tax
2. Operational result (EBIT)
3. Working capital
4. Cash flow
5. Cash conversion
6. Cost reduction
7. Divestments.

The selected metrics link remuneration with BAM's financial priorities. As specific targets for each of the metrics may qualify as sensitive information, these will in principle not be disclosed.

70 per cent of the STI is based on the selected financial metrics, the remaining 30 per cent is linked to non-financial performance targets. Performance incentive zones are defined for each of the targets. Payout gradually increases with performance, starting with a payout of 35 per cent of the fixed remuneration at threshold performance, 55 per cent at target performance and potentially going up to 75 per cent of fixed remuneration at maximum performance. Below threshold there will be zero payout. The Supervisory Board sets the performance ranges (i.e. threshold, at target and maximum performance levels) and corresponding payout levels.

After the end of the financial year, the Remuneration Committee determines to what extent the performance targets have been met. The Supervisory Board, following a proposal from the Remuneration Committee, will decide upon the variable remuneration to be awarded over the past financial year.

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 variable remuneration accordingly, and the Company is

entitled to reclaim (any part of) the variable remuneration paid to a member of the Executive Board on the basis of incorrect (financial) information.

Ad c. Long-term incentive

Executive Board members participate in a performance share plan. The performance shares are conditionally awarded subject to performance testing after three years. The number of performance shares at award date is calculated by dividing the award value by the average closing price of BAM shares on Euronext Amsterdam based on the five-day average closing price after the Annual General Meeting.

There are two financial performance measures, being relative total shareholder return (TSR) and Return on Capital Employed (ROCE) and one non-financial measure, being sustainability. Realised performance results in a vesting percentage for each of the three performance targets, each determining one third of the vesting of the conditionally granted shares. The TSR measure will also operate as a 'circuit breaker' for the vesting part linked to the other two criteria. In case BAM ranks at the bottom two places of the TSR peer group, the other parts will not vest regardless of the performance.

The minimum share ownership requirement for the CEO amounts to 100 per cent of fixed remuneration and for the other members of the Executive Board to 75 per cent of fixed remuneration. In accordance with the Code the three-year vesting period will be followed by a two-year lock-up period. Participants are not allowed to divest any shareholding until the two-year lock-up period has lapsed and the above 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.

54 - The performance incentive zones

Relative TSR		ROCE		Sustainability	
TSR ranking	Vesting	Score	Vesting	Score	Vesting
1	150%	Above maximum	150%	Above maximum	150%
2	125%	Maximum	150%	Maximum	150%
3	100%	Target	100%	Target	100%
4	75%	Threshold	50%	Threshold	50%
5	50%	Below threshold	0%	Below threshold	0%
6	25%				
7	0%				
8	0%				
9	0%	Notes:			
10	0%	1) Vesting is expressed as a percentage of the conditionally granted number of shares.			
11	0%	2) If TSR would be at position 10 or 11, no vesting can occur for the other parts.			

55 - Long-term incentive plan

Financial vs. non-financial measures	Financial: 66.7% Non-financial: 33.3%
Measures and weight	TSR: 33.3% ROCE: 33.3% Sustainability: 33.3%
Payment mechanism	Conditional performance shares
Stimulating share ownership	Two-year lock-up period after vesting plus minimum share ownership requirements

TSR is defined as the share price increase, including dividends. TSR is measured over a three year period based on the three month average share price before the start and the end of the three year 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)*. The composition of the TSR peer group is being evaluated on a periodic basis, among other things, in light of corporate events.

* In 2018, the TSR peer group was adjusted for conditional awarded performance shares as of 2018 and onwards: due to its liquidation, Carillion was replaced by VolkerWessels, YIT was replaced by NCC.

Realised performance against the set targets is assessed by using performance incentive zones. For excellent performance, the number of performance shares per individual target that may vest may amount to a maximum of 150 per cent of the 'at target' number of performance shares. This percentage may be reduced to zero (on a sliding scale) for non-achievement of the individual targets. The performance incentive zones are presented in ▶ table 54.

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 authority to implement the long-term incentive plan lies with the Supervisory Board. The Supervisory Board 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, the next 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:

- (i) the achievement of the performance conditions concerned or
- (ii) 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.

Ad d. Post-employment benefits and fringe benefits

With respect to pensions, sector regulations are followed wherever possible, with surplus schemes based on defined contributions and contributions from the participants. Members of the Executive Board are subject to a pension scheme and transitional arrangements as applicable in the Group from 1 January 2006 for all comparable employees. The costs of trend-based indexation of underlying pension rights have been included in the pension contributions with effect from 2009. The Company does not have any early retirement schemes. No pension arrangements were made with regard to Mr Bax and Mr Den Houter, who instead will receive a contribution for their personal pension arrangements.

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 wilful, 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, the members of the Executive Board, the members of the operating company management teams and all other directors and officers in BAM.

Term of appointment and management services agreements

Members of the Executive Board are appointed for a maximum period of four years and deliver their services under a management services agreement. The notice period for members of the Executive Board can be found in ▶ table 64. 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.

Hi-tech

One Microsoft Place, Dublin

This hi-tech HQ accommodates up to 2,300 staff and provides 35,000 m² of office accommodation over five floors. BAM Contractors were responsible for the design, construction, completion and defects rectification of the construction and fitting out this hi-tech, flexible and agile campus, creating a new standard in the workplace environment.



Career-enhancing training

Leading construction and engineering company BAM Nuttall has brought seven local operatives, from its Freetown Water Rehabilitation project in Sierra Leone, to the CITB's National Construction College (NCC) to complete excavator and lifting operations training.

With the project being undertaken on behalf of the Department for International Development, all works must be completed to UK standards. To ensure the correct levels of competency and allow BAM Nuttall to employ local residents, seven operatives were chosen to attend the NCC in Bircham Newton, Norfolk. For all seven operatives this was the first time they had left Sierra Leone.

Three of the operatives completed training on excavators, both tracked and wheeled, while the other four operatives passed the lifting operations programme, comprising a week of slinger signaller training, a week working with lorry mounted HIABs and two weeks of mobile crane operations.

'This is really important to the Freetown Water Rehabilitation project,' says Ross Cawthorne, general foreman on the project. 'We have no real way of showing competency in Sierra Leone and there's no training like this in Africa. This is life changing for the guys from Sierra Leone. They now have a proven European certificate of training and any employer, once we leave the country, would look at that very positively. I think they would be chosen for projects by other companies within Sierra Leone.'



An alternative arrangement was concluded in 2018 with Mr Bax as part of his re-appointment. Both the appointment as member of the Executive Board and the management services agreement apply for one year up to the Annual General Meeting in 2019. Each party may terminate the management services agreement early, per the end of a calendar month taking into account a notice period of two months, with the limitation that Mr Bax cannot terminate the management services agreement before 1 January 2019. If the Company terminates the management services agreement before the end of the current appointment period of one year other than for an urgent reason, Mr Bax is entitled to a payment equal to the remaining fixed remuneration up to the Annual General Meeting in 2019. More information on the key elements of the individual management services agreements of the Executive Board members can be found on the Company's website.

The Company has no other remuneration provisions, beyond the remuneration package mentioned above, nor are there any other rights to one-time payments.

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. The Company 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

► Table 56 shows the number of shares held by Executive Board members on 31 December 2018.

56 - Shares held

Number of shares on
31 December 2018

R.P. van Wingerden	31,862
L.F. den Houter	-
E.J. Bax	20,703

Remuneration of the Executive Board in 2019

The remuneration policy described above will remain in effect in the financial year 2019. No material changes in the remuneration of the Executive Board are foreseen.

Remuneration of the Supervisory Board

The members of the Supervisory Board received remuneration in the past financial year in line with the remuneration as adopted by the Annual 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 and necessarily incurred costs in the performance of the duties for BAM are reimbursed.

As a policy the Company does not award any options or shares to members of the Supervisory Board. This was also the case in 2018.

The remuneration of the Supervisory Board members is not affected by the Company's results, nor by any change of control at the Company.

No loans were issued to members of the Supervisory Board.

Supervisory Board

Bunnik, the Netherlands, 19 February 2019

57 - Executive Board remuneration

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

	Fixed remuneration		Short-term incentive		Post-employment benefits		Other benefits ¹		Long-term incentive ²	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
R.P. van Wingerden	686	684	343	214	151	183	-	3	361	162
L.F. den Houter ³	203	-	101	-	10	-	-	-	-	-
E.J. Bax	486	484	243	152	101	93	-	3	151	-
T. Menssen ⁴	243	484	50	152	28	49	491	3	382	-

¹ The Other benefits in 2017 consisted of the fixed expense allowance that members of the Executive Board received up until June 2017. As of June 2017, the expense allowance policy has been changed into reimbursement of actual incurred business expenses.

² 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. In the integrated report 2017 the amount shown in this column was the value as included in the Financial Statements.

³ Appointed as a member of the Executive Board with effect from 1 August 2018.

⁴ Mrs Menssen has stepped down from the Executive Board with effect from 1 July 2018. Mrs Menssen has received a severance payment of €486 thousand and €5 thousand for legal fees, which is included in other benefits.

Long-term incentive plan

58 - Phantom share plan 2013-2015¹

(value in €)

	At the award date		At the payout date			
	Number	Value	Number	Vesting %	Vested shares	Value ²
R.P. van Wingerden	69,272	235,000	71,678	45%	32,255	127,652
E.J. Bax	-	-	-	-	-	-
T. Menssen	69,272	235,000	71,678	45%	32,255	127,652

¹ Award has become unconditional on 3 May 2016. The lock-up period has ended as per 3 May 2018, leading to the payout of the award.

² The value has been based on the average share price of BAM on the five trading days before the end of the lock-up period as per 3 May 2018 (€3.958) 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.

59 - Phantom share plan 2014-2016¹

(value in €)

	At the award date		At year-end 2018			
	Number	Value	Number	Vesting %	Vested shares	Value ²
R.P. van Wingerden	60,072	235,000	62,847	45%	28,281	71,099
E.J. Bax	60,072	235,000	62,847	45%	28,281	71,099
T. Menssen	60,072	235,000	62,847	45%	28,281	102,355

¹ Award has become unconditional on 1 May 2017; lock-up period up to and including 1 May 2019. The lock-up period for Mrs Menssen ended per 1 July 2018.² For Mr Van Wingerden and Mr Bax the potential value is based on the closing share price of BAM at year-end 2018 (€2.514) and on the number of vested shares three years after the award. The number of (vested) shares include dividend up until year-end 2018. For Mrs Menssen the value is based on the average share price of BAM on the five trading days before the end of the management services agreement (€3.619) 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.**60** - Performance share plan 2015-2017¹

(value in €)

	At the award date		At year-end 2018			
	Number	Value	Number	Vesting % ²	Vested shares	Value ³
R.P. van Wingerden	114,319	434,000	119,876	50%	59,939	150,687
E.J. Bax	74,281	282,000	77,892	50%	38,947	97,913
T. Menssen	74,281	282,000	77,892	50%	38,947	97,913

¹ Award has become unconditional on 30 April 2018; lock-up period up to and including 30 April 2020. The lock-up period for Mrs Menssen ended per 1 July 2018, in line with the applicable plan rules.² Vesting % explained in remuneration report.³ Potential value based on the closing share price of BAM at year-end 2018 (€2.514) and on the number of vested shares three years after the award. The number of (vested) shares include dividend up until year-end 2018. 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 vesting date – that become unconditional, will never exceed two and a half (2.5) times the award value.**61** - Performance share plan 2016-2018¹

(value in €)

	At the award date		At year-end 2018			
	Number	Value	Number	Value ²		
R.P. van Wingerden	112,711	476,000	112,711	283,355		
E.J. Bax	68,195	288,000	68,195	171,442		
T. Menssen ³	68,195	288,000	-	-		

¹ Awarded on 28 April 2016; award becomes unconditional on 28 April 2019 if the specified 3-year performance targets are met. Since BAM ranks 10th of the TSR peer group for this Performance Share Plan the circuit breaker is applicable. Therefore the conditional shares will be forfeited at the vesting date of the plan, 28 April 2019.² Potential value based on the closing share price of BAM at year-end 2018 (€2.514) and on the 'at target' number of conditional performance shares that become unconditional three years after the award. 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 vesting date – that become unconditional, will never exceed two and a half times the award value.³ The conditional shares for Mrs Menssen under the long-term incentive plan 2016-2018 are forfeited.

62 - Performance share plan 2017-2019¹

(value in €)

	At the award date		At year-end 2018	
	Number	Value	Number	Value ²
R.P. van Wingerden	94,651	476,000	94,651	237,953
E.J. Bax	57,268	288,000	57,268	143,972
T. Menssen ³	57,268	288,000	-	-

¹ Awarded on 27 April 2017; award becomes unconditional on 27 April 2020 if the specified 3-year performance targets are met.² Potential value based on the closing share price of BAM at year-end 2018 (€2.514) and on the 'at target' number of conditional performance shares that become unconditional three years after the award.

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 vesting date – that become unconditional, will never exceed two and a half times the award value.

³ The conditional shares for Mrs Menssen under the long-term incentive plan 2017-2019 are forfeited.**63** - Performance share plan 2018-2020¹

(value in €)

	At the award date		At year-end 2018	
	Number	Value	Number	Value ²
R.P. van Wingerden	122,469	480,200	122,469	307,887
E.J. Bax	74,369	291,600	74,369	186,964

¹ Awarded on 26 April 2018; award becomes unconditional on 26 April 2021 if the specified 3-year performance targets are met.² Potential value based on the closing share price of BAM at year-end 2018 (€2.514) and on the 'at target' number of conditional performance shares that become unconditional three years after the award.

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 vesting date – that become unconditional, will never exceed two and a half times the award value.

64 - Appointment and contractual arrangements

	Date of first appointment	Start date current appointment	Period of appointment	Notice period for the Company	Notice period for the 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	3 months	3 months	1 year's fixed remuneration
E.J. Bax	1 May 2014	18 April 2018	1 year	2 months	2 months	remuneration until end of term



An intelligent characteristic feature

IQ Intelligent Quarters, Hamburg

BAM Deutschland finished the construction of the IQ Intelligent Quarters in Hamburg. This project is located in the HafenCity district, directly on the banks of the Magdeburger Hafen. The project included constructing two storeys of underground parking for 400 cars with the seventy metre high office tower Watermark, the seven-storey apartment building Freeport, including 46 luxury apartments, and the six-storey office building Shipyard. A characteristic feature in the design of architects Störmer Murphy und Partner, Hamburg, is formed by the white ceramic facades of the three buildings.

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Consolidated income statement

(x €1,000)

	Notes	2018	2017
			Restated*
Continuing operations			
Revenue	5	7,207,751	6,535,092
Raw materials and consumables used		(1,683,145)	(1,322,539)
Subcontracted work and other external charges		(3,746,381)	(3,630,419)
Employee benefit expenses	24	(1,338,319)	(1,273,614)
Depreciation and amortisation charges	7,8	(69,776)	(59,548)
Impairment charges	25	(20,628)	(4,579)
Other operating expenses		(281,530)	(254,142)
Exchange rate differences		1,417	29
		(7,138,362)	(6,544,812)
Share of result of investments ¹	10	38,947	20,317
Share of impairment charges in investments ¹	10,25	(3,122)	(193)
		35,825	20,124
Operating result		105,214	10,404
Finance income	28	21,221	30,002
Finance expense	28	(11,894)	(20,440)
		9,327	9,562
Result before tax		114,541	19,966
Income tax	29	(90,125)	(32,891)
Result for the year from continuing operations		24,416	(12,925)
Discontinued operations			
Result for the year from discontinued operations	35	-	-
Net result		24,416	(12,925)
Attributable to:			
Shareholders of the Company		23,773	(13,790)
Non-controlling interests		643	865
		24,416	(12,925)
Earnings per share (x €1)			
Basic			
Continuing operations	30	0.09	(0.05)
Discontinued operations		-	-
Total		0.09	(0.05)
Diluted			
Continuing operations	30	0.09	(0.05)
Discontinued operations		-	-
Total		0.09	(0.05)

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

¹ The results from share of investments (including impairments) have been included in the Operating result as from 2018. The comparative figures have been adjusted. Please see Note 2.1.1.

Consolidated statement of comprehensive income

(x €1,000)

	Notes	2018	2017*
			Restated*
Net result		24,416	(12,925)
<i>Items that may be subsequently reclassified to the income statement</i>			
Fair value of cash flow hedge		(1,123)	12,629
Tax on fair value of cashflow hedge		(108)	(3,109)
Cash flow hedges	19	(1,231)	9,520
Fair value movement hedges in joint ventures		(3,876)	12,494
Tax on fair value movement hedges in joint ventures		687	(4,395)
Cash flow hedges of investment in joint ventures	19	(3,189)	8,099
Exchange rate differences		(6,421)	(12,171)
<i>Items that will not be subsequently reclassified to the income statement, net of tax</i>			
Movement in remeasurements		25,862	17,365
Tax on movement in remeasurements		(3,889)	(2,853)
Remeasurements of post-employment benefit obligations	20	21,973	14,512
Other comprehensive income		11,132	19,960
Total comprehensive income		35,548	7,035
Attributable to:			
Shareholders of the Company		34,795	6,159
Non-controlling interests		753	876
		35,548	7,035
Total comprehensive income attributable to the shareholders of the Company arises from:			
Continuing operations		34,795	6,159
Discontinued operations		-	-
		34,795	6,159

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

Consolidated statement of financial position as at 31 December

(x €1,000)

	Notes	31 December 2018	31 December 2017 Restated*	1 January 2017 Restated*
Non-current assets				
Property, plant and equipment	7	289,607	281,874	270,173
Intangible assets	8	407,988	403,718	389,992
PPP receivables	9	85,298	240,687	296,395
Investments	10	109,555	95,594	85,866
Other financial assets ¹	11	101,332	91,903	92,044
Derivative financial instruments	19	1	464	-
Employee benefits	20	111,219	75,020	62,773
Deferred tax assets	22	165,557	235,023	256,597
		1,270,557	1,424,282	1,453,839
Current assets				
Inventories	12	577,991	606,731	645,433
Trade and other receivables	13	1,972,040	1,744,655	1,868,069
Income tax receivable		4,564	7,547	4,976
Derivative financial instruments	19	641	1,058	983
Cash and cash equivalents	14	743,674	695,779	738,577
		3,298,910	3,055,770	3,258,038
Assets held for sale	35	8,516	8,516	40,245
		3,307,426	3,064,286	3,298,283
Total assets		4,577,983	4,488,568	4,752,123
Equity attributable to the shareholders of Company				
Share capital and premium	15	839,311	839,311	839,311
Reserves	16	(164,966)	(152,815)	(170,252)
Retained earnings		54,686	34,760	55,432
		729,031	721,256	724,491
Non-controlling interests		5,857	5,556	5,061
Total Equity		734,888	726,812	729,552
Non-current liabilities				
Borrowings	18	280,019	398,146	463,515
Derivative financial instruments	19	9,691	14,952	20,346
Employee benefits	20	119,950	118,512	144,708
Provisions	21	141,803	128,622	124,789
Deferred tax liabilities	22	39,722	28,062	26,287
		591,185	688,295	779,645
Current liabilities				
Borrowings	18	62,758	104,944	148,131
Trade and other payables	23	3,081,135	2,856,021	2,969,184
Derivative financial instruments	19	272	133	4,354
Provisions	21	95,837	94,849	102,107
Income tax payable		11,908	17,514	14,817
		3,251,910	3,073,461	3,238,593
Liabilities held for sale	35	-	-	4,333
		3,251,910	3,073,461	3,242,926
Total equity and liabilities		4,577,983	4,488,568	4,752,123
Capital base	17	846,668	836,243	836,982

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

¹ Other financial assets are divided into two classes resulting from the implementation of IFRS 9. See note 2 and 11.

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		
Restated balance as at 1 January 2017*		839,311	(170,252)	55,432	724,491	5,061	729,552
Cash flow hedges	19	-	17,505	-	17,505	114	17,619
Remeasurements of post-employment benefit obligations	20	-	-	14,512	14,512	-	14,512
Exchange rate differences		(12,068)	-	(12,068)	(103)	(12,171)	
Other comprehensive income, net of tax		5,437	14,512	19,949	11	19,960	
Restated net result*		-	(13,790)	(13,790)	865	(12,925)	
Restated total comprehensive income*		-	5,437	722	6,159	876	7,035
Dividends	31	-	-	(7,466)	(7,466)	(410)	(7,876)
Repurchase of ordinary shares	15	-	-	(2,696)	(2,696)	-	(2,696)
Share based payments		-	-	818	818	-	818
Development cost		12,000	(12,000)	-	-	-	-
Other movements		-	(50)	(50)	29	(21)	
		12,000	(21,394)	(9,394)	(381)	(9,775)	
Restated balance as at 31 December 2017*		839,311	(152,815)	34,760	721,256	5,556	726,812
Cash flow hedges	19	-	(4,541)	-	(4,541)	121	(4,420)
Remeasurements of post-employment benefit obligations	20	-	-	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	31	-	-	(11,429)	(11,429)	(451)	(11,880)
Repurchase of ordinary shares	15	-	-	(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

*The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

Consolidated statement of cash flows

(x €1,000)

	Notes	2018	2017 Restated*
Net result		24,416	(12,925)
Adjustments for:			
- Income tax	29	90,125	32,890
- Depreciation of property, plant and equipment	7	63,772	55,042
- Amortisation of intangible assets	8	6,004	4,506
- Impairment of other financial assets	11,25	(1,292)	153
- Impairment of intangible assets	8,25	-	703
- Impairment of inventories	12,25	21,920	3,723
- Share of impairment charges in investments	10,25	3,122	193
- Result on sale of PPP projects	35	(4,400)	(900)
- Result on sale of property, plant and equipment		(2,045)	(4,736)
- Share based payments	37	(95)	818
- Share of result of investments	10,11	(38,947)	(20,317)
- Finance income	28	(21,221)	(30,002)
- Finance expense	28	11,894	20,440
Interest received		15,817	9,870
Dividends received from investments	10,11	34,851	23,331
Changes in provisions and pensions	20,21	5,701	(21,835)
Changes in working capital (excluding cash and cash equivalents)		19,606	62,683
Cash flow from operations		229,228	123,637
Interest paid		(16,426)	(25,179)
Income tax paid		(13,335)	(10,762)
Net cash flow from ordinary operations		199,467	87,696
Investments in PPP receivables	9	(16,774)	(127,161)
Repayments of PPP receivables	9	26,047	104,982
Net cash flow from operating activities		208,740	65,517
Purchases of property, plant and equipment	7,18	(66,503)	(72,933)
Proceeds from sale of property, plant and equipment	7	12,959	16,488
Purchases of intangible assets	8	(13,705)	(23,513)
Proceeds from disposal of intangible assets	8	402	60
Investments in non-current receivables	11	(25,433)	(23,206)
Repayments of non-current receivables	11	13,657	14,699
Investments in other financial assets	10,11	(15,799)	(15,166)
Proceeds from disposal of other financial assets	10,11	1,563	2,634
Proceeds from sale of PPP projects	35	18,700	20,500
Net cash flow from investing activities		(74,159)	(80,437)
Proceeds from borrowings	18	41,146	175,230
Repayments of borrowings	18	(80,752)	(184,327)
Dividends paid to shareholders of the Company	31	(11,429)	(7,466)
Dividends paid to non-controlling interests		(451)	(410)
Repurchase of ordinary shares		(15,492)	(2,696)
Net cash flow from financing activities		(66,978)	(19,669)
Change in cash and cash equivalents		67,603	(34,589)
Cash and cash equivalents at beginning of year	14	695,779	738,575
Changes in cash and cash equivalents as a result of change in accounting policy	2	(16,289)	-
Exchange rate differences on cash and cash equivalents		(3,419)	(8,207)
Net cash position at end of year	14	743,674	695,779

*The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

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 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 19 February 2019 the Executive 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 17 April 2019.

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 2, 'Share-based Payment', addresses the classification and measurement of Share-based Payment Transactions. The amendments address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations
- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments do not lead to significant changes for the Group, given the fact that:

- the Group does not have any ongoing vesting conditions of a cash-settled share-based payment transaction
- the share-based payment transactions do not contain net settlement features;
- no changes in the terms and conditions of a share-based payment transaction have occurred, which would change its classification from cash-settled to equity-settled. All share-based payment plans with a running vesting period are equity settled.

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

- all financial instruments are held to collect and the Group has not applied for the fair value option. As a result of this, for all financial instruments that meet the Solely Payments of Principal and Interest (SPPI) criterion, the accounting remains at amortised cost;

- part of the non-current receivables (previously included in the other financial assets (carrying amount 2017: €91.9 million) do not meet the SPPI criterion; as a result, these are accounted for at fair value through profit and loss (note 11 Financial assets at fair value though profit or loss). Based on the assessment made, the difference between the fair value and amortised cost of the non-current receivables involved is not material. Note 11 has been adjusted to show a split between receivables based on fair value through profit or loss and receivable based on amortised cost. The comparative figures have been reclassified.
- the application of the expected credit loss (ECL) approach on assessment of impairment of debt instruments (including contract assets and contract receivables) did not result in a material impact, where under IAS 39 Financial Instruments an incurred loss model was applied;
- the foreign exchange and interest hedges comply with IFRS 9.

Since the overall impact of IFRS 9 is not material, the comparative figures have not been restated for IFRS 9 and no additional disclosures have been included except for the adjustments made in note 11.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has adopted this standard at the date of initial application. See note 2.24 Revenue recognition for the relevant accounting policies.

The Group used the retrospective method for implementation, which means that the financial statements of 2018 contain comparative figures over 2017 based on IFRS 15. For comparison reasons also the impact on the opening balance 2017 has been established.

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

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

Significant inefficiencies

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

Reclassification of onerous contracts

Under the previous standard, the Group reported the net contract position for each contract as either an asset or a liability. A contract represented an asset where cost incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents

a liability where the progress billings exceed cost incurred plus recognised profits (less recognised losses). Provisions for onerous contracts were included within the net contract position. Under IFRS 15 the provisions for onerous contracts are reclassified from the net contract position to a separate provision for onerous contracts. These provisions show the amount of the onerous contract result which relates to future obligations to be fulfilled under the contract. This amount is determined based on the progress of the performance obligation identified in the contract.

Input measures for revenue recognition

Based on IFRS 15, only one measurement method for recognising revenue over time may be used for similar contracts with similar circumstances throughout the Group: either input based or output based and applied consistently. Under the previous standard both methods were applied. Almost all entities within the Group already used the input method, meaning the revenue is based on the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. One Group company used the output method, for which the impact is shown under the impact Other with no impact on the comprehensive income statement.

Practical expedients

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

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

Impact on the consolidated statement of financial position:

Balance sheet (extract)	1 January 2017	Variable			1 January 2017	
		considerations	PPP bid fees	Provisions	Other	Restated
Deferred tax assets	248,8	6,1	1,6	-	-	256,6
Trade and other receivables	1,934,5	(92,7)	-	23,5	2,8	1,868,1
Income tax receivable	6,2	(1,3)	-	-	-	5,0
Other assets	2,622,5	-	-	-	-	2,622,5
Total assets	4,812,1	(87,9)	1,6	23,5	2,8	4,752,1
Group equity	839,3	(104,9)	(4,9)	-	-	729,6
Provisions	141,9	17,0	-	68,0	-	226,9
Trade and other payables	3,004,4	-	6,5	(44,5)	2,8	2,969,2
Other liabilities	826,5	-	-	-	-	826,5
Total equity and liabilities	4,812,1	(87,9)	1,6	23,5	2,8	4,752,1

The following tables summarise the impact of adopting IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2017 and its consolidated income statement for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been separately shown. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2017. The tables show adjustments of revenue from variable considerations, the impact of recognising bid fees during the construction phase, a reclassification for onerous contracts to provisions and other impacts. The amounts are shown in € millions.

Balance sheet (extract)	31 December		PPP bid fees	Provisions	Other	31 December
	2017	Variable considerations				2017
Deferred tax assets	218,0	15,4	1,6	-	-	235,0
Trade and other receivables	1,845,4	(114,1)	-	26,2	(12,8)	1,744,7
Income tax receivable	6,5	1,1	-	-	-	7,5
Other assets	2,501,3	-	-	-	-	2,501,3
Total assets	4,571,2	(97,6)	1,6	26,2	(12,8)	4,488,6
Group equity	857,8	(126,1)	(4,8)	-	-	726,8
Provisions	113,9	17,4	-	92,2	-	223,5
Trade and other payables	2,917,2	11,2	6,4	(66,0)	(12,8)	2,856,0
Income tax payable	17,6	(0,1)	-	-	-	17,5
Other liabilities	664,7	-	-	-	-	664,7
Total equity and liabilities	4,571,2	(97,6)	1,6	26,2	(12,8)	4,488,6

Impact on the consolidated income statement 2017:

	Full year 2017	Variable considerations	PPP bid fees	Full year	
				2017	Restated
Revenue	6,603,7	(51,9)	-	(16,7)	6,535,1
Operating expenses	(6,575,1)	13,5	0,1	(16,7)	(6,544,8)
Operating result	28,6	(38,4)	0,1	-	(9,4)
Result before tax	58,3	(38,4)	0,1	-	20,0
Income tax	(44,9)	12,1	(0,0)	-	(32,9)
Net result for the year	13,4	(26,4)	0,0	-	(12,9)

The changes to the accounting policies following IFRS 15 have been adjusted in the respective notes.

IAS 40, 'Transfers of Investment Property', has been amended. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Classification of German Argen and presentation of share in result of investments

During 2018, further discussions regarding the classification of the German Joint Arrangements (Arbeitsgemeinschaften: 'Argen') have taken place. Multiple interpretations regarding the classification of the Argen either as Joint Operation or Joint Venture exist. Until 31 December 2018, the Argen were classified as Joint Operations. As from 31 December 2018, on a prospective basis, the Group will classify the Argen as Joint Ventures to fully align with interpretations from German Audit Profession. This regards a change in accounting policy.

This presentation change per 31 December 2018 results in a decrease of Property, Plant and Equipment (note 7) with €2 million, Trade and other receivables (note 13) with €22 million, Trade and other payables (note 23) with €121 million and Cash and cash equivalents (note 14) with €16 million, offset by an increase of investment in joint ventures of €5 million (note 10.2) and amounts due to related parties of €85 million (note 23). Furthermore, 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, nor have the comparative figures been adjusted. This means that the revenue and costs from these Argen remain, as in previous years, to be included in the consolidated income statement for 2017 and 2018 on a gross basis (2018: €117 million revenue; 2017: €78 million revenue). As from 1 January 2019, the revenue and costs from the German Argen will be included on a net basis in the result from joint ventures.

Furthermore, while reviewing policies regarding Joint Arrangements, the Group has decided to present the results from share of investments (including impairments) in the Operating result as from 2018 given the similar nature of the activities of the investments concerned with the activities of the Group. Furthermore, this presentation is more aligned to practices adopted by competitors, and better aligns with internal management reporting. As such, this presentation provides more relevant information to the users of the financial statements. This only entails a reclassification in the consolidated income statement (2018: €35.8 million, 2017: €20.1 million) and has no impact on the valuation of the investments in associates and joint ventures and the results from the share of investments. The comparative figures have been adjusted.

The Group has applied the amendments for the first time for their annual reporting period commencing 1 January 2018 in connection with the 'Annual Improvements to IFRSs – 2014-2016 Cycle'. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

There are no other IFRSs or IFRIC amendments as per 1 January 2018 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 2019 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 the following set out below:

IFRS 16, 'Leases' was issued by the IASB on 13 January 2016 and replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Lease Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under existing rules, lessees generally account for lease transactions either off-balance if the lease is classified as operating lease or on balance if the lease is classified as finance lease. IFRS 16 requires lessees to recognise nearly all leases on balance which will reflect their right to use an asset for a period of time and the associated liability to pay rentals. The lessee will recognise a liability reflecting the lease payments ('lease liability') and an asset reflecting the right to use the underlying asset during the lease term ('right-of-use asset'). Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessees also need to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessors continue to classify leases as operating or finance, making IFRS 16 approach to lessor accounting, substantially unchanged from its predecessor, IAS 17.

As disclosed in note 33.2, the Group has several operating lease contracts for buildings, equipment and company cars for which the accounting will change from off balance to on balance, with the exception of certain low-value or short-term leases. Changes may occur due to the present value approach and the timeframe for which the leases need to be taken into account for.

Transition method

This standard applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. Transition options to apply are either a full retrospective approach or a modified retrospective approach. The Group decided to implement this standard on the required date using the modified retrospective approach option 2. This means that the right-of-use-asset will be equal to the lease liability.

The Group applied the practical expedient not to reassess whether a contract is, or contains, a lease at the date of initial application. The Group will use the IFRS 16 definition of a lease only to contracts entered into (or changed) on or after the date of initial application.

Key accounting choices

The Group has chosen to use the following exemptions proposed by the standard:

- non-lease components: non-lease components are not separated 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;
- short term exemption: leases shorter than 1 year are excluded from on-balance sheet recognition;
- low-value exemption: leases of assets with a fair value less than €5.000 / £4.000 are excluded from on-balance sheet recognition;
- discount rate: the incremental borrowing rate will be used. When the rate is included in the contract this implicit rate will be used otherwise the incremental borrowing rate as periodically provided by the Group will be used.

Expected IFRS 16 impact

The group (as lessee) has a large number of lease contracts that are currently accounted for as operating leases under IAS 17. The Group has performed an IFRS 16 contract analysis on all existing lease contracts as per 30 September 2018 and calculated the IFRS 16 impact as per that date to give insight in the expected impact from IFRS 16. During 2018, processes have been redesigned, an accounting tool to account for IFRS 16 has been implemented and staff has been trained in the application of IFRS 16.

During the first quarter of 2019 the Group will continue to update the lease data for the fourth quarter of 2018, thus calculating the final impact on the opening balance of 2019. The identified leases mainly relate to offices, company cars and equipment. The Group is currently in the process of evaluating if all leases have been identified, assessing whether renewal options are applicable, validating the accuracy of the calculations in the lease accounting tool and gathering all data needed to determine the IFRS 16 impact on the 2019 opening balance.

The impact upon transition to IFRS 16 regarding lease contracts, is expected to be the following based on our contract analysis as per 30 September 2018:

- Assets and liabilities are expected to increase by an amount close to the net present value of future lease payments, which is expected to be in the range of €275 million to €325 million. The increase compared to the lease commitments of €235 million is mainly due to the effect of including renewal options in the calculations of the lease assets and liabilities.
- Total impact on the retained earnings is expected to be nil as a result of applying the modified retrospective transition approach option 2.
- As the lease payments are presented as depreciation and finance cost instead of operating expenses, operating result is expected to increase with approximately €5 million and finance expense is expected to increase with approximately the same amount.
- As the lease payments (excluding interest) will no longer be considered as operating cash flows but as financing cash flows, the operating cash flows reported in the consolidated cash flow statement as of 2019 will be positively affected, while the financing cash flows will be negatively affected.

Since the above estimate reflects the lease data as per 30 September 2018, the final impact on the opening balance of 2019 can differ, due to new and expiring leases, as well as the completion of the detailed impact analysis as described above. However, the Group considers the expected impact as per 30 September 2018 as a reasonable representation of the expected impact on the opening balance 2019.

Calculation of bank covenants are not influenced by the adoption of IFRS 16 due to the application of the agreed upon 'frozen' IFRS.

Amendments to IAS 19, 'Employee benefits' address the accounting when a plan amendment, curtailment or settlement occurs during a period. The amendments specify that current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement are determined based on updated actuarial assumptions. The amendments clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted. The amendments will only change the method for future impact when amendments to plans apply.

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:

	2018	2017
Closing exchange rate		
Pound sterling	0.90025	0.88763
Average exchange rate		
Pound sterling	0.88692	0.87420

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 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 4 and 10 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, the management of acquired subsidiaries 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. The assets' useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

2.7 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.

2.8 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.

2.9 Financial assets

2.9.1 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', '(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 2.12). debt instruments at amortized costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period which are classified as non-current assets. Debt instruments that do not meet Solely Payments of Principal and Interest (SPPI) criterion (for which the test is performed at instrument level) are classified as other financial assets at fair value through profit or loss.

2.9.2 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 or for which the Group has applied the practical expedient are initially measured at the transaction price determined under IFRS 15. (See note 2.24 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.

2.10 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.

2.11 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.

2.12 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 ('cash flow hedge') 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 19. Movements on the hedging reserve in other comprehensive income are shown in note 16. 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'.

2.13 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.

2.14 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 an contract asset or a contract liability. A contract asset is recognized when the Group has a right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. A contract receivable is an amount to be billed for which payment is only a matter of passage of time. A contract liability is recognized when the Group has an obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

For further guidelines regarding construction contracts see paragraph 2.24 revenue recognition under (a).

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22 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 operates a cash-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 liabilities for the period until the date on which the Executive Board members are unconditionally entitled to payment. The valuation of the liability is re-assessed on every reporting date and on the settlement date. Any changes in the fair value of the liability are recognised in the income statement within 'personnel expenses'.

Phantom shares become unconditional three years after the date of grant, while the percentage of phantom shares that become unconditional depends on the market performance condition based on the Company's share price.

These shares contain a dividend right, to which the same conditions apply as to the phantom shares and are re-invested.

Upon vesting date, unconditional phantom shares are locked up for another two years. Cash distribution takes place at the end of the lock-up period.

2.23 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.

2.24 Revenue recognition

(a) Construction contracts

As per 1 January 2018, the Group has implemented IFRS 15 regarding revenue recognition. IFRS 15 follows a 5-step approach to recognise for revenue, which is set out below. Certain specific topics have been included or referred to the applicable note. The standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and related interpretations.

The core principle of IFRS 15 is a 5-step model to distinguish each distinct performance obligation within a contract that the Group has with its customer and to recognise revenue on the level of the performance obligations, reflecting the consideration that the Group expects to be entitled for, in exchange for those goods or services.

The following 5 steps are identified within IFRS 15:

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

Step 1 'Identify the contract with the customer'

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

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

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

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

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

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

Step 2 'Identify the performance obligations'

The purpose of this step is to identify all promised goods or services that are included in the contract. Examples of performance obligations are the construction of a building, the delivery of an apartment, the maintenance of a road and so on.

At contract inception, the Group assesses the goods or services promised to a customer, and identifies each promise as either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Promises in a contract can be explicit, or implicit if they create a valid expectation that the Group will provide a good or service based on the Group's customary business practices, published policies or specific statements.

Building and maintenance contracts are usually considered as separate performance obligations because these promises are separately identifiable and the customer can benefit from these promises on their own. Design and build contracts in the context of the Group are usually accounted for as one performance obligation because of not meeting criterion IFRS 15.27 (b) *The entity's*

promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. These promises usually represent a combined output for the customer (the construction) for which the design is the input. However if the purpose of the contract is to deliver a separate design after which the client is also able to contract another construction company, the design is considered to be separately identifiable.

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

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

Onerous contracts

IFRS 15 does not include specific guidance about the accounting for project losses. For the accounting of provisions for onerous contracts, IFRS 15 refers to the guidance relating to provisions in IAS 37. Based on IAS 37, a provision for an onerous contract has to be accounted for on the level of the contract as a whole. This is not necessarily the same as if evaluated on project level, because a contract may include more performance obligations.

The provision for onerous construction contracts only relates to the future loss on the performance to be delivered under the contract. In determining a provision for an onerous contract, the inclusion of variable considerations in the expected economic benefits is based on the same principles as included in step 3 hereafter, including the application of the highly probable constraint for the expected revenue. The provision for onerous contracts is presented separately in the balance sheet.

Step 3 'Determine the transaction price'

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

If the consideration promised includes a variable amount such as an unpriced variation order, a claim, an incentive or a penalty, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. IFRS 15 provides two methods for estimating variable considerations: the sum of probability-weighted amounts in a range of possible consideration amounts or the most likely amount 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. Please refer to 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 fulfillment costs under the contract, which is an input measure according to IFRS 15.

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

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

Uninstalled materials

If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate the Group's 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 recognized over time by reference to the stage of completion on the basis of the actual service costs realised respective to the total expected service costs under the contract.

Other revenue includes, among other items, rental income under an operating lease and (sub)lease of property, plant and/or equipment. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.25 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, finance lease expenses, gains and losses relating to hedging instruments and other financial expenses. Interest expenses on borrowings and finance lease expenses are recognised in the income statement using the effective interest method.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and/or equipment. Leases of property, plant and/or equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in 'borrowings'. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and/or equipment acquired under finance leases is depreciated over the shorter of the usefull life of the asset and the lease term.

2.27 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.

2.28 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.

2.29 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.

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 decrease of exchange rate of the pound sterling in 2018 has on Group level reduced the reported revenue, results, equity and closing order book for the UK companies. Based on the value per end of 2018 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 and hedges are being considered. 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, the Group is not entirely insensitive to movements in interest rates. At year-end 2018, 71 per cent (2017: 82 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 2018, the Group's net result after tax (assuming that all other variables remained equal) would have been approximately €0.1 million higher or approximately €0.8 million higher (2017: approximately €0.5 million higher or approximately €0.6 million higher). If the interest rates (Euribor and Libor) had been 100 basis points higher or lower during 2018, the Group's cash flow hedge reserves in Group equity (assuming that all other variables remained equal) would have been approximately €2.4 million higher or approximately €2.4 million lower (2017: approximately €10 million higher or approximately €10 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 customer 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 customer, 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	2018	2017
Non-current assets			
PPP receivables	9	85,298	240,687
Non-current receivables	11	99,858	89,982
Derivative financial instruments	19	1	464
Current assets			
Trade receivables – net	13	858,946	796,590
Contract assets	13	595,684	442,148
Contract receivables	13	284,135	312,555
Other receivables	13	82,212	53,170
PPP receivables	9,13	4,348	8,411
Other financial assets	11	621	1,726
Derivative financial instruments	19	641	1,058
Cash and cash equivalents	14	743,674	<u>695,779</u>
		<u>2,755,418</u>	<u>2,642,570</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 are included in 'non-current receivables' and 'trade receivables – net' (notes 11 and 13). None of the other assets were overdue at year-end 2018 or subject to impairment; the expected credit loss minus the value of the collateral resulted in an amount of nil. The maximum credit risk relating to financial instruments equals the carrying amount of the financial instrument concerned.

(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
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
2017					
Subordinated convertible bonds	114,987	140,313	4,375	135,938	-
Non-recourse PPP loans	189,965	215,537	12,014	47,680	155,843
Non-recourse property financing	68,942	72,109	19,385	52,724	-
Other non-recourse financing	5,916	6,431	1,755	3,401	1,275
Recourse PPP loans	29,454	30,016	16,435	13,581	-
Recourse property financing	75,288	77,346	58,631	18,715	-
Other recourse financing	5,550	5,920	170	5,750	-
Finance lease liabilities	12,988	14,360	3,604	10,112	644
Derivatives (forward exchange contracts)	(1,389)	(482)	(452)	(30)	-
Derivatives (interest rate swaps)	14,952	14,910	3,643	8,834	2,433
Other current liabilities	849,330	849,330	849,330	-	-
	1,365,984	1,425,790	968,890	296,705	160,195

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 (2017: €400 million) respectively €163 million (2017: €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 17 and 18). At year-end 2018, the capital ratio was 18.5 per cent (2017: 18.6 per cent). 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 18.

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				Total
		Receivables	Financial liabilities	Hedging	Non-financial instruments	
2018						
PPP receivables	9	85,298	-	-	-	85,298
Other financial assets ¹	11	101,332	-	-	-	101,332
Derivative financial instruments	19	-	-	642	-	642
Trade and other receivables	13	980,011	-	-	992,029	1,972,040
Cash and cash equivalents	14	743,674	-	-	-	743,674
 Borrowings	18	-	342,777	-	-	342,777
Derivative financial instruments	19	-	-	9,963	-	9,963
Trade and other payables	23	-	981,671	-	2,099,464	3,081,135
		1,910,315	1,324,448	10,605	3,091,493	6,336,861
 2017						
PPP receivables	9	240,687	-	-	-	240,687
Other financial assets	11	91,903	-	-	-	91,903
Derivative financial instruments	19	-	-	1,522	-	1,522
Trade and other receivables	13	915,473	-	-	829,182	1,744,655
Cash and cash equivalents	14	695,779	-	-	-	695,779
 Borrowings	18	-	503,090	-	-	503,090
Derivative financial instruments	19	-	-	15,085	-	15,085
Trade and other payables	23	-	849,330	-	2,006,692	2,856,022
		1,943,842	1,352,420	16,607	2,835,874	6,148,743

¹ The other financial assets consist of several types of financial assets. See note 11 for the specification of receivables based on fair value through profit or loss, receivables based on amortised cost and other.

All financial instruments are valued at amortised cost, with the exception of a part of the other financial assets (note 11) and the derivative financial instruments (note 19), 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 only interest rate swaps and foreign exchange contracts. 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 2018 a positive balance of €404 million has been offset against a negative balance of nil (2017: positive balance of €263 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 2.24 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 2.24 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 22.

(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 20.

(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.

5. Segment information

The segment information reported to the Executive Board is measured in a manner consistent with the financial statements.

Revenue and results	Construction and Property	Civil engineering	PPP	Eliminations ¹	Total
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
2017 Restated*					
Construction contracts	2,973,432	2,822,649	114,204	-	5,910,285
Property development	450,634	-	-	-	450,634
Service concession arrangements and other	107,263	44,816	20,935	1,159	174,173
Revenue from external customers	3,531,329	2,867,465	135,139	1,159	6,535,092
Sector revenue	165,017	39,314	-	(204,331)	-
Revenue	3,696,346	2,906,779	135,139	(203,172)	6,535,092
Operating result	70,357	(60,018)	5,012	(4,947)	10,404
Finance result	(4,104)	545	13,996	(875)	9,562
Result before tax	66,253	(59,473)	19,008	(5,822)	19,966
Exceptional items ²	(2,616)	(869)	-	(1,445)	(4,930)
Adjusted result before tax	68,869	(58,604)	19,008	(4,377)	24,896

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

¹ Including non-operating segments.

² For further explanation see note 26.

Balance sheet disclosures	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
2018					
Assets	2,591,504	1,976,254	211,642	(310,972)	4,468,428
Investments	90,966	65,994	10,523	(57,928)	109,555
Total assets	2,682,470	2,042,248	222,165	(368,900)	4,577,983
Liabilities	2,400,521	1,519,757	116,580	(193,763)	3,843,095
Group equity	281,949	522,491	105,584	(175,136)	734,888
Total equity and liabilities	2,682,470	2,042,248	222,164	(368,899)	4,577,983
2017 Restated*					
Assets	2,449,595	1,964,702	380,199	(401,522)	4,392,974
Investments	76,419	31,205	12,628	(24,658)	95,594
Total assets	2,526,014	1,995,907	392,827	(426,180)	4,488,568
Liabilities	2,322,071	1,531,100	285,013	(376,428)	3,761,756
Group equity	203,943	464,807	107,814	(49,752)	726,812
Total equity and liabilities	2,526,014	1,995,907	392,827	(426,180)	4,488,568

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

¹ Including non-operating segments.

Other disclosures	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
2018					
Additions to property, plant and equipment and intangible assets	24,625	54,766	19	17,432	96,843
Depreciation and amortisation charges	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
2017					
Additions to property, plant and equipment and intangible assets	17,418	64,834	7	23,666	105,925
Depreciation and amortisation charges	15,458	35,720	6	8,364	59,548
Share of result of investments in operating result	12,988	1,495	7,141	(1,500)	20,124
Average number of FTE ²	9,392	10,003	90	235	19,720
Number of FTE at year-end	9,422	10,085	90	240	19,837

¹ Including non-operating segments.

² Fulltime equivalent.

Revenues from external customers by country, based on the location of the projects	Construction and Property	Civil engineering	PPP	Other including eliminations ¹	Total
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
	4,043,326	3,222,626	34,676	(92,878)	<u>7,207,751</u>
2017 Restated*					
Netherlands	1,235,506	1,116,054	12,665	(60,951)	2,303,274
United Kingdom	1,089,723	823,163	13,837	(8,374)	1,918,349
Belgium	435,650	267,634	-	(27,547)	675,737
Germany	413,817	369,637	6,960	(1,022)	789,392
Ireland	351,911	62,260	101,677	(105,171)	410,677
Other countries	169,739	268,031	-	(107)	437,663
	3,696,346	2,906,779	135,139	(203,172)	<u>6,535,092</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

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:

	2017	
	2018	Restated*
Total assets¹		
Netherlands	1,605,223	1,695,234
United Kingdom	1,011,640	898,772
Belgium	681,282	634,742
Germany	622,804	583,271
Ireland	323,809	297,381
Other countries	502,709	632,111
Other including eliminations	(169,484)	(252,943)
Total assets	<u>4,577,983</u>	<u>4,488,568</u>
Investments²	2018	2017
Netherlands	51,508	65,880
United Kingdom	8,170	12,125
Belgium	16,019	10,193
Germany	9,598	13,990
Ireland	7,475	2,232
Other countries	4,073	1,505
Total assets	<u>96,843</u>	<u>105,925</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

¹ Geographical allocations based on the location of the assets.

² Gross investments in tangible and intangible assets based on geographical location.

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
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	<u>464,448</u>	<u>578,136</u>	<u>1,042,584</u>
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	<u>(695,093)</u>	<u>(227,692)</u>	<u>(922,785)</u>
As at 31 December	<u>(230,645)</u>	<u>350,444</u>	<u>119,799</u>
2017 Restated*			
Land and building rights	-	415,504	415,504
Property development	-	175,014	175,014
Capitalised contract cost	-	-	-
Amounts due from customers	<u>326,380</u>	<u>7,349</u>	<u>333,729</u>
Project assets	<u>326,380</u>	<u>597,867</u>	<u>924,247</u>
Non-recourse property financing	-	(68,942)	(68,942)
Recourse property financing	-	(75,288)	(75,288)
Amounts due to customers	(643,562)	(75,629)	(719,191)
Provision for onerous contracts	<u>(109,593)</u>	<u>-</u>	<u>(109,593)</u>
Project liabilities	<u>(753,155)</u>	<u>(219,859)</u>	<u>(973,014)</u>
As at 31 December	<u>(426,775)</u>	<u>378,008</u>	<u>(48,767)</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

The breakdown of the balance sheet items 'amounts due from customers' and 'amounts due to customers' is as follows:

	Construction contracts	Property development	Total
2018			
Revenue	13,079,542	159,510	13,239,052
Progress billings	(12,614,935)	(144,989)	(12,759,924)
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	(11,169,359)	(776,048)	(11,945,408)
Amounts due to customers	<u>(559,194)</u>	<u>(95,018)</u>	<u>(654,212)</u>
2017 Restated*			
Revenue	11,625,526	69,769	11,695,295
Progress billings	(11,299,146)	(62,420)	(11,361,566)
Amounts due from customers	<u>326,380</u>	<u>7,349</u>	<u>333,729</u>
Revenue	11,073,398	498,017	11,571,415
Progress billings	(11,716,960)	(573,646)	(12,290,606)
Amounts due to customers	<u>(643,562)</u>	<u>(75,629)</u>	<u>(719,191)</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

As at 31 December 2018 advance payments (as included in amounts due to customers) in connection with construction contracts and property development amount to €172 million (2017: €213 million) respectively €0 million (2017: €3 million).

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
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>
Amounts due from customers	<u>32,861</u>	<u>(666)</u>	<u>32,196</u>
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>
2017			
PPP receivables	240,687	8,411	249,100
(Non-)recourse PPP loans	<u>(193,707)</u>	<u>(25,712)</u>	<u>(219,419)</u>
Amounts due from customers	<u>46,980</u>	<u>(17,301)</u>	<u>29,681</u>
Net assets and liabilities	<u>(6,164)</u>	<u>12,190</u>	<u>6,026</u>
As at 31 December	<u>40,816</u>	<u>(5,111)</u>	<u>35,707</u>

Other revenue disclosures

The revenue recognised that was included in the project contract liability balance at the beginning of the period, has been fully recognised in the current year. Within the construction business, regular installments will take place but within the Group never leading to significant pre-financing longer than a year. Except for PPP projects, however these are disclosed in the finance assets.

The revenue recognised from performance obligations satisfied in previous periods amounts to €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 €1 million)

	2018	2017
Up to 1 year	5,850	5,697
2 to 5 years	6,842	5,940
	12,692	11,636
Over 5 years	1,924	1,806
Total	14,616	13,442

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

The Group entered in an agreement with a client to realise a project, in joint arrangement with partners. The Group's expected share in the contract revenue of the joint arrangement will be in the range of €150 to €200 million. As a consequence of changes in laws and regulations and a large number of variable considerations assigned by the client and other stakeholders, a large number of changes to the design have arisen, that are beyond the influence and the contractual responsibility of the joint arrangement. The joint arrangement and the client entered into negotiations, but did not reach an agreement yet. As a consequence, it is impossible to make a reliable estimate of the ultimate scope of the performance obligation but BAM expects to recover the costs incurred in satisfying the performance obligation. Therefore, in accordance with IFRS15.45, only revenue is accounted for in the 2018 financial statements of the Group, equal to its share in the cost incurred of the project. Taking into account the uncertainty of the outcome of the negotiations with the client, actual outcome can deviate significantly.

7. Property, plant and equipment

	Land and buildings	Plant and equipment	Construction in progress	Other assets	Total
As at 1 January 2017					
Cost	193,604	573,197	9,938	124,610	901,349
Accumulated depreciation and impairments	(102,989)	(434,125)	-	(94,062)	(631,176)
	<u>90,615</u>	<u>139,072</u>	<u>9,938</u>	<u>30,548</u>	<u>270,173</u>
Additions	17,334	44,160	9,318	11,600	82,412
Acquisition of subsidiaries	-	-	-	-	-
Disposals	(2,967)	(6,213)	(349)	(2,223)	(11,752)
Reclassifications	(1,317)	8,579	(8,174)	(563)	(1,475)
Impairment charges	-	-	-	-	-
Depreciation charges	(6,947)	(35,615)	(440)	(12,040)	(55,042)
Exchange rate differences	(128)	(2,221)	(4)	(89)	(2,442)
	<u>96,590</u>	<u>147,762</u>	<u>10,289</u>	<u>27,233</u>	<u>281,874</u>
As at 31 December 2017					
Cost	193,821	574,191	10,731	126,021	904,764
Accumulated depreciation and impairments	(97,231)	(426,429)	(442)	(98,788)	(622,890)
	<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
Acquisition of subsidiaries	-	-	-	-	-
Disposals	(3,836)	(6,936)	(18)	(124)	(10,914)
Reclassifications	3,111	1,533	(9,164)	3,996	(524)
Impairment charges	-	-	-	-	-
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	(82,961)	(431,340)	(2)	(108,014)	(622,317)
	<u>102,783</u>	<u>143,935</u>	<u>9,170</u>	<u>33,719</u>	<u>289,607</u>

Asset construction in progress mainly comprises plant and equipment. Property, plant and equipment is not pledged as a security for borrowings, except for leased assets under finance lease agreements.

Property, plant and equipment includes the following carrying amounts where the Group is a lessee under a finance lease:

	2018	2017
Land and buildings	-	-
Property, plant and equipment	26,129	17,796
Other assets	3,634	3
	<u>29,763</u>	<u>17,799</u>

8. Intangible assets

	Goodwill	Non-integrated software	Other	Total
As at 1 January 2017				
Cost	678,186	24,114	7,301	709,601
Accumulated amortisation and impairments	(298,801)	(15,965)	(4,843)	(319,609)
	<u>379,385</u>	<u>8,149</u>	<u>2,458</u>	<u>389,992</u>
Additions	-	10,115	13,398	23,513
Disposals	-	(60)	-	(60)
Impairment charges	(372)	-	(331)	(703)
Amortisation charges	-	(3,904)	(602)	(4,506)
Exchange rate differences	(4,382)	(43)	(93)	(4,518)
	<u>374,631</u>	<u>14,257</u>	<u>14,830</u>	<u>403,718</u>
As at 31 December 2017				
Cost	672,414	32,656	20,342	725,412
Accumulated amortisation and impairments	(297,783)	(18,399)	(5,512)	(321,694)
	<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	(1,862)	-	(76)	(1,938)
	<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	(297,682)	(20,014)	(7,373)	(325,069)
	<u>372,769</u>	<u>20,500</u>	<u>14,719</u>	<u>407,988</u>

The category others consist for € 10.8 million (2017: €12 million) of development cost, capitalised in 2017 for the patented Gravity Based Foundations for offshore wind power.

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 €373 million (2017: €375 million).

The decrease of goodwill fully relates to the exchange rate effect. The change in exchange rate of the pound sterling compared to the prior year had a downward effect of €1.9 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.

Goodwill relates to 15 CGUs, of which BAM Construct UK (€61 million) and BAM Nuttall (€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	
	2018	2017	2018	2017
Discount rate (post-tax)	8.3%	7.9%	8.3%	7.9%
Growth rate:				
- In forecast period (average)	2.5%	4.3%	1.6%	2.1%
- Beyond forecast period	1.1%	1.5%	1.1%	1.5%
Profit before tax margin:				
- In forecast period (average)	2.9%	2.9%	3.3%	3.0%
- Beyond forecast period	3.0%	3.1%	3.5%	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.

For BAM Construct UK, the recoverable amount calculated based on value in use exceeded the carrying amount by approximately €418 million (2017: €585 million).

For BAM Nuttall, the recoverable amount calculated based on value in use exceeded the carrying amount by approximately €198 million (2017: €270 million).

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 one CGU BAM International, representing a goodwill amount of €22 million, with a limited headroom.

9. PPP receivables

	2018	2017
As at 1 January	249,098	358,732
Receivables issued	16,774	127,161
Finance income	5,446	20,357
Disposals	(154,683)	(149,718)
Progress billings	(26,047)	(104,982)
Exchange rate differences	(941)	(2,452)
As 31 December	89,647	249,098

	Note	2018	2017
Non-current		85,298	240,687
Current	13	4,348	8,411
		89,647	249,098

The decrease in receivables is mainly related to the divestment of one project to the joint venture BAM PPP/PGGM.

The average duration of PPP receivables is 15 years (2017: 21 years). Approximately €65 million of the non-current part has a duration of more than five years (2017: €195 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 7.4 per cent (2017: 5.6 per cent). At year-end 2018, the fair value of the non-current part is approximately €95 million (2017: approximately €256 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'.

10. Investments

The amounts recognised in the balance sheet are as follows:

	2018	2017
Associates	26,661	25,645
Joint ventures	82,894	69,949
As at 31 December	109,555	95,594

10.1 Investment in associates

Set out below is the associate of the Group as at 31 December 2018 that is individually material to the Group.

Nature of investment in associate in 2018 and 2017:

Principal activity	Country of incorporation	% Interest	
		2018	2017
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) bv	
	2018	2017
Current assets	66,249	105,778
Non-current assets	759,193	796,156
Current liabilities	(22,909)	(25,534)
Non-current liabilities	<u>(775,949)</u>	<u>(817,871)</u>
Net assets	26,584	58,529
Revenue	25,109	45,691
Net result	9,317	9,208
Share in result	<u>982</u>	<u>971</u>
Net assets	26,584	58,529
Share in equity	<u>10.54%</u>	<u>10.54%</u>
Carrying amount	2,802	6,169

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:

	2018	2017
Share in net result associate that is material to the Group	982	971
Share in net result associates that are not individually material to the Group	<u>7,986</u>	<u>5,435</u>
	<u>8,968</u>	<u>6,406</u>

In 2018 the Group's share in the net result of associates included an impairment charge amounting to €0.0 million (2017: €0.2 million).

Reconciliation with the carrying amount of the Group's share in associates, as recognised in the consolidated financial statements, is as follows:

	2018	2017
Share in equity associate that is material to the Group	2,802	6,169
Share in equity associates that are not individually material to the Group	<u>22,847</u>	<u>6,386</u>
	<u>25,649</u>	<u>12,555</u>
Recognised as provision for associates	105	379
Recognised as impairment of non-current receivables	<u>907</u>	<u>12,711</u>
	<u>26,661</u>	<u>25,645</u>

The associates not individually material to the Group mainly comprise the Group's share in structured entities for property development projects.

Dividend received from associates amounts to €11.6 million in 2018 (2017: €7.8 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.

10.2 Investment in joint ventures

Set out below is the joint venture of the Group as at 31 December 2018 that is individually material to the Group.

Nature of investment in the joint venture in 2018 and 2017:

	Principal activity	Country of incorporation	% Share	
			2018	2017
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.

BAM PPP PGGM Infrastructure Coöperatie U.A.	2018	2017
Current assets	151,132	139,123
Non-current assets	1,580,874	1,916,019
Current liabilities	(356,311)	(326,462)
Non-current liabilities	(1,653,549)	(2,010,566)
Net assets	(277,854)	(281,886)
Of which:		
Cash and cash equivalents	104,377	99,354
Current financial liabilities	(53,079)	(56,878)
Non-current financial liabilities	(1,666,297)	(1,973,117)
Revenue	59,016	47,232
Net result	13,032	12,406
Other comprehensive income	3,179	21,905
Of which:		
Finance income	125,205	117,177
Finance expense	(114,410)	(104,132)
Income tax	(3,700)	(2,440)
Net result	13,032	12,406
Share in profit rights	10% /20%	10% /20%
Share in net result	2,618	2,165
Net assets	(277,854)	(281,886)
Share in profit rights	10% /20%	10% /20%
Carrying amount	(38,478)	(39,794)
Negative cash flow hedge reserve not recognised	17,532	18,840
	(20,946)	(20,954)

The Group's share in the joint venture BAM PPP/PGGM 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 €17 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 2018 €1 million reversal (2017: €1 million reversal) was not recognised. At year-end 2018 unrecognised losses amounted to €18 million (2017: €19 million).

Set out below are the aggregate information of joint ventures that are not individually material to the Group.

	2018	2017
Share in net result joint venture BAM/PGGM	2,618	2,165
Share in net result property development joint ventures that are not material to the Group	18,584	7,579
Share in net result other joint ventures that are not individually material to the Group	5,655	3,974
	<u>26,857</u>	<u>13,718</u>

In 2018 the Group's share in the net result of joint ventures included an impairment charge amounting to €3.1 million (2017: €0.0 million).

Share in equity joint venture BAM/PGGM	(20,946)	(20,954)
Share in equity property development joint ventures that are not material to the Group	45,336	36,547
Share in equity other joint ventures that are not individually material to the Group	(51,746)	(53,936)
	<u>(27,356)</u>	<u>(38,343)</u>
Recognised as provision for joint ventures	23,962	24,118
Recognised as impairment of non-current receivables	86,288	84,174
	<u>82,894</u>	<u>69,949</u>

Revenue of property development joint ventures amounts to €101 million (2017: €73 million) and property development recognised in the balance sheet amounts to €130 million (2017: €116 million) of which an amount of €45 million (2017: €36 million) externally financed (share of the Group).

Dividend received from joint ventures amounts to €23.3 million in 2018 (2017: €15.3 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.

11. Other financial assets

As of the implementation of IFRS 9, the other financial assets are reclassified between financial assets at fair value through profit or loss or based on amortised cost. The comparative figures have not been adjusted.

	Note	Receivables based on fair value through profit or loss	Receivables based on amortised cost	Other	Total
As at 1 January 2017					
Additions		-	90,858	1,906	92,764
Loans granted		-	23,206	-	23,206
Loan repayments		-	(14,699)	-	(14,699)
Impairment charges	25	-	(356)	-	(356)
Reversal of impairment charges	25	-	203	-	203
Net result for the year		-	-	175	175
Dividend received		-	-	(175)	(175)
Reclassifications		-	(7,451)	(1)	(7,452)
Exchange rate differences		-	(53)	-	(53)
		-	91,708	1,921	93,629
Of which current:		-	(1,726)	-	(1,726)
As at 31 December 2017		-	89,982	1,921	91,903
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)
Reversal of impairment charges	25	-	-	-	-
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

The fair value of non-current receivables at year-end 2018 amounts to €128 million (2017: €109 million for total other financial assets in 2017). The effective interest rate is 5.0 per cent (2017: 4.3 per cent).

Category 'Other' mainly comprises shares in (unlisted) investments over which the Group has no significant influence.

12. Inventories

	2018	2017
Land and building rights	353,586	415,504
Property development	<u>210,029</u>	<u>175,014</u>
	563,615	590,518
Raw materials	13,306	14,519
Finished products	<u>1,070</u>	<u>1,694</u>
	577,991	606,731

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 2018 relating to the property portfolio are as follows:

	Note	2018	2017
Impairment charges		22,341	8,366
Reversal of impairment charges		<u>(421)</u>	<u>(4,643)</u>
	25	<u>21,920</u>	<u>3,723</u>

The net amount of impairments and reversals of €21.9 million relates to property developments in the Netherlands. Impairments reflected mainly the lower valuation of Dutch regional property adjacent to the development of a large wind mill park which was reduced to the value of farmer's land. The reversal of impairments relates to Land and buildings rights in the Netherlands based on renewed taxation.

Property development includes the following completed and unsold property:

Unsold and finished property	2018		2017	
	Number/m ²	Carrying amount	Number/m ²	Carrying amount
Houses ¹	-	-	7	1,602
Commercial property - rented	8,873	10,242	13,083	13,718
Commercial property - unrented	<u>11,031</u>	<u>8,302</u>	<u>13,862</u>	<u>12,007</u>
		<u>18,544</u>		<u>27,327</u>

¹ 2017: of which no houses rented in anticipation of sale.

The decrease in carrying amount in 2018 mainly relates to the impairments of Dutch property developments.

Other inventories were not subject to write-down in 2018 nor 2017.

13. Trade and other receivables

	Notes	2018	2017
			Restated*
Trade receivables		869,743	808,574
Less: Provision for impairment of receivables		(10,797)	(11,984)
Trade receivables - net		858,946	796,590
Amounts due from customers	6	479,128	333,729
Capitalised contract cost	6	159	-
Retentions		116,397	108,419
Contract assets		595,684	442,148
Amounts to be invoiced work completed		81,915	93,755
Amounts to be invoiced work in progress		202,220	218,800
Contract receivables		284,135	312,555
Amounts due from related parties	36	30,699	10,859
PPP receivables	9	4,348	8,411
Other financial assets		619	2,054
Other receivables		82,212	53,170
Prepayments		115,397	118,868
		1,972,040	1,744,655

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

Trade and other receivables are due within one year, except for approximately €25 million (2017: €10 million). The fair value of this non-current part is approximately €25 million (2017: approximately €10 million) using an effective interest rate of 0.19 per cent (2017: 0.15 per cent).

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 2018 a part of the trade receivables amounting to €123 million (2017: €146 million) is past due over one year but partly impaired. These overdue payments 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. With some customers final agreement was reached in 2018 leading to decreased trade receivables that were past due over two years. Management assessed that the provision for impairment, taking all facts and circumstances into account, is sufficient.

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 2018, 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 regards fully cost to fulfil the contract. No impairments have taken place. The total amortisation for the year 2018 amounts to nil (2017: 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.

The ageing analysis of these trade receivables is as follows:

	2018		2017	
	Trade receivables	Provision for impairment	Trade receivables	Provision for impairment
Not past due	544,871	(327)	481,263	(90)
Up to 3 months	137,656	(2,684)	107,185	(954)
3 to 6 months	26,574	(320)	22,902	(831)
6 to 12 months	37,826	(1,729)	51,090	(1,247)
1 to 2 years	35,414	(1,513)	44,073	(631)
Over 2 years	87,402	(4,224)	102,061	(8,231)
	869,743	(10,797)	808,574	(11,984)
Less: Provision for impairment of receivables		(10,797)		(11,984)
Trade receivables - net	858,946		796,590	

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:

	2018	2017
As at 1 January	11,984	28,563
Provision for impairment	5,028	11,583
Release	(2,473)	(9,928)
Receivables written off during the year as uncollectable	(3,030)	(18,214)
Disposals	-	30
Reclassifications	(697)	-
Exchange rate differences	(15)	(50)
As at 31 December	10,797	11,984

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

14. Cash and cash equivalents

	2018	2017
Cash at bank and in hand	738,232	692,344
Short-term bank deposits	5,442	3,435
Cash and cash equivalents (excluding bank overdrafts)	743,674	695,779

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 €173 million (2017: €217 million) respectively €7 million (2017: €16 million). Other cash and cash equivalents are at the free disposal of the Group.

The average effective interest on short-term bank deposits is 4.5 per cent (2017: 3.5 per cent). The deposits have an average remaining term to maturity of approximately 10 days (2017: approximately 14 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:

	2018	2017
Cash and cash equivalents	743,674	695,779
Bank overdrafts	-	-
Net cash position	743,674	695,779

15. 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 2017	271,814,728	1,193,145	270,621,583	27,181	812,130	839,311
Repurchased shares	-	518,940	(518,940)	-	-	-
Dividends	<u>3,110,691</u>	-	<u>3,110,691</u>	<u>312</u>	<u>(312)</u>	<u>-</u>
As at 31 December 2017	<u>274,925,419</u>	<u>1,712,085</u>	<u>273,213,334</u>	<u>27,493</u>	<u>811,818</u>	<u>839,311</u>
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>	<u>386</u>	<u>(386)</u>	<u>-</u>
As at 31 December 2018	<u>278,779,019</u>	<u>5,483,002</u>	<u>273,296,017</u>	<u>27,879</u>	<u>811,432</u>	<u>839,311</u>

15.1 General

At year-end 2018, the authorised capital of the Group was 400 million ordinary shares (2017: 400 million) and 600 million preference shares (2017: 600 million), all with a nominal value of €0.10 per share (2017: €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.

15.2 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	15.1	345,000	5,17	1,784
2 May 2017	15.1	173,940	5,23	909
26 April 2018	15.1	87,356	3,88	339

In 2018, the number of issued ordinary shares increased by 3,853,600 due to dividend payment in shares. To prevent dilution all these shares were then repurchased.

16. Reserves

	Hedging	Translation	Development cost	Total
Restated as at 1 January 2017*	(77,153)	(93,099)	-	(170,252)
Reclassification to the income statement due to divestment				
- Fair value of forward foreign exchange contracts	-	-	-	-
- Fair value of interest rate swaps	34	-	-	34
- Tax on fair value of cash flow hedge	(9)	-	-	(9)
Cash flow hedges				
- Fair value movement of forward foreign exchange contracts	8,932	-	-	8,932
- Fair value movement of interest rate swaps	16,020	-	-	16,020
- Tax on fair value movement	(7,472)	-	-	(7,472)
Legal reserve for development cost				
- Investments	-	-	12,000	12,000
Exchange rate differences				
	17,505	(12,068)	12,000	17,437
Restated as at 31 December 2017*	(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				
- Investments	-	-	-	-
- Amortisation	-	-	(1,200)	(1,200)
Exchange rate differences				
	(4,541)	(6,410)	(1,200)	(12,151)
As at 31 December 2018	(64,189)	(111,577)	10,800	(164,966)

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

The legal reserves consists of hedging reserves, translation reserve and a reserve for the capitalisation of development cost.

The negative movement in the hedge reserve in 2018 of €4.5 million was predominantly caused by the fact that the long-term interest in 2018 was lower than in 2017.

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. An amount of €52 million (2017: €48 million) in the hedging reserve relates to joint ventures.

The legal reserve for the capitalisation of development cost amounts €11 million (2017: €12 million) and relates to the investments in the patented Gravity Based Foundations for the offshore wind power sector.

The negative movement in the translation reserve in 2018 and 2017 is linked to the decrease in the value of the pound sterling.

17. Capital base

	2018	2017 Restated*
Equity attributable to the shareholders of the Company	729,031	721,256
Subordinated convertible bonds	<u>117,637</u>	<u>114,987</u>
	<u>846,668</u>	<u>836,243</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

18. Borrowings

	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	New finance leases	Transfers to/ from joint ventures	Other movements	
Non-recourse PPP loans	189,965	1,409	(4,370)	-	-	(142,928)	-	(608)
Non-recourse property financing	68,942	27,179	(18,891)	-	-	1,997	-	-
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)
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>

Changes from financing cash flows

	As at 1 January 2017	Changes from financing cash flows			Other changes				As at 31 December 2017
		Proceeds from borrowings	Repayments of borrowings	Effective interest method	New finance leases	Transfers to/ from joint ventures	Other movements	Exchange rate differences	
Non-recourse PPP loans	274,348	109,095	(62,747)	963	-	(130,036)	-	(1,658)	189,965
Non-recourse property financing	85,678	64,106	(83,250)	-	-	2,408	-	-	68,942
Recourse PPP loans	50,103	-	(20,943)	294	-	-	-	-	29,454
Recourse property financing	68,745	2,029	(12,121)	-	-	16,635	-	-	75,288
Subordinated convertible bonds	112,491	-	-	2,496	-	-	-	-	114,987
Finance lease liabilities	6,807	-	(3,260)	-	9,479	-	-	(38)	12,988
Other non-recourse financing	7,922	-	(2,006)	-	-	-	-	-	5,916
Other recourse financing	5,550	-	-	-	-	-	-	-	5,550
Bank overdrafts	2	-	-	-	-	-	(2)	-	-
	611,646	175,230	(184,327)	3,753	9,479	(110,993)	(2)	(1,696)	503,090

18.1 Non-recourse PPP loans

These relate to PPP projects in the United Kingdom. Of the non-current part, €23 million has a term to maturity of more than five years (2017: €142 million). The average term to maturity of the PPP loans is 10 years (2017: 21 years).

The decrease of PPP Loans is mainly related to the divestment of one project to the joint venture BAM PPP/PGGM.

The interest rate risk on the non-recourse PPP loans is hedged by interest rate swaps. The average interest rate on PPP loans is 4.2 per cent (2017: 4.3 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 €67 million in total (2017: €227 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.

18.2 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 1.4 years (2017: approximately 1.6 years).

Interest on these loans is based on Euribor 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 principal sum of these financing loans is €34 million (2017: €54 million).

The carrying amount of the related assets is approximately €164 million at year-end 2018 (2017: approximately €160 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.

18.3 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. The average term to maturity of the recourse PPP loans is approximately 3.1 years (2017: approximately 0.7 years).

18.4 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 1.2 years (2017: approximately 0.9 years). Interest on these loans is based on Euribor 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 principal sum of these financing loans is €6 million (2017: €7 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 €105 million at year-end 2018 (2017: approximately €125 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.

18.5 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 2018 the conversion price is €4.9997 (31 December 2017: €5.1291). The Group 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.

All payment obligations to the bondholders are subordinated to the payment obligations towards our senior debt holders.

At 31 December 2018 the fair value of the liability component of the subordinated convertible bonds amounts to €115 million (31 December 2017: €122 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	(3,233)	(2,955)	(278)
Net proceeds	121,767	111,298	10,469
Tax effect equity component		-	(2,617)
Effective interest method	1,193		-
As at 31 December 2016	112,491	7,852	
Effective interest method	2,496		-
As at 31 December 2017	114,987	7,852	
Effective interest method	2,650		-
As at 31 December 2018	117,637	7,852	

¹ Transaction costs include fees and commissions paid to advisors, bankers and lawyers.

18.6 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 4.3 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 2018, the Group did not use the facility (year-end 2017: not used).

As at 30 June 2018 the Group did not use the facility (30 June 2017: 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 2018 the margin was 150 basis points (2017: 150 basis points).

18.7 Finance lease liabilities

Finance lease liabilities mainly consist of financing arrangements for buildings and equipment. The maturity of the finance lease liabilities is as follows:

	2018	2017
Up to 1 year	7,428	3,604
1 to 5 years	18,402	10,112
Over 5 years	741	644
	<hr/>	<hr/>
Future finance charges on financial leases	26,571	14,360
Present value of finance lease liabilities	(1,575)	(1,372)
	<hr/>	<hr/>
	24,995	12,988

The present value of the finance lease liabilities is as follows:

	2018	2017
1 to 5 years	17,529	9,135
Over 5 years	721	586
	<hr/>	<hr/>
Up to 1 year	18,250	9,721
	6,745	3,267
	<hr/>	<hr/>
	24,995	12,988

18.8 Other financing

Other loans relate to financing of property, plant and equipment.

18.9 Bank overdrafts

In addition to the non-current committed syndicated credit facility (note 18.6), the Group holds €163 million in bilateral credit facilities (2017: €163 million). At year-end 2018 as well as 2017 these facilities were not utilised.

18.10 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.

According to the finance arrangements, the covenant calculation should be based on the International Financial Reporting Standards as of December 31, 2015 (frozen IFRS). The implementation of IFRS 15 results in a more prudent accounting of BAM's project results and therefore IFRS 15 will have a prudent approach towards the covenant ratio's. BAM reverses the impact IFRS 15 has on equity as of at transition date in compliance to the covenant's frozen IFRS. BAM does not revert the negative impacts IFRS 15 has on the results from transition date going forward, until IFRS 15 and 16 standards are incorporated in the ratio's, following a prudent approach towards the covenant ratio's.

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 2018 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 2018.

The set requirements and realisation of the recourse ratios described above, can be explained as follows:

	Calculation	Requirement	2018	2017
Leverage ratio	Net borrowings/EBITDA	≤ 2.50	(2.70)	(4.82)
Interest cover	EBITDA/net interest expense	≥ 4.00	27.48	8.35
Solvency ratio	Capital base/total assets	≥ 15%	27.0%	29.6%
Guarantor covers	EBITDA share of guarantors	≥ 60%	75%	80%
	Assets share of guarantors	≥ 70%	88%	91%

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-employments benefits, among other things.

18.11 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:

	2018		2017	
	Euro	Pound sterling	Euro	Pound sterling
Subordinated convertible bonds	6.1%	-	6.1%	-
Committed syndicated credit facility	1.6%	-	1.6%	-
Non-recourse PPP loans	-	6.8%	3.7%	6.8%
Non-recourse property financing	2.8%	-	3.5%	-
Recourse PPP loans	2.8%	-	2.0%	-
Recourse property financing	3.2%	-	2.4%	-
Finance lease liabilities	4.1%	-	4.1%	-
Other non-recourse financing	3.4%	-	3.3%	-
Other recourse financing	3.1%	-	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	62,758	255,736	24,282	342,776
Fixed interest rates	(16,763)	(182,760)	(1,741)	(201,264)
Hedged with interest rate swaps	(4,962)	(15,586)	(22,541)	(43,089)
As at 31 December 2018	41,033	57,390	-	98,423
Total borrowings	104,944	253,895	144,251	503,090
Fixed interest rates	(9,217)	(180,770)	(59,836)	(249,823)
Hedged with interest rate swaps	(25,799)	(53,627)	(84,415)	(163,841)
As at 31 December 2017	69,928	19,498	-	89,426

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2018	2017
Euro	296,375	452,623
Pound sterling	46,401	50,467
	342,776	503,090

19. Derivative financial instruments

	2018			2017		
	Assets	Liabilities	Fair value	Assets	Liabilities	Fair value
Interest rate swaps	-	9,691	(9,691)	-	14,952	(14,952)
Forward exchange contracts	642	272	370	1,522	133	1,389
	642	9,963	(9,321)	1,522	15,085	(13,563)
Of which current:	641	272	369	1,058	133	925

19.1 Interest rate swaps

At year-end 2018, 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 €343 million (2017: €503 million), of which an amount of €141 million (2017: €253 million) carries a variable interest rate. Of the borrowings with a variable interest rate an amount of €43 million (2017: €164 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 (2017: €15 million negative). At year-end 2018 all interest rate swaps have a duration that exceeds one year. The maximum duration of the derivative financial instruments is 13 years.

The fixed interest rates of these swaps vary from 1.5 per cent to 6.3 per cent at year-end 2018 (2017: 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 2018, all derivative financial instruments of the Group provide an effective compensation for movements in cash flows from the hedged positions. Therefore, the movements in 2018 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.

19.2 Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2018 were €53 million (2017: €194 million). The fair value amounts to €0.4 million positive (2017: €1 million positive).

The terms to maturity of these contracts are up to a maximum of 1 year for the amount of €53 million (2017: €187 million), between 1 and 2 years for the amount of nil (2017: €7 million) and between 2 to 4 years nil (2017: nil).

The average forward rates of the FX contracts outstanding are:

	2018	2017
EURGBP	0.8940	0.8871
EURUSD	1.1774	1.1857
EURAED	4.1868	4.0247
EURCHF	1.1300	-
EURDKK	7.4640	-
EURSGD	-	1.5946

20. Employee benefits

	2018	2017
Defined benefit asset	<u>111,219</u>	<u>75,020</u>
Defined benefit liability	<u>91,740</u>	<u>92,411</u>
Other employee benefits obligations	<u>28,210</u>	<u>26,101</u>
	<u>119,950</u>	<u>118,512</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 2018, the (twelve-month average) coverage rate of the industry pension fund for construction is 118 per cent (2017: 115 per cent). The industry pension fund for metal & technology has a coverage rate of 102 per cent at year-end 2018 (2017: 100 per cent). The coverage rate of the industry pension fund for railways is 115 per cent (2017: 113 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 Associations (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 2018 to the amount of approximately €10 million (2017: approximately €10 million). 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 2018 nor 2017.

Following the recent High Court judgement in the Lloyds case, overall pension benefits in the United Kingdom are equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"). This equalization affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. Under IAS 19/FRS 101, the additional liability is immediately recognized in 2018 as a plan amendment. The additional liability for the Group amounts 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 €1 million (2017: €3 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 2018						
Defined benefit liability	18,750	-	2,576	52,837	15,577	91,740
Defined benefit asset	-	111,219	-	-	-	111,219
	18,750	(111,219)	2,576	52,837	17,577	(19,479)
<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	376,746	874,653	25,321	70,528	95,371	1,442,619
<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	357,996	985,872	22,745	17,691	77,794	1,462,098
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	18,750	(111,219)	2,576	52,837	17,577	(19,479)
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
	1,485	10,956	1,590	1,023	2,376	17,430
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	7,137	(30,648)	(580)	400	1,718	(21,973)

	Netherlands	United Kingdom	Belgium	Germany	Ireland	Total
As at 31 December 2017						
Defined benefit liability	17,386	-	3,688	54,099	17,238	92,411
Defined benefit asset	-	75,020	-	-	-	75,020
	17,386	(75,020)	3,688	54,099	17,238	17,391
<i>Present value of obligation</i>						
As at 1 January 2017	434,513	1,015,303	20,363	78,576	108,243	1,656,998
Service cost	969	65	1,361	187	2,539	5,121
Interest expense	7,281	26,686	287	1,071	1,954	37,279
Remeasurements	(1,555)	36,517	4,121	(2,626)	(4,987)	31,470
Plan participants contributions	-	-	567	-	445	1,012
Benefit payments	(12,420)	(56,997)	(1,535)	(4,247)	(3,128)	(78,327)
Changes and plan amendments	-	-	-	-	-	-
Settlements	-	-	-	-	(7,928)	(7,928)
Disposals	-	-	(49)	-	-	(49)
Exchange rate differences	-	(32,380)	-	-	-	(32,380)
As at 31 December 2017	428,788	989,194	25,115	72,961	97,138	1,613,196
<i>Fair value of plan assets</i>						
As at 1 January 2017	411,231	1,073,984	16,965	19,413	83,924	1,605,517
Interest income	6,953	28,451	249	274	1,531	37,458
Remeasurements	(535)	44,022	3,725	462	1,159	48,833
Employer contributions	6,678	10,797	1,719	2,960	3,897	26,051
Plan participants contributions	-	-	567	-	445	1,012
Benefit payments	(12,420)	(56,997)	(1,535)	(4,247)	(3,128)	(78,327)
Administration cost	(505)	(1,517)	(40)	-	-	(2,062)
Settlements	-	-	-	-	(7,928)	(7,928)
Disposals	-	-	(223)	-	-	(223)
Exchange rate differences	-	(34,525)	-	-	-	(34,525)
As at 31 December 2017	411,402	1,064,215	21,427	18,862	79,900	1,595,806
Present value of obligation	428,788	989,194	25,115	72,961	97,138	1,613,196
Fair value of plan assets	411,402	1,064,215	21,427	18,862	79,900	1,595,806
As at 31 December 2017	17,386	(75,020)	3,688	54,099	17,238	17,391
Amounts recognised in the income statement						
Service cost	969	65	1,361	187	2,539	5,121
Net interest expense	328	(1,765)	38	797	423	(179)
Changes and plan amendments and settlements	-	-	-	-	-	-
Administration cost	505	1,517	40	-	-	2,062
	1,802	(183)	1,439	984	2,962	7,004
Amounts recognised in other comprehensive income						
Remeasurements:						
- Return on plan assets, excluding interest income	535	(44,022)	(3,727)	(462)	(1,159)	(48,835)
- (Gain)/loss from change in demographic assumptions	(4,256)	-	188	-	-	(4,068)
- (Gain)/loss from change in financial assumptions	2,701	30,922	145	(2,694)	(3,772)	27,302
- Experience (gains)/losses	-	5,595	3,788	68	(1,215)	8,236
	(1,020)	(7,505)	394	(3,088)	(6,146)	(17,365)
Income tax	255	1,303	(113)	640	768	2,853
Remeasurement net of tax	(765)	(6202)	281	(2,448)	(5,378)	(14,512)

The average duration of the defined benefit obligations per country were as follows:

		Netherlands	United Kingdom	Belgium	Germany	Ireland
2018						
Average duration (in years)		16	19	16	11	23
2017						
Average duration (in years)		16	21	17	13	23

The significant actuarial assumptions per country were as follows:

		Netherlands	United Kingdom	Belgium	Germany	Ireland
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%
2017						
Discount rate		1.7%	2.5-2.6%	1.45%	1.7%	2.1%
Salary growth rate		0-1.9%	0-3.6%	1.80%	1.5%	-
Pension growth rate		0-1.7%	2.2-3.3%	-	1.5%	0-1.6%

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 €116 million (increase by approximately €138 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 €4 million).
- If the expected indexation is 0.5 per cent higher (lower), the pension liability will increase by approximately €67 million (decrease by approximately €61 million).
- If the life expectancy increases (decreases) by 1 year, the pension liability will increase by approximately €53 million (decrease by approximately €59 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
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
2017						
Equity instruments (quoted)	-	252,367	-	-	44,188	296,555
Debt instruments (quoted)	-	649,436	-	-	31,008	680,444
Property (quoted)	-	44,554	-	-	3,436	47,990
Qualifying insurance policies (unquoted)	411,402	-	21,427	18,862	552	452,243
Cash and cash equivalents	-	117,858	-	-	716	118,574
	411,402	1,064,215	21,427	18,862	79,900	1,595,806

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 2019 are expected to be slightly lower than 2018 due to less deficit contributions in the UK.

21. Provisions

	Warranty	Restructuring	Rental guarantees	Associates and joint ventures	Onerous contracts	Other	Total
Restated as at 1 January 2018*	59,940	15,403	289	24,497	109,593	13,749	223,471
Charged/(credited) to the income statement:							
- Additional provisions	16,945	5,029	-	4,545	44,600	6,138	77,257
- Release	(3,466)	(1,192)	-	-	(4,864)	(5,331)	(14,853)
Used during the year	(12,403)	(10,951)	(49)	(4,975)	(13,384)	(6,407)	(48,169)
Reclassifications	(29,359)	-	-	-	-	29,359	-
Changes in discounted value	-	-	-	-	-	(7)	(7)
Exchange rate differences	-	-	-	-	(46)	(13)	(59)
As at 31 December 2018	31,657	8,289	240	24,067	135,899	37,488	237,640

Provisions are classified in the balance sheet as follows:

	2018	2017
		Restated*
Non-current	141,803	128,622
Current	95,837	94,849
	237,640	223,471

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

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 44 per cent of the provision is current in nature (2017: approximately 49 per cent).

The provision for restructuring concerns the best estimate of the expenditure associated with reorganisation plans already initiated. Approximately 71 per cent of the provision is current in nature (2017: approximately 93 per cent). The estimated staff restructuring costs to be incurred are recognised under 'personnel expenses'. Other direct costs attributable to the restructuring, including lease termination, are recognised under 'other operating expenses'.

The provision for rental guarantees consists of commitments arising from rental guarantees issued to third parties. Approximately 67 per cent of the provision is current in nature (2017: 56 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 €0.1 million (2017: €0.4 million) relates to associates and €24.0 million (2017: €24.1 million) to joint ventures.

The contract asset or contract liability does not include any provisions for future project losses. Approximately 51 per cent of the provision is current in nature (2017: approximately 43 per cent).

Other provisions mainly include continuing rental commitments resulting from (temporarily) unused premises. Amounts provided for the liquidation of the old project development activities, claims and legal obligations in Germany are also included. Approximately 17 per cent of the provision is current in nature (2017: approximately 34 per cent).

The non-current part of the provisions has been discounted at an interest rate of approximately 3 per cent (2017: approximately 3 per cent).

22. Deferred tax assets and liabilities

	2018	2017
	Restated*	
Deferred tax assets:		
- To be recovered after more than twelve months	141,649	216,801
- To be recovered within twelve months	<u>23,908</u>	<u>18,222</u>
	<u>165,557</u>	<u>235,023</u>
Deferred tax liabilities:		
- To be recovered after more than twelve months	38,261	26,967
- To be recovered within twelve months	<u>1,461</u>	<u>1,095</u>
	<u>39,722</u>	<u>28,062</u>
Deferred tax liabilities (net)	<u>(125,835)</u>	<u>(206,961)</u>

The gross movement on the deferred income tax assets and liabilities is as follows:

	2018	2017
	Restated*	
As at 1 January	(206,961)	(230,310)
Income statement charge/(credit)	52,310	18,378
Tax charge/(credit) relating to components of other comprehensive income	3,905	5,493
Disposal of subsidiary	-	-
Changes in enacted tax rates	28,173	(305)
Reclassifications	(2,958)	-
Exchange rate differences	<u>(304)</u>	<u>(217)</u>
As at 31 December	<u>(125,835)</u>	<u>(206,961)</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

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						
Restated as at 1 January 2017	5,248	227,536	4,449	17,724	22,328	277,285
(Charged)/credited to the income statement	3,587	(21,928)	216	(1,370)	1,915	(17,580)
(Charged)/credited to other comprehensive income	(120)	-	(1,722)	(1,548)	(12)	(3,402)
Changes in enacted tax rates	-	(227)	-	(167)	(13)	(407)
Reclassifications	-	-	(454)	(684)	(375)	(1,513)
Exchange rate differences	(80)	-	(74)	(12)	(201)	(367)
Restated as at 31 December 2017	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

	Construction contracts	Accelerated tax depreciation	Derivatives	Employee benefit assets	Other	Total
Deferred tax liabilities						
As at 1 January 2017	16,791	10,696	107	10,670	8,710	46,974
Charged/(credited) to the income statement	2,262	(635)	-	2,086	(2,915)	798
Charged/(credited) to other comprehensive income	-	-	786	1,305	-	2,091
Changes in enacted tax rates	(112)	(352)	-	(247)	(1)	(712)
Reclassifications	-	(375)	(454)	(684)	-	(1,513)
Exchange rate differences	-	(208)	-	(376)	-	(584)
As at 31 December 2017	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

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 at year-end 2018 amount to approximately €1 billion (2017: €1 billion). These unused tax losses relate to the years 2010 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 restructuring costs during these years. The legal term within which these losses may be offset against future profits is nine years.

In December 2018 the Dutch tax plan 2019 was approved by the Dutch Senate reducing the corporate income tax rate to 22.55 per cent in 2020 and to 20.5 per cent in 2021. In total this has caused a decrease of the deferred tax asset related to the Dutch fiscal unity tax losses of €26 million.

Based on estimates and timing of future taxable profits within the fiscal unity in the Netherlands for the upcoming eight years, approximately €490 million (2017: €770 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 lower than expected result in 2018 in the Netherlands for the business line Civil engineering and the non-cash impairment on property positions caused an impairment of the deferred tax assets of €9 million, because losses incurred in 2009 can no longer be fully offset by profits. The aforementioned underperformance in 2018 and in earlier years necessitates a more prudent forecast of taxable profits to meet the recognition criteria under IFRS. This leads to a further impairment of €37 million.

Tax losses to a minimum of €600 million (2017: €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 €48 million (2017: €32 million) of these losses are recognised. 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.

23. Trade and other payables

	Notes	2018	2017
			Restated*
Trade payables		980,342	847,697
Amounts due to customers (contract liabilities)	6	654,212	719,191
Amounts due to related parties	36	125,542	30,511
Social security and other taxes		157,586	132,828
Pension premiums		10,617	14,223
Amounts due for work completed		160,766	161,827
Amounts due for work in progress		661,976	579,181
Other financial liabilities		1,329	1,633
Other liabilities		92,518	105,511
Accrued expenses and deferred income		236,247	263,420
		<u>3,081,135</u>	<u>2,856,022</u>

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

24. Employee benefit expenses

	Note	2018	2017
Wages and salaries		1,075,233	1,032,695
Social security costs		165,883	157,782
Pension costs - defined contribution plans		79,834	76,591
Pension costs - defined benefit plans	20	17,430	7,004
Other post-employment benefits		(61)	(458)
		<u>1,338,319</u>	<u>1,273,614</u>

Wages and salaries include restructuring costs and other termination benefits of €3.8 million (2017: €0.2 million).

At year-end 2018, the Group had 20,194 employees in FTE (2017: 19,837). The average number of employees in FTE amounted to 20,156 (2017: 19,720), of which 12,186 in other countries than the Netherlands (2017: 12,072).

25. Impairment charges

	Notes	2018	2017
Intangible assets	8	-	703
Other financial assets	11	(1,292)	153
Inventories	12	21,920	3,723
Impairment charges		20,628	4,579
Share of impairment charges in investments	10	3,122	193
		<u>23,750</u>	<u>4,772</u>

Other financial assets for 2018 relate to fair value changes.

In 2018, the net impairment charges in connection with inventories are fully related to land and building rights in the Netherlands. Impairments reflected mainly the lower valuation of Dutch regional property adjacent to the development of a large wind mill park which is now reduced to the value of farmer's land.

26. 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	2018	2017
Impairment charges	25	23,750	4,772
Restructuring costs	24	3,837	158
Pension one-off	20	11,092	-
		<u>38,679</u>	<u>4,930</u>

Pension one-off in 2018 relates to the equalisation of Guaranteed Minimum Pensions for men and women in the United Kingdom.

27. Audit fees

The total fees for the audit of the consolidated financial statements 2018 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:

	2018			2017			Total
	EY Netherlands	EY foreign member firms	Total	EY Netherlands	EY foreign member firms		
Audit fees	4,279	2,234	6,513	3,551	2,690		6,241
Audit-related fees	52	9	61	39	5		44
Tax fees	-	-	-	-	26		26
Other non-audit fees	-	-	-	-	55		55
			<u>6,574</u>				<u>6,366</u>

The increase in the audit fee 2018 compared to 2017 relates to additional audit procedures on the application of new accounting standards such as IFRS 15 and IFRS 16.

28. Finance income and expense

	2018	2017
Finance income		
- Interest income - cash at banks	1,175	1,008
- Interest income - other financial assets	2,579	2,158
- Interest income - PPP receivables	5,446	20,357
- Other finance income	<u>12,021</u>	<u>6,479</u>
	21,221	30,002
Finance expense		
- Subordinated convertible bonds	7,025	6,871
- Committed syndicated credit facility	328	16
- Bank fees - committed syndicated credit facility	2,611	2,708
- Non-recourse PPP loans	3,155	11,165
- Non-recourse property financing	2,185	3,127
- Other non-recourse financing	153	169
- Interest expense - bank overdrafts	253	145
- Finance lease liabilities	556	433
- Recourse property financing	1,222	1,765
- Recourse PPP loans	-	916
- Other recourse financing	1,592	1,697
- Interest expense - other liabilities	848	137
- Fair value result interest rate swaps	-	561
- Fair value result - forward exchange contracts	<u>-</u>	<u>305</u>
	19,928	30,015
Less: capitalised interest on the Group's own projects	<u>(8,034)</u>	<u>(9,575)</u>
	11,894	20,440
Net finance result	9,327	9,562

Included in the finance expense is an amount of €1.8 million (2017: €3 million) relating to interest rate swaps that was reclassified from equity to the income statement. An overview of the applicable weighted average interest rates is disclosed in note 18 to the consolidated financial statements.

29. Income tax

	2018	2017
	Restated*	
Current tax	9,642	14,818
Deferred tax	<u>80,483</u>	<u>18,073</u>
	<u>90,125</u>	<u>32,891</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:

	2018	2017
	Restated*	
Result before tax	114,540	19,965
Tax calculated at Dutch tax rate	28,633	4,993
Tax effects of:		
- Tax rates in other countries	(10,592)	(1,815)
- Income not subject to tax	(1,638)	(743)
- Remeasurement of deferred tax – changes in enacted tax rates	27,973	(125)
- Tax filings and previously unrecognised temporary differences	(5,108)	(5,064)
- Previously unrecognised tax losses	(5,718)	(4,494)
- Tax losses no(t) (longer) recognised	55,797	42,390
- Results of investments and other participations, net of tax	(5,334)	(2,702)
- Other including expenses not deductible for tax purposes	<u>6,112</u>	<u>451</u>
Tax charge/(gain)	<u>90,125</u>	<u>32,891</u>
Effective tax rate	78.7%	164.7%

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

The weighted average tax rate applicable was 15.8 per cent (2017: 15.9 per cent). The difference is attributable to a different spread of results over the countries.

In December 2018 the Dutch corporate income tax rate was reduced to 22.55 per cent applicable as of 1 January 2020 and will be reduced to 20.5 per cent as of 1 January 2021.

In 2018 the tax charge was influenced predominantly by the reduction of the corporate tax rates in the Netherlands and by tax losses which are not recognised (anymore), as well as the recognition of tax losses that were previously unrecognised.

The corporate income tax rate effect related to the losses within the Dutch fiscal unity reduced the deferred tax asset by €26 million. An amount of €46 million of the tax charge relates to the impairment of previously valued tax losses of the fiscal unity in the Netherlands.

30. Earnings per share

	2018	2017 Restated*
Weighted average number of ordinary shares in issue (x 1,000)	273,491	272,215
Net result attributable to shareholders	23,773	(13,790)
Basic earnings per share (in €)	0.09	(0.05)
Net result from continuing operations attributable to shareholders	23,773	(13,790)
Basic earnings per share from continuing operations (in €)	0.09	(0.05)
Net result from discontinued operations attributable to shareholders	-	-
Basic earnings per share from discontinued operations (in €)	-	-

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

Allowing for dilution, the earnings per share are as follows:

	2018	2017 Restated*
Diluted weighted average number of ordinary shares in issue (x 1,000)	298,269	296,428
Net result attributable to shareholders (diluted)	29,042	(8,637)
Diluted earnings per share (in €)	0.09	(0.05)
Net result from continuing operations attributable to shareholders (diluted)	29,042	(8,637)
Diluted earnings from continuing operations per share (in €)	0.09	(0.05)
Net result from discontinued operations attributable to shareholders (diluted)	-	-
Diluted earnings from discontinued operations per share (in €)	-	-

* The comparative figures, where applicable, have been restated for IFRS 15. See note 2.

In 2018 the calculation of the diluted earnings per share stated €0.10 (2017: €0.03) 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.

31. Dividends per share and proposed appropriation of result

The net result for 2018, amounting to €23.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2018 of 14 eurocents in cash per ordinary share or in shares, at the option of the shareholders with repurchase of shares to offset dilution (2017: 10 eurocents). Based on the number of ordinary shares outstanding at year-end 2018, a maximum of €38.3 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 2018 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 in 2018 for €15.2 million. In 2017 dividends paid to shareholders of ordinary shares were €24.4 million, €7.5 million in cash (€0.09 per share) and €16.9 million in shares (€0.09 per share).

32. Contingencies

32.1 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. An example of a major legal proceeding is given below.

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. Only when their investigation is complete will it be possible to determine if and to what extent the consortium might be held responsible for the accident. In a criminal law suit against 5 individuals, none of them an employee of Wayss & Freytag, the German court has found one of those individuals guilty. The others were acquitted. The damage to property is considerable and the parties involved have claimed under several different insurance policies.

32.2 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 €160 million (2017: €169 million). Guarantees issued by banks and surety companies amount to €1,868 million (2017: €1,735 million). Guarantee facilities amount to €3.2 billion (2017: €2.9 billion).

33. Commitments

33.1 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:

	2018	2017
Property, plant and equipment	5,290	1,865
Land	<u>177,090</u>	<u>214,241</u>
	<u>182,380</u>	<u>216,106</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.

33.2 Lease commitments

The Group leases various office buildings, equipment and company cars from third parties under non-cancellable operating lease agreements. The lease agreements vary in duration, escalation clauses and renewable options. In 2018 the costs associated with operating leases amount to €72 million (2017: €59 million).

The future aggregate minimum lease payments are as follows:

	2018	2017
Up to 1 year	73,091	71,520
1 to 5 years	<u>140,370</u>	<u>141,130</u>
Over 5 years	<u>21,607</u>	<u>24,368</u>
	<u>235,068</u>	<u>237,018</u>

The future aggregate minimum lease income is as follows:

	2018	2017
Up to 1 year	86	86
1 to 5 years	-	-
Over 5 years	-	-
	<u>86</u>	<u>86</u>

34. Business combinations

No material acquisitions have taken place in 2018 nor 2017.

35. Assets held for sale and discontinued operations

	2018	2017
Inventories	<u>8,516</u>	8,516
Assets held for sale	<u>8,516</u>	8,516
Liabilities held for sale	-	-

At year-end 2018 and 2017, 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.

During 2018 the Group transferred one operational project (2017: one project), to the joint venture BAM PPP/PGGM and received several one-offs relating to previously transferred projects. After deduction of costs, the joint venture BAM PPP/PGGM realised a net result of €4.4 million (2017: €0.9 million), of which €2.6 million for the transferred project. The total consideration amounts to €21.8 million, of which €18.7 million in cash. The Group retained a 20 per cent share of its original share in these projects.

The Group had no discontinued operations in 2018 nor 2017.

36. 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:

36.1 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 €435.6 million (2017: €312.0 million) and related to the purchase of goods and services for €27.8 million (2017: €31.1 million).

The 2018 year-end balance of receivables arising from aforementioned transactions amounts to €30.7 million (2017: €10.9 million) and the liabilities to €125.5 million (2017: €30.5 million).

36.2 Loans to related parties

At year-end 2018, the Group granted loans to related parties (mainly relating to associates and joint ventures) for the amount of €68 million (2017: €70 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.

36.3 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:

	2018					Total
	Fixed remuneration	Short-term incentive	Post- employment benefits	Other benefits	Long-term incentive	
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

	2017					Total
	Fixed remuneration	Short-term incentive	Post- employment benefits	Other benefits	Long-term incentive	
R.P. van Wingerden ¹	684	214	183	3	177	1,261
T. Menssen	484	152	49	3	85	773
E.J. Bax ³	484	152	93	3	111	843
	1,652	518	325	9	373	2,877

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 Appointed as a member of the Executive Board with effect from 1 May 2014.

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.

The short-term incentive is part of the remuneration package of the Executive Board with a target payout of 55 per cent and a maximum of 75 per cent. The STI is based on financial criteria (70 per cent) and non-financial performance targets (30 per cent). Performance incentive zones are defined for each of the targets. Payout gradually increases with performance, starting with a payout of 35 per cent of the fixed remuneration at threshold performance and potentially going up to 75 per cent of the fixed remuneration payout at maximum performance per individual target. Performance below the threshold will result in zero payout. The Supervisory Board sets the performance ranges (i.e. threshold, at target and maximum performance levels) and corresponding payout levels. The Supervisory Board determined the payout for 2018 at 50 per cent (2017: 31 per cent).

Post-employment benefits relate to the pension costs of the defined benefit plans recognised 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.

As from mid-2017, the expense allowance policy has been changed into reimbursement of business expenses, instead of receiving a fixed expense allowance.

The long-term incentive relates to the Performance Share Plan and Phantom Share Plan. Additional information is disclosed in note 37.

No share options have been granted to the members of the Executive Board. The members of the Executive Board do not hold any shares in the Company, except for the conditionally granted and vested shares under the Performance Share Plan, nor have loans or advances been granted.

Supervisory Board

The compensation paid or payable to the Supervisory Board for services is shown below:

	2018	2017
H.L.J. Noy, Chairman	80	69
K.S. Wester, Vice-Chairman	62	58
G. Boon	60	42
C.M.C. Mahieu	60	56
M.P. Sheffield	69	24
H. Valentin	68	44
P.A.F.W. Elverding, former Chairman	-	18
H. Scheffers, former Vice-Chairman	-	17
J.P. Hansen, former member	-	14
	399	342

As from mid-2017 actual and necessarily incurred costs in the performance of the duties for the Group are reimbursed, instead of receiving a fixed expense allowance.

No share options have been granted 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.

Other related parties

The Group has not entered into any material transaction with other related parties.

37. Share-based payments

In 2018, BAM's long-term incentive plan consisted of a conditional share-based compensation plan called Performance Share Plan. This equity-settled plan replaced 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. In principle, the content of the plan rules will not be altered during the term of the plans.

37.1 Performance Share Plan

Under the Performance Share Plan the number of performance shares granted is calculated by dividing the award value (expressed as a percentage of fixed remuneration) by the average share price based on the five trading days after the Annual General Meeting ('AGM').

The shares are granted on the sixth trading day following the day of the AGM and vest subject to the achievement of pre-determined performance conditions during a three-year period and provided that the participant is still employed by BAM. Participants are not allowed to divest any shareholding until the two year lock-up period has lapsed and the minimum share ownership requirements are met, with the exception of any sale of shares during the lock-up period to finance tax (and other levies) payable at the date of vesting. The value at the date of vesting of the Performance Share Plan is capped at 2.5 times the award value.

The number of shares that will ultimately vest depends on BAM's performance compared to ten other listed companies in Europe, measured over a three-year period using total shareholder return ('TSR'), which is the sum of share price growth and dividends paid. The peer group on balance sheet date consists of Balfour Beatty, Boskalis, Eiffage, Heijmans, Hochtief, NCC, Skanska, Strabag, Vinci and VolkerWessels. TSR is complemented with an additional financial target and a non-financial target. On top, the TSR measure will function as a 'circuit breaker' for the vesting part linked to the other two criteria. When BAM ranks at the bottom two places of the TSR peer group, the other parts will not payout regardless of the performance in this area.

The tables below indicate the percentage of conditional shares that could vest in connection with the pre-determined performance conditions:

TSR		ROCE		Sustainability	
Ranking	Vesting	Score	Vesting	Score	Vesting
1	150%	Above maximum	150%	Above maximum	150%
2	125%	Maximum	150%	Maximum	150%
3	100%	Target	100%	Target	100%
4	75%	Threshold	50%	Threshold	50%
5	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.

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 granted 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 2018 for the members of the Executive Board and for all other participants is shown below:

	As at 1 January 2018	Granted	Vested (including dividend)	Forfeited	As at 31 December 2018
R.P. van Wingerden	321,681	122,469	59,939	54,380	329,832
E.J. Bax	199,744	74,369	38,947	35,334	199,833
T. Menssen	199,744	-	38,947	92,603	68,195
Other participants*	911,456	423,451	163,907	198,617	972,382
	1,632,625	620,289	301,739	380,934	1,570,242

*The opening balance of the performance share plan has been slightly adjusted upwards with 5,900 shares for the other participants due to a difference in termination of employment.

The fair value per share of the 2018 grant, for the Participants, in connection with the TSR performance part amounted to €2.72 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 grant, 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.

The Performance Share Plan 2015 has vested and dividend shares have been added to the vested shares according to the plan rules. The remaining awarded shares of 273,756, after a vesting percentage of 50% and dividend (13,991 shares) have been included in the forfeited shares. For the Performance Share Plan 2016 the 'circuit breaker' was applicable, leading to the full plan of 556,101 shares to be forfeited as at the vesting date 28 April 2019 and has therefore not yet been included in the table above.

The lock-up period for the 2015 Performance Share Plan for Mrs Menssen ended per 1 July 2018, in line with the applicable plan rules. The conditional shares for Mrs Menssen under the long-term incentive plan 2016 and 2017 are forfeited.

The most important assumptions used in the valuations of the fair values were as follows:

	2018
Share price at grant date (in €)	3.89
Risk-free interest rate (in %)	(0.03)
Volatility (in %)	44.66

Expected volatility has been determined based on historical volatilities for a period of five years.

In 2018, an amount of €95 thousand was released (2017: €818 charged) to the income statement arising from the Performance Share Plan. The release is caused by revising the booked costs for the Performance Share Plan of 2016 due to not meeting the TSR target for the plan. Forfeiture of these shares will take place as at 28 April 2019, being the vesting date of the performance share plan.

37.2 Phantom Share Plan

Under the Phantom Share Plan the number of performance shares granted is calculated by dividing the award value (expressed as a percentage of fixed remuneration) by the average share price based on the five trading days after the AGM.

The shares were granted on the sixth trading day following the day of the AGM and vest subject to the achievement of pre-determined performance conditions during a three-year period and provided that the participant is still employed by BAM.

The number of shares that will ultimately vest depends 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 balance sheet date consists 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 tables below indicate the percentage of conditional shares that could vest in connection with the pre-determined performance condition:

TSR Performance	Vesting
< 0	0%
0 – 5	35%
5 – 10	45%
10 – 15	55%
15 – 20	65%
20 – 25	75%
25 – 30	85%
≥ 30	100%

Upon termination of employment due to retirement, death or in the event of a restructuring or divestment, the granted shares will be reduced for a pro rata part reflecting the period between the date of termination of employment and the vesting date.

The status of the Phantom Share Plan (in number of shares) during 2018 for the individual Executive Board members is as follows:

	As at 1 January 2018	Stock dividend	Payout	As at 31 December 2018
R.P. van Wingerden	133,042	1,485	71,678	62,847
E.J. Bax	61,362	1,485	-	62,847
T. Menssen	133,042	1,485	134,527	-
	<u>327,446</u>	<u>4,455</u>	<u>206,205</u>	<u>125,696</u>

During 2018 the Phantom Share Plan 2013 has been paid out. The value has been based on the average share price of BAM on the 5 trading days before the end of the blocking period as per 3 May 2018 (€3.958) and on the number of vested shares three years after the award against the vesting percentage of 45 per cent. The finalisation of the 2013 grant (end of lock-up period 3 May 2018) has resulted in a payout of €343 thousand for the current and retired Executive Board members. In addition, 18,654 shares are allocated to retired Executive Board members at year-end 2018.

In addition to the payout of the 2013 Phantom Share plan, the 2014 Phantom Share plan has been paid out for Mrs Menssen during 2018 because she stepped down as Executive Board Member, resulting in a payment of €102 thousand. The value has been based on the average share price of BAM on the five trading days before the end of the management services agreement per 1 July 2018 (€3.619) and on the number of vested shares three years after the award against the vesting percentage of 45%. The number of (vested) shares at the payout date include dividend up until the payout date.

The lock-up period for 2014 Phantom Share will end at 1 May 2019. This is the most recent and final Phantom Share Plan.

The most important assumptions used in the valuations of the fair values were as follows:

	2018	2017
Risk-free interest rate (in %)	(0.83)	(0.66)
Volatility (in %)	32.61	30.84
Assumed dividend yield (in %)	-	2.00

In 2018, an amount of €82 thousand was released (2017: €36 thousand charged) to the income statement arising from the Phantom Share Plan.

As at 31 December 2018, the liability amounts to €245 thousand (2017: €681 thousand).

38. 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 €32 million (2017: €75 million loss).

The Group's share of the revenue of these joint operations amounts to approximately €1.4 billion in 2018 (2017: approximately €1.3 billion), which represents approximately 19 per cent of the Group's revenue (2017: 20 per cent).

The Group's share of the balance sheets of joint operations is indicated below:

(in € million)	2018		
	Construction and Property	Civil engineering	Total
Assets			
- Non-current assets	0.2	33.4	33.6
- Current assets	385.5	608.0	993.6
	385.7	641.4	1,027.2
Liabilities			
- Non-current liabilities	30.5	17.7	48.2
- Current liabilities	361.9	676.2	1,038.2
	392.6	693.6	1,086.3
Net balance	(6.6)	(52.5)	(59.1)

(in € million)	2017		
	Construction and Property	Civil engineering	Total
Assets			
- Non-current assets	-	41.2	41.2
- Current assets	347.6	468.4	816.0
	347.6	509.6	857.2
Liabilities			
- Non-current liabilities	40.0	3.7	43.6
- Current liabilities	342.7	516.4	859.1
	382.7	520.1	902.7
Net balance	(35.1)	(10.5)	(45.5)

The Group has no contingencies or capital commitments under joint operations. 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 will classify the Argen as Joint Ventures to fully align with interpretations from German Audit Profession. See 2.1.1. Changes in accounting policies and disclosures.

39. 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%	Group company	Justice	Belgium	No	2016	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	50%	Joint venture	Motorway	Ireland	No	2019	25
N25	50%	Joint venture	Motorway	Ireland	No	2019	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	No	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	2019	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 €75 million (2017: €68 million).

The Group has approximately €40 million (2017: €31 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 €0.8 billion (2017: approximately €0.7 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 2015, 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.

40. Government grants

Government grants received in 2018, predominantly relating to education, amount to €2.6 million (2017: €3.9 million).

41. 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 (2017: approximately €0.1 million), are recognised in the income statement.

42. Events after the reporting period

No 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 2018	31 December 2017	Restated*
Non-current assets				
Property, plant and equipment	2	8,760	7,578	
Intangible assets	3	361,955	360,591	
Financial assets	4	1,154,469	1,214,959	
Deferred tax assets	5	124,005	169,229	
		1,649,189	1,752,357	
Current assets				
Receivables	6	35,338	32,249	
Cash and cash equivalents	7	172,604	43,516	
		207,942	75,765	
Total assets		1,857,131	1,828,122	
Equity attributable to shareholders of the Company				
Issued and paid capital	8	27,879	27,493	
Share premium		811,432	811,818	
Reserves		(164,966)	(152,815)	
Retained earnings		30,913	48,549	
Net result		23,773	(13,789)	
		729,031	721,256	
Provisions				
Employee benefits	9	42,747	41,344	
		42,747	41,344	
Non-current liabilities				
Borrowings	10	117,637	114,987	
		117,637	114,987	
Current liabilities				
Other liabilities	11	967,716	950,535	
		967,716	950,535	
Total equity and liabilities		1,857,131	1,828,122	

*The comparative figures, where applicable, have been restated for IFRS 15. See note 2 of the consolidated financial statements.

Company income statement

(x €1,000)

	Notes	2018	2017
		Restated*	
Internal charges	12	105,385	81,877
External charges		(7,718)	(8,005)
Employee benefit expenses	13	(31,647)	(28,766)
Depreciation and amortisation charges	2,3	(5,292)	(3,866)
Other operating expenses		(61,352)	(47,612)
Exchange rate differences		561	(455)
		(105,448)	(88,704)
Operating result		(63)	(6,827)
Finance income	14	14,793	17,809
Finance expense	14	(13,137)	(14,872)
		1,656	2,937
Share of result of investments	4	96,218	27,219
Result before tax		97,811	23,329
Income tax		(74,038)	(37,118)
Result for the year from operations		23,773	(13,789)

*The comparative figures, where applicable, have been restated for IFRS 15. See note 2 of the consolidated financial statements.

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 the implementation of IFRS 9 and applying combination 3, the Group has applied the Dutch 'RJ-uiting 2018-1' 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. 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 2017		
Cost	18,109	18,109
Accumulated depreciation and impairments	(11,082)	(11,082)
	<u>7,027</u>	<u>7,027</u>
Additions	4,188	4,188
Disposals	(50)	(50)
Depreciation charges	(3,587)	(3,587)
	<u>551</u>	<u>551</u>
As at 31 December 2017		
Cost	22,224	22,224
Accumulated depreciation and impairments	(14,646)	(14,646)
	<u>7,578</u>	<u>7,578</u>
Additions	5,594	5,594
Disposals	(23)	(23)
Depreciation charges	(4,389)	(4,389)
	<u>1,182</u>	<u>1,182</u>
As at 31 December 2018		
Cost	27,794	27,794
Accumulated depreciation and impairments	(19,034)	(19,034)
	<u>8,760</u>	<u>8,760</u>

3. Intangible assets

	Goodwill	Non-integrated software	Other	Total
As at 1 January 2017				
Cost	518,929	2,099	883	521,911
Accumulated amortisation and impairments	(157,088)	(1,849)	(66)	(159,003)
	<u>361,841</u>	<u>250</u>	<u>817</u>	<u>362,908</u>
Additions	-	2,346	-	2,346
Amortisation charges	-	(191)	(88)	(279)
Exchange rate differences	(4,383)	-	(1)	(4,384)
	<u>(4,383)</u>	<u>2,155</u>	<u>(89)</u>	<u>(2,317)</u>
As at 31 December 2017				
Cost	514,546	4,455	883	519,884
Accumulated amortisation and impairments	(157,088)	(2,050)	(155)	(159,293)
	<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	(1,861)	-	-	(1,861)
	<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	(157,088)	(1,141)	(243)	(158,472)
	<u>355,597</u>	<u>5,718</u>	<u>640</u>	<u>361,955</u>

4. Financial assets

	Shares in subsidiaries	Receivables from subsidiaries	Other participating interests	Total
As at 1 January 2017 Restated*				
Net result	818,457	696,929	2,091	1,517,477
Dividends	28,719	-	(1,500)	27,219
Additions	(25,604)	-	-	(25,604)
Reclassifications	-	-	57	57
Adjustments in group structure	(196,859)	196,859	-	-
Loans granted and repayments	(46)	-	-	(46)
Cash flow hedge	-	(326,973)	-	(326,973)
Remeasurements of post-employment benefit obligations	16,765	-	-	16,765
Exchange rate differences	13,747	-	-	13,747
As at 31 December 2017 Restated*	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

The reclassification 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.

5. Deferred tax assets

	2018	2017
Deferred tax assets	124,005	169,229
	<u>124,005</u>	<u>169,229</u>

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 22 to the consolidated financial statements.

6. Receivables

	2018	2017
Amounts due from subsidiaries	21,752	19,600
Prepayments and accrued income	<u>13,586</u>	<u>12,649</u>
	<u><u>35,338</u></u>	<u><u>32,249</u></u>

Receivables are due within one year.

7. Cash and cash equivalents

	2018	2017
Cash at bank and in hand	<u>172,604</u>	<u>43,516</u>
	<u><u>172,604</u></u>	<u><u>43,516</u></u>

Cash and cash equivalents are at the free disposal of the Company.

8. Equity attributable to shareholders of the Company

At year-end 2018, the authorised capital of the Group was 400 million ordinary shares (2017: 400 million) and 600 million preference shares (2017: 600 million), all with a nominal value of €0.10 per share (2017: €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 2017	271,814,728	1,193,145	270,621,583
Repurchase of ordinary shares	-	518,940	(518,940)
Dividends	<u>3,110,691</u>	-	<u>3,110,691</u>
As at 31 December 2017	<u>274,925,419</u>	<u>1,712,085</u>	<u>273,213,334</u>
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>

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	
Restated as at 1 January 2017*	27,181	812,130	(170,252)	8,601	46,831	724,491
Net result for the year	-	-	-	-	(13,789)	(13,789)
Appropriation of result	-	-	-	46,831	(46,831)	-
Dividends	312	(312)	-	(7,466)	-	(7,466)
Remeasurements of post-employment benefit obligations	-	-	-	14,512	-	14,512
Cash flow hedges	-	-	17,505	-	-	17,505
Repurchase of ordinary shares	-	-	-	(2,696)	-	(2,696)
Share-based payments	-	-	-	818	-	818
Exchange rate differences	-	-	(12,068)	-	-	(12,068)
Development cost	-	-	12,000	(12,000)	-	-
Other	-	-	-	(51)	-	(51)
Restated as at 31 December 2017	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

8.1 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 €64 million negative (2017: €60 million negative) and the translation reserve €112 million negative (2017: €105 million negative). The total reserves includes as legal reserve for the capitalised development cost of €10.8 million (2017: €12.0 million).

For a further breakdown of the reserves see note 16 in the Consolidated statements.

8.2 Dividends per share

The Company proposes to declare a dividend over the financial year 2018 of 14 eurocents in cash per ordinary share or in shares, at the option of the shareholders with repurchase of shares to offset dilution (2017: 10 eurocents). Based on the number of ordinary shares outstanding at year-end 2018, a maximum of €38.3 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.

9. Provisions

	2018	2017
Employee benefits	<u>42,747</u>	<u>41,344</u>
	<u>42,747</u>	<u>41,344</u>

The duration of the provisions is more than one year. Provisions with a duration less than one year are included in current liabilities.

10. Borrowings

	2018	2017
Subordinated convertible bonds	<u>117,637</u>	<u>114,987</u>
	<u>117,637</u>	<u>114,987</u>

Additional information on borrowings is disclosed in note 18 to the consolidated financial statements.

11. Current liabilities

	2018	2017
Amounts due to subsidiaries	<u>928,118</u>	<u>914,694</u>
Other liabilities	<u>39,598</u>	<u>35,841</u>
	<u>967,716</u>	<u>950,535</u>

The other liabilities mainly consist of trade and other payables.

12. Internal charges

The internal charges represent services that have been charged to the other Group Companies.

13. Employee benefit expenses

	2018	2017
Wages and salaries	26,994	24,695
Social security costs	2,570	2,312
Pension costs - defined contribution plans	1,909	1,529
Pension costs - defined benefit plans	174	230
	<u>31,647</u>	<u>28,766</u>

At year-end 2018, the Company had 271 employees in FTE (2017: 230). The average number of employees in FTE amounted to 251 (2017: 225). There are no employees in other countries than the Netherlands.

14. Finance income and expense

	2018	2017
Finance income		
- Interest income - intercompany	12,534	14,454
- Interest income - cash at banks	78	1,426
- Interest income - other financial assets	11	6
- Other finance income	<u>2,170</u>	<u>1,923</u>
	<u>14,793</u>	<u>17,809</u>
Finance expense		
- Subordinated convertible bonds	7,025	6,871
- Committed syndicated credit facility	328	16
- Bank fees - committed syndicated credit facility	2,611	2,708
- Interest expense - intercompany	1,770	2,999
- Recourse property financing	-	199
- Other recourse financing	1,403	1,518
- Fair value result - interest rate swaps	<u>-</u>	<u>561</u>
	<u>13,137</u>	<u>14,872</u>
Net finance result	1,656	2,937

Additional information on finance income and expense is disclosed in note 28 to the consolidated financial statements.

15. 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 36 to the consolidated financial statements.

16. Commitments and contingencies

16.1 Guarantees

The Company has issued parent company guarantees amounting to €160 million (2017: €169 million) at year-end 2018.

16.2 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

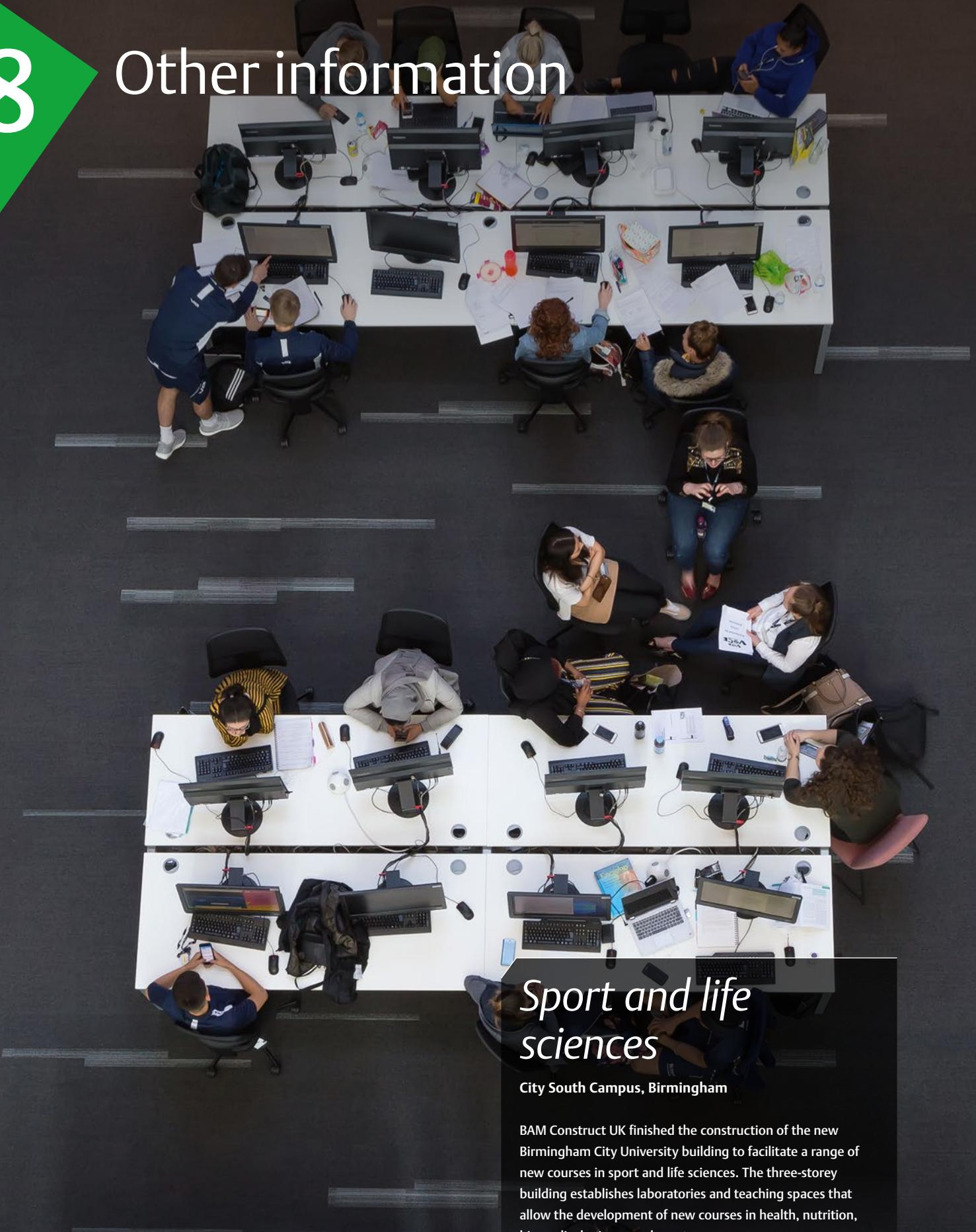
19 February 2019

Supervisory Board:

H.L.J. Noy
K.S. Wester
G. Boon
C.M.C. Mahieu
M.P. Sheffield
H. Valentin

Executive Board:

R.P. van Wingerden
L.F. den Houter
E.J. Bax



Sport and life sciences

City South Campus, Birmingham

BAM Construct UK finished the construction of the new Birmingham City University building to facilitate a range of new courses in sport and life sciences. The three-storey building establishes laboratories and teaching spaces that allow the development of new courses in health, nutrition, biomedical science and sport.

The spaces provide teacher training and specialist facilities for health sciences including provision for research, a new lecture theatre, a multi-purpose hall, speech therapy, physiotherapy and ultrasound suites, art and technology classrooms and IT hubs.

8.1 Combined independent auditor's report on the 2018 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 2018 (consolidated and company financial statements)	True and fair view	Reasonable assurance
Sustainability information 2018 in Material themes, Business conduct and transparency and Safety	Reliable and adequate view	Reasonable assurance
Sustainability information 2018 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 2018 (consolidated and company financial statements)	Worldwide	€34 million, based on 0,5 per cent of revenue	Valuation of projects and revenue recognition, implementation of IFRS 15, valuation of deferred tax assets and valuation of land and building rights
Audit of the sustainability information 2018	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 2018	Selected chapters and appendices	Specific materiality levels for each element of the sustainability information in scope	No areas of specific focus
Procedures for other information	Full reports	Similar materiality levels as our audit and review scopes	No areas of specific focus

Combined independent auditor's report on the 2018 financial statements and sustainability information

To: the shareholders and Supervisory Board of Royal BAM Group nv

Our conclusions

We have audited the financial statements 2018 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 for the year 2018 of Royal BAM Group nv. 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 2018 and of its result and its cash flows for 2018 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 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code;
- The sustainability information in Material themes (pages 17-18), Business Conduct and transparency (pages 39-40) and Safety (KPI: IF BAM, KPI: number of serious accidents, KPI: Safety Behaviour Audit) in chapter Social Performance (pages 30-43) in the integrated report 2018 of Royal BAM Group nv ('the Report') 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 Sustainability 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 2018, in accordance with the Sustainability Reporting Standards (core option) of the GRI and the applied supplemental reporting criteria as disclosed on pages 223-225 of the Report.

With respect to procedures performed based on 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 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 2018. 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 2018;
- The following statements for 2018: 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 2018;
- The company income statement for 2018;
- 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 17-18), Business conduct and transparency (pages 39-40) and Safety (KPI: IF BAM, KPI: number of serious accidents, KPI: Safety Behaviour Audit) in chapter Social Performance (pages 30-43) - hereafter: the selected sustainability information;
- Limited assurance – All other sustainability information reported in the paragraphs/chapters Business Model (pages 9-11), Strategy (pages 12-15), Stakeholder engagement and material themes (pages 16-19), Social performance (pages 30-43), Environmental performance (pages 45-53), Sustainability reporting processes and methods (pages 223-225), GRI Disclosure 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 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 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.
Company financial statements, the Executive Board Report and the Report of the Supervisory Board	Part 9 of Book 2 of the Dutch Civil Code.
Sustainability information	Sustainability Reporting Standards (core option) of the GRI and the applied supplemental reporting criteria as disclosed in appendix 9.6 Sustainability reporting process and methods on pages 223-225 of the Report.

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	€34 million (2017: €33.5 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. The percentage applied is 0.5 per cent, which is at the lower end of an acceptable range.

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 €1.7 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 organisation.

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. The financial information of this group is included in the consolidated financial statements of Royal BAM Group nv.

Our group audit focused on the significant group entities located in BAM's home countries (the Netherlands, Germany, United Kingdom, Ireland and Belgium) and BAM International with its various activities abroad. We have performed extensive audit procedures ourselves for group entities located in the Netherlands, thereby focusing on the key risk areas. Apart from focusing on significant group entities, 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.

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 United Kingdom, Ireland, Germany and Belgium and furthermore, we discussed the outcome of audit procedures with all component auditors.

For BAM International, for purpose of the 2018 audit, we visited Tanzania as key location ourselves to perform audit procedures. For the Middle East business and Costa Rica, BAM has involved a local audit firm who we also visited and we reviewed their work. We concluded that we can rely on their work performed in relation to the audit of the consolidated financial statements of Royal BAM Group nv.

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 group entities, 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 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. Prior year BAM capitalised development costs related to the Gravity Based Foundations which was included as a key audit matter. In 2018 there were no significant developments related to the capitalised costs and therefore this is not included as a key audit matter.

For the audit of the financial statements we identified the following key audit matters:

Valuation of projects and revenue recognition

(Refer to pages 61-65 (Executive Board Report), page 134 (Critical accounting judgements and key sources of estimation uncertainties) and pages 139-141 (Notes to the consolidated financial statements))

Risk	How our audit addressed the matter	Key observations
<p>BAM is involved in large and complex construction projects for which the company applies the percentage of completion method. The amount of revenue and profit recognised in a year on projects 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. Furthermore, the amount of revenue and profit 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 customers 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 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 judgement is involved, we gained additional comfort by comparing the Executive Board's positions to opinions from external parties such as lawyers or surveyors and / or we looked at BAM's track record for collecting claims. 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 conclude 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 15

(Refer to pages 107-110 and 122-127 (Summary of significant accounting policies), page 134 (Critical accounting judgements and key sources of estimation uncertainties) and 139-141 (Notes to the consolidated financial statements))

Risk	How our audit addressed the matter	Key observations
<p>BAM has adopted IFRS 15 "Revenue from Contracts with Customers" with effect from 1 January 2018, using the full retrospective transition approach whereby 2017 financial information has been restated in the 2018 financial statements.</p> <p>The impact of the accounting change was a reduction of shareholders' equity as at 1 January 2017 by €110 million and a reduction of the 2017 net result by €26 million.</p>	<p>Our audit procedures included the IFRS 15 restatement of the balances as of 1 January 2017 and 31 December 2017. We have paid specific attention to the recognition of variable considerations, whereby the threshold for recognition has increased from probable to highly probable.</p> <p>Furthermore we have audited whether the revenue recognition in 2018 was in accordance with IFRS 15 and have audited the relevant disclosure.</p>	<p>We agree with the restatements and the disclosures made in the Report.</p> <p>We concur with the revenue recognition based on IFRS 15 including the relevant disclosures in the Report.</p>

Valuation of deferred tax assets

Refer to page 25 (Executive board report), pages 134-135 (Critical accounting judgements and key sources of estimation uncertainties) and pages 170-172 (Notes to the consolidated financial statements)

Risk	How our audit addressed the matter	Key observations
<p>The recognised deferred tax assets amount to €166 million at 31 December 2018 and relates to tax losses carried forward in the Netherlands and Germany. In view of recent losses in the Dutch fiscal unity, the Executive Board has re-assessed the ability to realise projected future profits to meet the recognition criteria of "convincing evidence" under IFRS.</p>	<p>Our audit procedures included an assessment of the company's assumptions underlying the estimated future taxable profits for their ableness and consistency with internal budgets and strategic plans for future years. We also challenged the Executive Board's expectations of future taxable profits, challenged risk adjustments made by the Executive Board and we assessed the historical accuracy of the Executive Board's assumptions</p>	<p>In our opinion, the final deferred tax asset assessment made by the Executive Board includes appropriate risk adjustments with respect to the profit forecasts in order to comply with the "convincing evidence" requirement of IFRS.</p>
<p>Estimation of future profits inherently involves a high degree of judgement. As basis for their assessment of future profits, the Executive Board used amongst others the 2019 operating plan as approved by the Supervisory Board and reduced these forecasts considerably to include appropriate risk adjustments. This has led to an impairment charge of €37 million.</p>	<p>We note that the Executive Board expects the risk/reward ratio to improve in future years, which is gradually visible by improved order book margins.</p>	
<p>The deferred tax assets further decreased by €35 million due to future tax rate changes and expiration of the 2009 loss.</p>		

Valuation of land and building rights

Refer to page 64 (Executive board report), pages 134-135 (Critical accounting judgements and key sources of estimation uncertainties) and pages 139-141 (Notes to the consolidated financial statements)

Risk	How our audit addressed the matter	Key observations
<p>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.</p>	<p>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.</p> <p>We also compared the Executive Board's assumptions concerning the development of house prices with independent expectations of external parties and institutions.</p>	<p>In our opinion, the valuation applied by BAM is in line with IFRS as adopted by the EU.</p>

For the assurance engagement on the sustainability information, we identified the following key assurance matters:

Completeness registration of safety incidents

Refer to pages 30-43 (Executive Board Report) and appendix 9.6 (Sustainability reporting process and methods)

Risk	How our audit 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 reported.	Our audit 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 ratio's;
- Assurance on other items than the consolidated financial statements of Royal BAM Group nv (such as local statutory audits, or 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 and the other information pursuant to Part 9 of Book 2 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 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 appendix 9.6 Sustainability reporting processes and methods (pages 223-225) 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.

Annex to the combined independent auditor's report

The Supervisory Board is responsible for overseeing the (financial) reporting process of Royal BAM Group nv.

Our responsibilities

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.

Utrecht, the Netherlands, 19 February 2019

Ernst & Young Accountants LLP

Signed by W.H. Kerst

Work performed

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
- Concluding on the appropriateness of Executive Board's use of the going concern basis of accounting, and 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 the company to cease to continue as a going concern
- 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 entity
- 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 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 performed the following procedures to obtain reasonable assurance:

- Obtaining a more detailed understanding of the systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement
- Evaluating the design, implementation and 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 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.

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 group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities 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 2018, amounting to €23.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2018 of 14 euro 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 2018, a maximum of €38.3 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.

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

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 companies that are held by 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 equaling 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
R. de Jong

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 2018 are:

J.J. (Jan) Nooitgedagt (1953)
Mr Nooitgedagt serves on the Foundation's board since 2017 and was appointed chairman in the 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 of Rabobank, vice-chairman of the Supervisory Board BNG Bank, chairman of the Supervisory Board of Telegraaf Media Groep, member of the Supervisory Board of Robeco, member of the board of the Stichting Beschermlingspreferente Aandelen Fugro and chairman of the board of the Stichting Administratiekantoor Aandelen Kas Bank. He is also the chairman of the board of Stichting Nyenrode (Nyenrode University), chairman of the board of VEUO, member of the committee Financial Reporting and Accountancy at the Dutch Authority for the Financial Markets (AFM) and member of the audit committee of the Dutch Ministry of Justice and Security.

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 director of foundation trust offices and is also chairman of the board of the Stichting Instituut Gak.

R. (Rinse) de Jong (1948)
Mr De Jong has been a member of the Foundation's board since 2009. He is a Dutch national. He was a member of the Executive Board and Chief Financial Officer of Essent. Mr De Jong is chairman of the Supervisory Board of Nederlandse Gasunie, chairman of the Supervisory Board of Rabobank Arnhem en Omstreken. He is a member of the Supervisory Board of Hogeschool van Amsterdam. He is a member of the board of Stichting tot het houden van preferente aandelen Wereldhave.

8.5 List of principal subsidiaries, joint arrangements and associates

Subsidiaries

	%
BAM Bouw en Vastgoed Nederland bv*, Bunnik (Netherlands) uniting the activities of:	100
BAM Bouw en Techniek bv*, Bunnik	100
BAM Wonen bv*, Bunnik	100
AM bv*, Utrecht	100
BAM Infra Nederland bv*, Gouda (Netherlands) uniting the activities of:	100
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) uniting the activities of:	100
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
Justinvest nv, Wilrijk-Antwerp (Belgium)	33.3
Rabot Invest nv, Wilrijk-Antwerp (Belgium)	25.0

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.



New eyes

Air Traffic Visual Control tower, Dublin

BAM Ireland completed the new 23-storey high Air Traffic Visual Control tower at Dublin Airport. The new tower comprises three separate but integrated building elements: the control cab and associated elements, the cab supporting shaft and a base building. The base building will accommodate staff facilities, electronic systems and mechanical plant space to provide control of the building environment. The overall height of the tower structure is 87 metres.

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 €0.7 billion at year-end 2018 (year-end 2017: €1.1 billion).

Investor relations policy

The purpose of the investor relations policy is to provide accurate, transparent, consistent, simultaneously and timely information to stakeholders, which include existing and potential shareholders, financial institutions, brokers and the media. BAM wants to ensure a clear understanding about its the 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 publishes price sensitive information without delay by a 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 at 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 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.

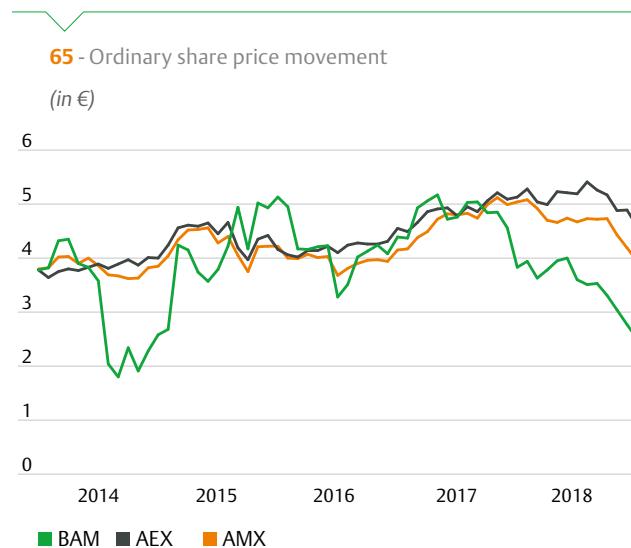
All the activities comply with the rules and regulations of Euronext Amsterdam and the Dutch Authority for financial markets (AFM).

For more information about investor relations www.bam.com under the link Investor relations or contact Head Investor Relations Joost van Galen, e-mail ir@bam.com, telephone +31 (0)30 659 87 07.

Share price

The 2018 closing price of the ordinary share was €2.51, which was 34 per cent below the closing price at year-end 2017 (€3.83). The AMX index ended the year 21 per cent lower. BAM's share price reduced by 34 per cent over the last five years. By way of comparison, the AEX and the AMX index rose by 21 per cent and 5 per cent in the same period.

► Graph 65 shows the history of the BAM ordinary share price over the past five years.



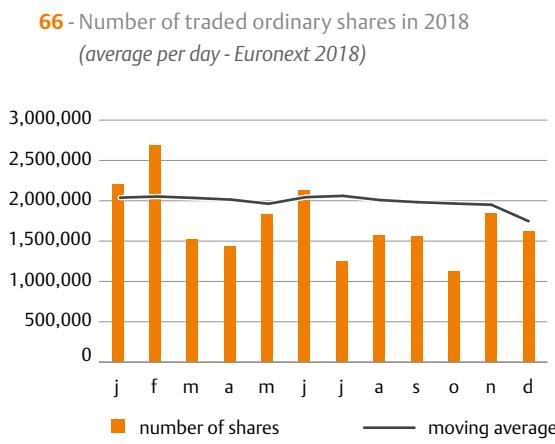
Trading volume on Euronext Amsterdam

In 2018, the number of ordinary shares traded were 439 million (2017: 491 million).

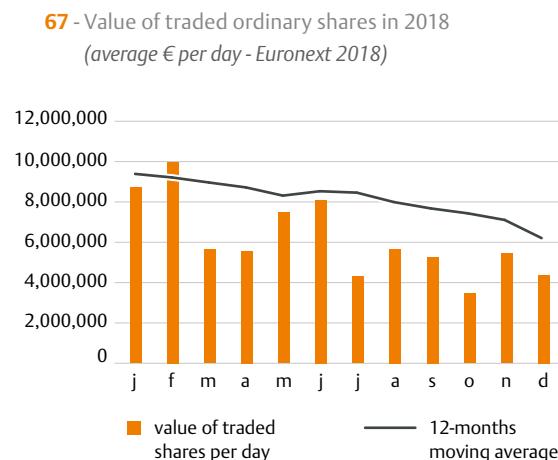
The average daily trade was 1,723,000 ordinary shares (2017: 1,926,000). The value of ordinary shares traded in 2018 was €1,569 million (2017: €2,311 million). In 2018 the average daily trade in BAM shares was €6.2 million (2017: €9.0 million).

If necessary, ING and Rabobank act as liquidity providers for the trade in ordinary shares.

► Graph 66 shows the development of the average number of ordinary shares traded in 2018 on Euronext Amsterdam.



► Graph 67 shows the development of the average value of traded ordinary shares on Euronext Amsterdam in 2018.



68 - Information per share
(in € per share, unless otherwise indicated)

	2018	2017 ⁴	2016	2015	2014
Number of ordinary shares ranking for dividend	273,296,017	273,213,334	270,621,583	270,393,982	270,998,957
Average number of ordinary shares	273,490,657	272,215,432	270,503,004	270,956,691	270,394,899
Net result ranking for dividend	0.09	(0.05)	0.17	0.04	(0.40)
Net result from continued operations	0.09	(0.05)	0.17	0.04	(0.40)
Average number of ordinary shares (diluted)	298,269,233	296,427,682	283,642,546	270,956,691	270,394,899
Number of ordinary shares ranking for dividend (diluted)	298,297,517	297,584,081	294,547,317	270,393,982	270,998,957
Net result (diluted)	0.09	(0.05)	0.17	0.04	(0.40)
Net result from continued operations (diluted)	0.09	(0.05)	0.17	0.04	(0.40)
Cash flow before dividend	0.43	0.18	0.60	0.44	0.33
Equity attributable to shareholders	2.61	2.64	3.08	3.34	3.05
Dividend ¹	0.14	0.10	0.09	0.02	-
Payout (in %)	40	50	50	50	-
Dividend yield (in %) ²	5.6	2.6	2.1	0.4	-
Highest closing price	4.16	5.46	5.02	5.16	4.50
Lowest closing price	2.37	3.45	2.97	2.22	1.65
Price on 31 December	2.51	3.83	4.39	5.13	2.58
Average daily trade (in number of shares)	1,723,000	1,926,000	1,717,000	3,117,000	2,742,000
Market capitalisation at year-end (x €1,000) ³	687,066	1,053,239	1,193,267	1,387,121	698,093

¹ Dividend proposal 2018.

² Based on share price at year-end.

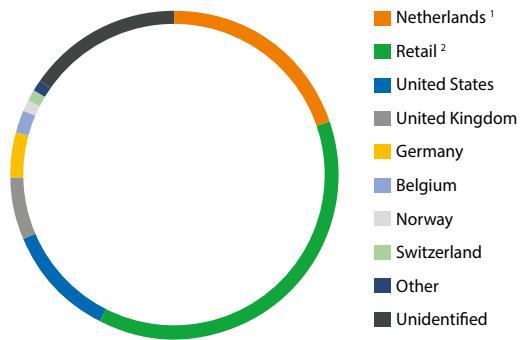
³ Based on total number of ordinary shares in issue.

⁴ Adjusted for IFRS 15

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 5,483,002 (2 per cent) treasury shares, of which 1,629,402 shares for the long-term incentive plan of management.

69 - Geographical distribution shareholders
as at 31 December 2018



¹ Including treasury shares.

² Primary Dutch shareholders.

70 - Shareholders owning 3 per cent or more in BAM's share capital as at 31 December 2018

Ownership	Date of last notification	Interest above* 3 per cent since
NN Group N.V.	5.5%	26 May 2015
FIL Investments		February 1992
International	4.5%	17 October 2018
I.M. Fares	5.0%	24 October 2014
		9 February 2018
		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.

Countdown for the Elizabeth Line

Ten months ahead of the official opening date of London's Elizabeth Line in late 2018, Crossrail began testing its new rail connection. Over 100 kilometres of railroad – 20 of which in bored tunnels beneath the city centre – were built between Reading and Heathrow Airport on the UK capital's west side and Shenfield and Abbey Wood in the east. BAM Nuttall was part of the joint venture that bored the tunnels and improved several underground stations.

www.crossrail.co.uk



Number of outstanding ordinary shares

The movement in the number of outstanding shares is shown in

► table 71.

71 - The movement in the number of outstanding shares

	2018	2017
Outstanding ordinary shares as at 1 January	274,925,419	271,814,728
Shares issued for stock dividend	3,853,600	3,110,691
Outstanding ordinary shares as at 31 December	278,779,019	274,925,419
Treasury shares to offset dilution stock dividend	(3,853,600)	-
Treasury shares held for Performance Share Plan	(1,629,402)	(1,712,085)
Ordinary shares ranking for dividend as at 31 December	273,296,017	273,213,334
Percentage ordinary shares ranking for dividend	98.0%	99.4%

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 Building the present, creating the future.

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 the website.

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 14 euro cents per ordinary share for 2018 (2017: 10 euro cents). This equates to a payout ratio of 40 per cent of the net result adjusted for the non-operational and non-cash impairment of deferred tax assets (2017: 50 per cent) in line with BAM's policy. Subject to approval by the Annual General Meeting on 17 April 2019, this will be paid in cash with a scrip alternative on 15 May 2019. BAM will repurchase and cancel shares to offset the dilution of the scrip alternative.

9.2 Five-year overview

(x 1 million, unless otherwise stated)	2018	2017*	2016	2015	2014
Revenue	7,208	6,535	6,976	7,423	7,314
Operating result ³	105.2	10.4	52.8	2.3	(134.5)
Result before tax	114.5	20.0	60.1	13.3	(122.4)
Net result attributable to the shareholders of the Company	23.8	(13.8)	46.8	10.2	(108.2)
Basic earnings per share (in €1)	0.09	(0.05)	0.17	0.04	(0.40)
Diluted earnings per share (in €1)	0.09	(0.05)	0.17	0.04	(0.40)
Dividend per ordinary share (in €1) ¹	0.14	0.10	0.09	0.02	-
Equity attributable to the shareholders of the Company	729.0	721.3	834.3	902.1	827.4
Subordinated convertible bonds	117.6	115.0	112.5	-	-
Subordinated loan	-	-	-	124.3	124.5
Capital base	846.7	836.3	946.7	1,026.5	951.9
Net investment in property, plant and equipment	72.2	70.7	45.1	41.7	39.0
Depreciation, amortisation and impairment charges of:					
- Property, plant and equipment	63.7	55.0	62.5	67.9	80.8
- Intangible assets	6.0	5.2	5.0	7.4	3.7
- Other impairment charges	20.6	3.9	47.6	34.3	114.1
Cash flow before dividend	117.4	50.5	161.9	119.8	90.5
Total impairment charges	23.8	4.8	50.7	39.1	115.9
Order book ²	12,692	11,636	10,193	11,480	10,268
Average number of employees (in FTE)	20,194	19,720	20,370	21,916	23,325
Number of employees as at 31 December (in FTE)	20,156	19,837	19,486	21,248	23,137
Ratios (in %)					
Result before tax and impairment charges as % of revenue	2.1	0.4	1.6	0.7	(0.1)
Net result to the shareholders of the Company as % of revenue	0.3	(0.2)	0.7	0.1	(1.5)
Net result to the shareholders of the Company as % average equity	3.3	(1.8)	5.4	1.2	(12.3)
Solvency ratios (in %)					
Equity attributable to shareholders as % of total assets	15.9	16.1	17.3	18.6	16.7
Capital ratio as % of total assets	18.5	18.6	19.7	21.2	19.2
Current ratio as current assets divided by current liabilities	1.02	1.00	1.04	1.07	1.09

*The comparative figures, where applicable, have been restated for IFRS 15.

¹ For 2018 dividend proposal.

² Order book comprises both signed contracts and verbally agreed upon orders.

³ Restated for presentation result from share in investments under operating result.

9.3 Non-Financial Information* and Diversity information reference table

Topic	Subtopic	Included (yes/no)	Page reference
Business model	N/A	Yes	9-11
Relevant social and personnel matters (e.g. HR, safety etc.)	A description of the policies pursued, including due diligence	Yes	10, 19, 30-43
	The outcome of those policies	Yes	19, 30, 32, 33, 38, 39
	Principle risks in own operations and within value chain and how risks are managed	Yes	19, 61-64, 226-229
	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	10, 19, 45-52, 228, 229
	The outcome of those policies	Yes	19, 45-52
	Principle risks in own operations and within value chain and how risks are managed	Yes	19, 61-64, 228, 229
	Non-financial key performance indicators	Yes	45
Relevant matters with respect to human rights (e.g. labour protection)	A description of the policies pursued, including due diligence	Yes	19, 39, 40, 231
	The outcome of those policies	Yes	39, 40
	Principle risks in own operations and within value chain and how risks are managed	Yes	19, 40, 61-64
	Non-financial key performance indicators**	No	19, 40
Relevant matters with respect to anti-corruption and bribery	A description of the policies pursued, including due diligence	Yes	19, 39, 227
	The outcome of those policies	Yes	39, 40
	Principle risks in own operations and within value chain and how risks are managed	Yes	19, 61-64, 227
	Non-financial key performance indicators	Yes	225
Insight into the diversity (Executive Board and Supervisory Board)	A description of the policies pursued	Yes	67, 87
	Diversity targets	Yes	67, 87
	Description of how the policy is implemented	Yes	67, 87
	Results of the diversity policy	Yes	67, 87

* In compliance with “Besluit bekendmaking niet-financiële informatie” which is the implementation of the EU Directive on Non-Financial information.

** BAM is committed to protect human rights and wants to further firm up its risk analysis and develop an appropriate response in 2019.

9.4 Key financial dates

17 April 2019	Annual General Meeting of Shareholders
9 May 2019	Trading update first quarter 2019
22 August 2019	Publication of half-year results 2019
7 November 2019	Trading update first nine months 2019
21 February 2020	Publication of annual results 2019
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



9.5 Glossary¹

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 borrowings).
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.

¹ In 2016, the European Securities and Markets Authority (ESMA) published a statement on the use of Alternative Performance Measures (APMs).

An APM is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. All APMs included in the list of definitions above and used by management, are included in this report to provide extra information to our stakeholders on the Group's financial performance on top of information from the consolidated financial statements prepared in accordance with IFRS. APMs defined above, or elsewhere in the report, are fully reconcilable with the notes to the consolidated financial statements.

9.6 Sustainability reporting process and methods

This chapter provides specific information on the reporting process and reporting methods BAM has used to arrive at the sustainability figures and topics included in this report.

Target audience

BAM reports its sustainability policy and the associated results to all stakeholders. BAM's stakeholders include clients, the Company's employees, suppliers and subcontractors, shareholders, other organisations in the construction industry, NGOs, knowledge institutes and public authorities.

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/csr/sustainability-reports). 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 2018. An exception is made for all CO₂ and waste data reported by BAM International, which applies a reporting period of 1 December 2017 to 30 November 2018. BAM allows for this different reporting period as BAM International has a complex operating and reporting structure and more time is required to ensure that the reported data are reliable and adequate. BAM considers the effects of a different reporting period by BAM International is to be not material to the Group's integrated report. All other data are reported annually. There have been no significant changes from previous reporting periods in the scope and boundaries.

Reporting boundaries

This report contains data of all operating companies and thus BAM's own activities. 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 approved by the Supervisory Board and the Executive Board. Data collection takes into account BAM's organisational structure. Both qualitative and quantitative information is reported by operating companies to the Group. The data are consolidated and validated first at company level and then consolidated and further validated at Group level. Every reporting entity has a CSR manager, CSR controller and director responsible for CSR who are together responsible for accurate and reliable reporting. In 2009 BAM established a reporting system for non-financial information (including safety, CO₂, waste and HR), this system was launched as an extension of the financial reporting system.

The applied reporting processes and definitions are formalised in BAM's CSR reporting manual. The CSR reporting manual provides guidance on how to measure, calculate and estimate data.

Reporting indicators

For BAM's main sustainability indicators this chapter provides further insight below. For other quantitative indicators disclosures on the reporting scope and methods used are given in the annual report itself. Where relevant, figures are presented in a relative way (using percentages and ratios). This allows readers to monitor and measure progress year-on-year, unless the reporting criteria require absolute figures to be disclosed.

Safety

BAM defines its incident frequency (IF) as the number of BAM employees involved in industrial incidents per million man-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. Outsourced BAM site employees to external companies are not included in the IF BAM calculation. The absolute number of reported serious accidents consists of BAM employees (including office employees), subcontractors, hired employees and thirds on own projects and BAM employees, BAM subcontractors and direct hired employees by BAM on joint ventures. BAM defined a serious accident as an accident that leads to the employee involved being admitted to hospital for more than 24 hours or results in electrocution (with enter- and exit mark on the body), amputation and/or fracture (including a hairline fracture in the bone).

For all companies, except for BAM International, BAM includes only BAM 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. This is inherent to BAM International's business model.

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.

When a fatal industrial accident occurs that involves a BAM employee or a subcontractor, the following actions are taken:

1. The operating company informs the Executive Board and the Corporate Safety Officer (CSO) immediately after the accident.
2. The first details of the accident are communicated within 24 hours after the accident.

3. At the latest on the day after the fatal accident, a notice will be published on the BAM intranet.
4. If the accident occurred in Western Europe, the COO, assisted by the CSO, will visit to the operating company within 15 days of the accident.
5. For accidents occurring outside Western Europe a video conference replaces this visit.
6. Three weeks after the accident, a 'safety start' takes place in the country where the fatality occurred and a safety presentation/bulletin is drawn up, highlighting the lessons learned and whose responsibility it was to intervene. This must be communicated to all operations.

BAM Safety Behavior audit

The audit was carried out following the official BAM Safety behaviour audit (BAM-SBA) questionnaire 2016. This questionnaire is aligned with the BAM Health and Safety Directive of January 2015. The audit template is broken into three 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 their words and actions. Visual leadership coaching/ supporting the organisation, demonstration of intervention and enforcement where necessary.

Management system: Systematic way in which an organisation manages to achieve its objectives. 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 the safety officer from the operating company to organise the SBA interviews in detail and select the projects within the overall planning. The safety officer has to take into account the diversity in areas, business units, type of projects, phase of the projects. As the selection of

projects differs each year, the selected projects affect the score as the operating company can decide to go either to a well-performing project or to a project that requires more attention. This could result into fluctuation of the score between the years within the same operating company. There is an inherent risk of personal bias of the auditor of the SBA as the auditor has to rate the projects based on professional judgement. BAM mitigates this risk by making sure that 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 chapter Employee recruitment, development and retention 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. For greenhouse gas emissions BAM has chosen to report only on CO₂. Other greenhouse gases, such as CH₄ (methane), N₂O (nitrous oxide) are excluded from BAM's emissions inventory, as they are considered not material. BAM calculates the energy consumption (in TJ) and CO₂ emissions associated with BAM's energy consumption, using conversion factors from reputable and authoritative sources. The factors follow the Kyoto protocol and UNFCCC charter as closely as possible. BAM applies country specific conversion factors for electricity and natural gas. These are based on GHG emissions reported in national inventory reports (NIR). All conversion factors are updated annually.

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 three indirect categories of CO₂ emissions that are a consequence of BAM's business activities from sources not owned and controlled by BAM: employee air travel, employee car travel with privately owned cars and business travel (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. Also, as BAM only receives information on CO₂ emissions associated with air travel, which BAM includes in its scope 3 emissions.

It occurs on projects that BAM supplies fuel and electricity to subcontractors. BAM's CSR reporting manual states that fuel and electricity supplied to subcontractors should be measured and excluded from reported figures, unless fuel and electricity is 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. BAM continues to encourage measuring fuel and electricity supplied to third parties. This will result in more accurate figures of its own CO₂ emissions and further insight in reduction potential to all involved.

Waste

BAM's reporting scope includes all waste leaving its 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, e.g. the relation of asphalt and aggregates. Excavation waste and demolition waste are especially difficult to measure and is more often calculated.

The percentage on waste separation relates to BAM's Dutch companies and is based on information from BAM's waste management suppliers.

Materials

In 2011 BAM started reporting on the amount of materials used and the recycled content of various materials used by Dutch operating companies. BAM has selected the raw materials which are consumed in large quantities and which have a significant impact on natural resources. 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 smaller than 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 in section materials 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. LE2AP is a product with new data and is compared to conventional asphalt, of which the most accurate data are five years old.

Water

Potable water consumption is reported for the UK. Data are based on meter readings, where available. When they are not, estimations based on process analysis are used to calculate the total water consumption on project sites.

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.

Business conduct

Business conduct includes information regarding the Group's business principles and Code of Conduct, on which BAM reports qualitatively. BAM stimulates its employees to report any suspicion of misconduct to be able to provide appropriate response to all inquiries. In addition, this report contains qualitative information on a mandatory e-learning course to increase awareness and understanding of the Code of Conduct and expected ethical behaviour.

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 chapter 3.2. Additionally EY has provided reasonable assurance over the 'Material themes' section in chapter 2.3 and the 'Business conduct and transparency' section in chapter 3.2. For all other information reported in chapters 2.1, 2.2, 2.3, 3.2, 3.3 and 9.3, 9.6 and 9.7 BAM has obtained limited assurance.

As BAM applies the 'best standard' principle with regard to external assurance, the Group has asked EY to apply NV COS 3810N, a standard explicitly developed to verify sustainability reports. This standard includes strict requirements for the quality of accounts, the indicators used and the wording of the Report. Readers can therefore be confident that the report provides a fair and true representation of sustainability within BAM. The Group aims to achieve the highest level of assurance (reasonable assurance) through a staged approach, focusing on the most material themes. Increasing the maturity of internal processes in the coming years will help in also increasing the level of assurance of the report.

Other sources of information

Royal BAM Group welcomes your comments on sustainability. If you have any questions or remarks, please contact BAM's sustainability department via e-mail (sustainability@bam.com).

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.	<p>'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.</p>	<p>BAM has developed a groupwide guideline for safety management. All safety management systems from operational companies must comply with this framework. Meeting the strategy means focusing on the quality of the underlying goals: striving for the ambition 'zero accidents' every day is the goal for safety. Zero accidents means the mind-set (intrinsic motivation) and the true belief that it is feasible to create a safe working environment that means 'everyone at home safely every day!'. To create a change in safety leadership, BAM has installed a Safety Leadership Team consisting of a representation of BAM's managing directors and the Group's Corporate Safety Officer. This team shows proactive ownership, open collaboration and accountability regarding the Group's safety targets and focuses on a predictable safety performance on leadership, culture and behaviour.</p>

► For BAM's performance, see chapter 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 customer.	<p>In order to exceed customer 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.</p>	<p>BAM has the tender process focused 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.</p>
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► For BAM's performance, see chapter 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 chapter 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 chapter 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 groupwide 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 the internal My BAM Career site. With the BAM Business School, BAM offers an integrated approach to support employees in achieving their 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 like 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 BAM's performance, see chapter 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. Buildings represent about 40 per cent of energy demand in the European Union (EU). The renovation of existing buildings represents more than 17 per cent of the estimated primary energy saving potential within the EU up to 2050. In terms of energy and emissions, BAM can create value by building energy-efficient buildings and renovating buildings according to higher energy performance standards, since approximately 80 per cent of total CO₂ emissions are emitted in the building's lifecycle. 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 (see chapter 2.2 Strategy for BAM's alignment), the Paris Agreement and the EU Emissions Trading System.

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 focuses 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 at the latest
- 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: To be included in CDP Climate A list Leadership. ► For BAM's performance, see chapter 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 EU 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, it 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.

First, 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 focuses 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 chapter 3.3 Environmental performance.

Local 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 the 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 chapter 3.2 Social performance.

Definition**Impact****Management approach****Innovation**

The creation of new viable business offerings.

Innovation influences the ability to adapt to changing market needs and competitiveness in relation to current competition and future newcomers to the BAM 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 focuses 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 to 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 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 chapter 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.

Therefore, BAM strives to come to a responsible approach to tax and supports it as an integral part of its sustainability agenda.

BAM's tax policy statement is published on the website www.bam.com.

► For BAM's performance, see chapter 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. 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 Workers' 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
- 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 chapter 3.2 Social performance.

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