

Building the 2016 present, creating the future

Integrated Report



bam

Royal BAM Group nv



Key figures

(x € million, unless otherwise stated)

| | 2016 | 2015 |
|---|---|-----------------|
| Adjusted result before tax Result before tax excluding restructuring costs and other exceptional costs, impairment charges and pension one-off. | Profit | |
| | Continuing operations | |
| | Revenue | 6,976 7,423 |
| | Adjusted result before tax | 102.7 88.2 |
| | Result before tax | 60.1 13.3 |
| | Net result attributable to the shareholders of the Company | 46.8 10.2 |
| | Earnings per share (in €1) | |
| | Earnings per share | 0.17 0.04 |
| | Dividends per ordinary share (in €1) | 0.09 0.02 |
| | Dividend payout (in %) | 50 50 |
| Capital base Equity attributable to the shareholders of the Company plus subordinated debt. | Number of shares as at 31 December (x 1,000) | 270,622 270,394 |
| | Share closing price as at 31 December (in €1) | 4.39 5.13 |
| | Equity attributable to the shareholders of the Company | 834.3 902.1 |
| | Capital base | 946.7 1,026.5 |
| | Total assets | 4,812.1 4,852.2 |
| | Order book | 10,193 11,480 |
| | Net investment in property, plant and equipment | 45.1 41.7 |
| | Depreciation charges | 60.3 66.5 |
| | Amortisation charges | 4.1 4.0 |
| | Impairment charges | 50.7 39.1 |
| Capital ratio Capital base divided by total assets. | Cash flow before dividend | 161.9 119.8 |
| | Ratios | |
| | Adjusted result before tax as % of revenue | 1.5 1.2 |
| | Net result attributable to the shareholders of the Company as % of revenue | 0.7 0.1 |
| | Net result attributable to the shareholders of the Company as % of average equity | 5.4 1.2 |
| | Solvency ratios | |
| | ROCE (in %) | 2.8 0.2 |
| | Equity attributable to the shareholders of the Company as % of total assets | 17.3 18.6 |
| | Capital ratio (in %) | 19.7 21.2 |
| Incident frequency (IF) The total number of industrial accidents leading to absence from work per million hours worked on construction sites. | People | |
| | Human resource | |
| | Average number of employees (in FTE) | 20,370 21,916 |
| | Number of employees as at 31 December (in FTE) | 19,486 21,248 |
| | Training costs per employee (in €1) | 667 509 |
| | Female/male (in %) | 15/85 14/86 |
| | Safety | |
| | Incident frequency (IF) | 4.8 4.5 |
| | Planet | |
| | Climate positive | |
| Resource positive | CO ₂ emissions (in kilotonnes) | 203 230 |
| | CO ₂ emissions intensity (in tonnes per € million revenue) | 29.1 30.9 |
| | Energy (in terra joules) | 3,000 3,356 |
| | Waste (in million tonnes) | 2.8 2.4 |
| | Construction and office waste (in kilotonnes) | 148 161 |
| | Construction waste separation (in %) | 25 29 |

For an explanation of the other terms, see the glossary on page 230.

BAM at a glance

Royal BAM Group nv ('BAM' or 'the Group') is a construction firm with ten operating companies in five European home markets and in niche markets worldwide. BAM's operating companies are active in the business lines Construction and Property, Civil engineering, as well as in Public-private partnerships.

BAM's European home markets are the Netherlands, Belgium, the United Kingdom, Ireland and Germany. Furthermore the Group delivers projects in Denmark, Luxembourg and Switzerland. The Group has a widespread network of offices, close to its clients.

BAM has approximately 19,500 employees and is a listed company at Euronext Amsterdam.

Stakeholder interviews

BAM's stakeholders about digitalisation, innovation and sustainability.



51 Wessel van Beerendonk, Studio RAP



61 Salim Ismail, ExO Works



67 Siri Krauß, Hochschule für Technik



73 Amar Hanspal, Autodesk



97 Julie Hirigoyen, UK Green Building Council



107 Maxime Verhagen, Bouwend Nederland



119 Sofie Narinx, IBM

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1. Message from the CEO

Looking back on my more than two years as CEO of Royal BAM Group, I am proud of what we together have achieved so far. We took important steps to improve BAM's performance. In 2016, we made good progress implementing the strategy 'Building the present, creating the future'.

We are focusing our project portfolio by disciplined, data-driven tendering and we have a pipeline with attractive opportunities. Across our business portfolio, we exited some non-core activities, completed the integration of Dutch Construction and Property, and are refocusing our International infrastructure and German construction businesses.

We are executing our digital strategy by launching a start-up to develop a scalable digital construction platform and using digitalisation to enhance our primary processes.

Our differentiating capabilities are being enhanced by our One BAM culture through learning and collaboration and employee engagement. Four values – predictable performance, scalable learning, proactive ownership and open collaboration – underpin the successful further development of our Group. The positive feedback we received from our stakeholders are a clear indication that we are on the right track.

Despite some headwinds, we delivered a robust adjusted result for 2016 ahead of the previous year, in line with our guidance. The adjusted result before tax improved to €102.7 million. We continued to derisk and strengthen our financial position, and generated a strong positive cash flow, mainly due to working capital improvement. Our return on capital employed – a leading KPI for how we manage our business – started to move upwards thanks to the higher result and lower capital.

BAM's total revenue of €6,976 million was €447 million (6 per cent) below the level of 2015, of which €245 million was attributable to the weaker pound sterling and €45 million to divestments of non-core activities in the Netherlands and Belgium.

The inclusion in CDP's Climate A list is a recognition of our efforts to reduce emissions and to achieve a net positive impact. Ensuring a safe working environment remains a top priority for BAM. BAM was reconfirmed as industry leader and ranked sixth overall in the annual Transparency Benchmark, the leading Dutch corporate social responsibility index.

By adopting the principles of the <IR> Framework and by application of the Global Reporting Initiative (G4, Comprehensive) BAM will continue to provide transparent and more relevant information to all stakeholders.

Our strategy for 2016-2020 allows us to further improve the performance of our current project and business portfolio. In a fragile macroeconomic environment, our objective is to continue to grow profitability and capital efficiency by 'Doing Things Better'. This means a more disciplined focus on market segments and projects where we can use either scale or expertise as critical success factors.

Secondly, by rationalising our propositions in selected market segments and developing new solutions for clients, we will shape



'We are committed to innovation and the ever-greater digitalisation of our processes, services and products to reach our goals'

our business portfolio towards 'Doing Better Things'.

Thirdly, we are investing in digitalisation and new technologies aiming to become an industry leader in what we build and how we build it – 'Doing New Things'. We are committed to innovation and the ever-greater digitalisation of our processes, services and products to reach our goals.

Our target is to reach a double-digit return on capital employed by 2020.

Looking ahead, the external environment is mixed with on the one hand, stable or slightly improving economic indicators and on the other hand, uncertainty on Brexit and upcoming elections. Despite these notes of caution, I am confident we will continue our positive momentum on strategy delivery in 2017. For 2017, we expect revenue to be slightly lower and the adjusted result before tax to be higher than the level of 2016. We anticipate a significantly lower restructuring charge compared to 2016.

We are all motivated to continue to unlock the still significant upside potential of BAM. We will work together to better serve our clients, improve our financial performance, and be a preferred employer and partner to create a better, more sustainable future. I am more than ever convinced that with our combined capabilities and dedication we can reach our goals.

Also on behalf of Thessa Menssen 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.

Bunnik, the Netherlands, 20 February 2017

Rob van Wingerden,
CEO,
Royal BAM Group nv

2. Strategy

Building the present, creating the future

It is BAM's mission to build 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 life cycle for the Group's clients and clients and generating maximum value for its stakeholders.

When launching its 2016-2020 strategic programme 'Building the present, creating the future', the Group defined its vision for 2020: By 2020 BAM 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 life cycle in European home markets and in selected growing economies worldwide.

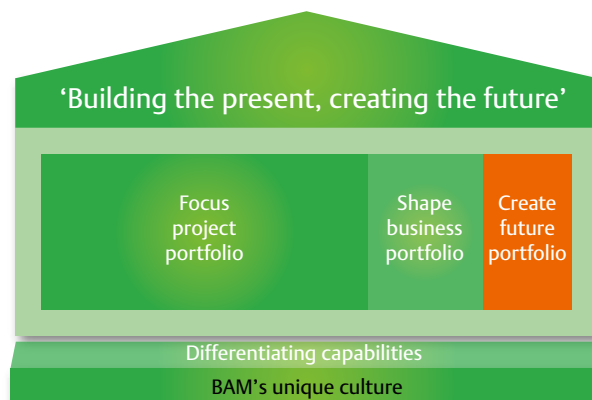
BAM's vision and unique culture are underpinned by four values which are guiding for the people of BAM. These values are predictable performance, scalable learning, proactive ownership and open collaboration.



1 — Values

To realise the strategy 'Building the present, creating the future', BAM will position itself as leader in the digitalisation of the industry.

Three external forces are shaping prospects for the construction industry. Firstly, economic growth is still vulnerable and will have a low to modest impact on construction volumes. Secondly, sustainability and mega trends such as urbanisation and energy efficiency are creating areas of higher growth.



2 — Strategy 2016-2020

Thirdly, digitalisation is increasingly transforming the construction industry and the built environment. Against this background, the main focus of the strategy for 2016-2020 is to continue to improve profitability and capital efficiency. The strategy has three pillars: to focus the project portfolio, to shape the business portfolio and to create the future portfolio. These are supported by a strong foundation consisting of two layers: culture and capabilities.

Focus project portfolio – Doing Things Better

BAM is focusing its project portfolio ('Doing Things Better') and continuously makes a rigorous analysis of the existing project portfolio. In order to win projects, the main drivers of performance improvement are either scale ('cost leadership') or differentiation through specialisation ('knowledge partnership'). In market segments characterised by price-led competition, BAM can achieve cost leadership through project bundling and/or industrialisation. For projects where requirements are more demanding, BAM will use its knowledge leadership, innovation and quality assurance as key differentiating factors. This focus will also lead to better planning and management of the fixed cost base.

Examples of project focus areas include energy-neutral home refurbishment, stadiums and tunnel-based infrastructure. In its Property sector, BAM will focus on equity-light developments in main urban areas and further integration of activities with construction to unlock synergies. PPP will continue to target contracts in home markets where payments are based on availability.

Performance

In 2016 BAM strengthened its processes to enable data-driven choices in order to focus its efforts on selecting the projects where it has the best chances to win and generate value for all stakeholders. BAM's choices are aimed at generating the targeted margins whereby it focuses less on revenue growth.


Initiatives that started or accelerated in 2016 to support 'Doing Things Better' include the strengthening of the tendering stage gate processes, peer reviews, operational audits and working capital management.

The data BAM collects in its improved tendering process allows the Group to select projects where it can leverage its scale and abilities to differentiate with knowledge. The stage gate process includes peer reviews conducted by experienced colleagues to drive the exchange of know how between operating companies within the Group.


In 2016 all operating companies have aligned their strategic agendas to focus their project portfolio on the principles of scale and differentiation. This has resulted in focus on more specific product-market combinations to generate value for clients and other stakeholders. In market areas where BAM cannot differentiate itself, decisions to exit were made. The aligned 2020 strategic agendas were the basis on which the operating companies set their 2017 operating plans and priorities.

Shaping business portfolio – Doing Better Things

BAM is shaping the business portfolio ('Doing Better Things') 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.



BAM is shaping the business portfolio ('Doing Better Things') by rationalising its propositions in selected market segments and developing new solutions for clients.



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

These initiatives will be driven by investments in people and systems and developing partnerships. At the same time, BAM will continue to de-emphasise or exit from operational activities which do not offer sufficient opportunities to use scale or differentiation as critical success factors. BAM will continue to reduce its portfolio of Property assets.

Performance

Examples of businesses that were exited in 2016 since they did not offer sufficient opportunities to use scale or differentiation include the divestments of Heilijgers, Balteau i.e., Nelis de Ruijter, Nootenboom Sports and Mostert de Winter. Moreover the Group is exploring opportunities to strengthen its position in supporting clients along the project lifecycle in facilities management and mechanical and electrical services. More details about BAM's divestments can be found in chapter 4.1 Financial performance.

Create future portfolio – Doing New Things

BAM is creating the future portfolio ('Doing New Things') by delivering construction services using a digital construction platform. BAM intends to be at the forefront of digitalisation by using cutting edge design and visualisation tools and keeping close to clients' evolving requirements. BAM will facilitate this transition by investing in innovation to create an attractive environment for partnerships and rapid prototyping to shorten time to market.

By creating this future portfolio BAM aims to:

- Create an advantage relative to competitors on the basis of innovation, returning superior financial returns to its shareholders;
- Improve product and project quality for its clients;
- Improve attraction, development and retention of talent for its employees;
- Contribute to innovation at its suppliers and subcontractors;
- Build a sustainable environment for society in general.

To become the leader in digital construction, BAM structures its innovation with a clear focus on tangible results. Moreover BAM creates a lively ecosystem to co-create innovative solutions.

Performance

BAM separates innovation into two streams: business (or ‘incremental’) innovation and transformational innovation. In 2016 existing innovation initiatives within the Group were organised and structured along these streams.

For business innovation BAM has identified more than two hundred innovation initiatives within the Group and clustered these in four categories:

- Digital construction;
- Physical construction;
- Future trends;
- Process innovation.

Existing initiatives were grouped together and are now being managed through an innovation funnel process that is based on the Lean Startup methodology. As a result of this structured process, BAM’s innovation strategy has a clear direction and innovations can be accelerated whilst making use of the strength of the Group.

For its transformational innovation the Group set up a startup company in September 2016 that is currently developing a digital construction platform. BAM’s focus on digitalisation includes both the digital construction process (BIM, 3D printing, augmented and virtual reality) and the digitally built environment (smart devices, sensing, smart communities).

In 2016 BAM engaged in multiple partnerships, including startup platforms, to grow its innovation ecosystem and to improve its visibility as an innovative construction company.

The innovation strategy is executed by a newly implemented innovation organisation that is coordinated and managed centrally with strong involvement of passionate innovators from all operating companies within the Group.

The joint initiatives that emerged in 2016 in the field of business innovation have accelerated the spirit of open collaboration within the Group. Business innovators in the area of BIM (building information modelling) joined forces to accelerate their countries’ initiatives. Using an innovation structure that is based on the Lean Startup approach, innovation teams have applied the principle of scalable learning on a big scale.

Differentiating capabilities

BAM’s differentiating capabilities and operating model are being sharpened, with a focus on employee training and development. 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, enhancing local entrepreneurship to serve clients. The Group analysed all key processes and delivered a blueprint target-operating model around strategic enablers. A start has been made with aligning core processes in accordance with these enablers.

Performance

Selected operating companies strengthened their collaboration in the area of specialised products to optimise the offering for BAM’s clients. Examples of products with strong international cooperation are tunnels, hospitals and PPP projects.

To support BAM companies in making rigorous data-driven project selection all Group-wide project data are captured in a joint database that all operating companies are able to make use of.

BAM’s unique culture

The Group’s culture will be strengthened further by scalable learning from tenders and projects, more predictable performance, working together in open collaboration and taking ownership of challenges and opportunities. BAM’s people are fundamental to its success, so project and business career will be aligned and a stronger culture will be promoted to make the Group more attractive as an employer and partner of choice. BAM’s aim is to continuously improve health and safety and to promote a net positive approach on the environment so it can deliver more value for clients.

Performance

Within the focus of ‘Doing Things Better’ BAM has started a project in 2016 with all operating companies to encourage collaboration and learning between project managers across the Group. Through this internal network the use of experiences and best practices will be stimulated.



BAM is creating the future portfolio ('Doing New Things') by delivering construction services using a digital construction platform.



Schuman-Josaphat tunnel, Brussels.
BAM Belgium (BAM Contractors and Galère).



Safety

In 2016 BAM's safety strategy was aligned with the Group's corporate strategy to support the 2020 safety ambition. The BAM 2020 safety ambition is 'zero accidents' and being recognised as a safety leader in the European construction industry.

Sustainability

In line with BAM's corporate strategy 2016-2020 'Building the present, creating the future', sustainability is used as the overarching term to include the broader focus on sustainable innovation, being solutions driven (to exceed client expectations) and benefits derived from its use of digital construction. CSR is an important aspect of BAM's sustainability journey. CSR best describes the impact BAM will have as a business on the environment and its social responsibility towards both internal and external stakeholders.

Acknowledging BAM's 'CSR' maturity, as recognised through its increased CDP rankings (see chapter 4.3 Environmental performance) and as a leader in environmental compliance, BAM recognises growing market and legislative drivers to be more solutions driven, innovative and collaborative. The renewed sustainability focus also encapsulates the social value it generates through the design, construction and operation of its developments. This has been developed using insights from multiple stakeholders from within the Group, taking a view on the type of organisation BAM aspires to be in the longer term (up to 2050).

During 2016, BAM's Management Board agreed to the sustainability strategy, consisting of three key themes (Climate Positive, Resource Positive and Enhancing Lives), together with a set of KPI's to form part of the strategic agenda 2016-2020.


The intention is to develop the strategy as an integral part of BAM's culture and for work in the current strategic agenda to pave the way for longer term benefits beyond 2020.

Sustainable Development Goals

In order to improve its strategy and relevance with global issues, BAM appreciates the impact of aligning its sustainability strategy with the UN adopted Sustainable Development Goals (SDGs); seventeen goals which serve as a roadmap for good growth by 2030.

BAM has received input from external consultants on its alignment with the SDGs (based on its 2015 Integrated Report). Building on this work, BAM evaluated the key areas of alignment of the goals with the relevant stakeholder material themes process (see graph 3) to highlight opportunities to measure impact going forward.

BAM's business potentially has an impact on all of the SDGs; however, some have more direct influence within current markets and given the nature of its business. BAM has subsequently considered these global issues in relation to its 2020 sustainability strategy and has identified key focus areas where progress will be monitored going forward. BAM therefore strives to positively contribute to six SDGs in particular, since these align best to its strategy.



By collaborating with the supply chain, encouraging innovative thinking through its products, and realising the benefits of circular economic business models, BAM aims to have a net positive approach on climate, resources and local communities.

3 Sustainable Development Goals - key focus areas and alignment with 2020 'net positive' strategy

| SDG-number | Sustainable Development Goal | BAM's sustainability strategy 2020: aspiring to net positive | | |
|---|--|--|---|--|
| | | | | |
| 3 Good health  | Ensure healthy lives and promote well-being for all at all ages. | Enhancing lives. | This target is about making a real and positive difference to the lives of people BAM comes into contact with through its work. | |
| 4 Quality education  | Ensure inclusive and equitable quality education and promote life-long learning opportunities for all. | Enhancing lives. | This target is about making a real and positive difference to the lives of people BAM comes into contact with through its work. | |
| 9 Innovation and infrastructure  | Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation. | Climate positive and resource positive. | BAM aims to have a net positive impact on resources and climate. | |
| 11 Sustainable cities and communities  | Make cities and human settlements inclusive, safe, resilient and sustainable. | Resource positive. | Work towards eliminating waste through the life cycle of construction projects and integrated developments. | |
| 12 Responsible consumption  | Ensure sustainable consumption and production patterns. | Resource positive. | Contribute to restoring natural resources. Adopt principles of the circular economy. | |
| 13 Climate action  | Take urgent action to combat climate change and its impacts. | Climate positive. | Deliver products and services which contribute to wider emission reductions. | |

| | Current Alignment with SDG goals | Planned activities by 2020 |
|--|--|---|
| | <ul style="list-style-type: none"> • Healthy workspaces for employees. • Provide employees access to health benefits, including mental health. • Create a culture of giving through community and charity partnerships | <ul style="list-style-type: none"> • Develop methodologies to increase indoor air quality and eradicate polluting sources/ materials (see page 64, 65). • Increase support across BAM on health and wellbeing activities (see page 19). |
| | <ul style="list-style-type: none"> • Apprenticeships and getting people back into work. • Encourage good training for our workforce (direct and indirect). • Work with schools and educational institutes to strengthen industry specific skills. • Show career opportunities and routes to enter the construction business. | <ul style="list-style-type: none"> • Increase diversity and equality in workforce (see page 69). • Enhance 1 million lives by 2020 (see page 60). |
| | <ul style="list-style-type: none"> • Research and development and innovation programs to foster collaboration. • Investment in digitalisation and working with BAM's supply chain. • Realising the benefits of circular economic business models. | <ul style="list-style-type: none"> • Value creation and business growth by pursuing new business opportunities (see page 17). • Development of circular economic business models (see page 74). |
| | <ul style="list-style-type: none"> • Waste reduction strategies in place for all of BAM's key projects. • Health and safety strategy implemented. | <ul style="list-style-type: none"> • Work with industry partners towards achieving zero construction waste (see page 17, 74). • Encourage our stakeholders to reduce waste by taking a life cycle approach (see page 11, 18, 22). |
| | <ul style="list-style-type: none"> • Advise BAM's clients and project partners of options to increase productivity of materials, products and components throughout the life cycle. | <ul style="list-style-type: none"> • Development of circular products and services across the group by 2020 (see page 74). |
| | <ul style="list-style-type: none"> • Scope 1 and 2 emission reduction strategies for BAM's key operations. • Developing assets which are low or zero carbon (or improve existing). • Deliver a reduction in life cycle carbon impacts of buildings and infrastructure (through material selection, design and asset management). | <ul style="list-style-type: none"> • Produce a baseline analysis of scope 3 emissions (see page 75). • Work with supply chain to reduce overall impact on climate change (see page 11). • Create new energy solutions for clients and partners to reduce reliance on fossil fuels (see page 11). |

Strategic targets

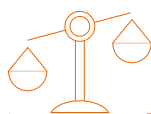
BAM's vision is translated in specific goals for Profit, Planet and People. BAM's targets for 2020 are to have a Return On Capital Employed (ROCE) that exceeds 10 per cent, raise the adjusted pre-tax margin to between 2 and 4 per cent, reduce the property portfolio to under €500 million and reduce trade working capital below -10 per cent, to have a net positive impact on the planet and to have an Incident Frequency below 3.5.

BAM started a strategy implementation programme in 2016 to manage the implementation of the strategy. In this programme, the five building blocks (focus the project portfolio, shape the business portfolio, create the future portfolio, differentiating capabilities and BAM's unique culture) of the strategy 'Building the present, creating the future' each have their own work streams that drive the strategy implementation.

4 — Targets 2020



ROCE
> 10%



Adjusted
pre tax margin
2-4%

Property
< €500m
TWC < -10%



Safety
benchmark
IF < 3.5



Net positive
impact

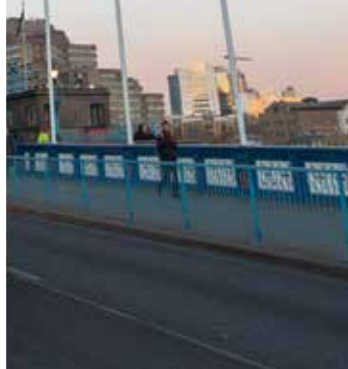
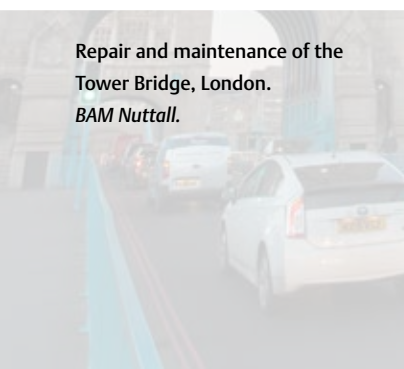
5 — Cohesion

This table shows the linkage between BAM's strategic themes and subjects covered in this report.

| Focus Project Portfolio | Shape Business Portfolio | Create Future Portfolio | Differentiating Capabilities | Unique Culture | Material theme | Risks | Indicator | Performance |
|-------------------------|--------------------------|-------------------------|------------------------------|----------------|---|--|--|-------------------------------|
| | | ● | ● | ● | Employee recruitment, development and retention | Reputation, People | Diversity of staff | 4.2 Social performance |
| ● | ● | ● | | | Financial performance | Market, Project, Financial, Property development | ROCE | 4.1 Financial performance |
| ● | ● | | | | Quality and control | Project, Financial | ROCE | 4.1 Financial performance |
| | | ● | ● | | Health and safety | People, Health and Safety | Incident Frequency | 4.2 Social performance |
| ● | ● | ● | ● | | Innovation | Technology, IT | Progress within the innovation stage gate. To be developed | 2 Strategy |
| | | | ● | | Business conduct and transparency | Reputation | Completed trainings on Code of Conduct | 4.2 Social performance |
| | | ● | | | Procurement strategy | Project | Supplier performance assessments | 4.2 Social performance |
| | | ● | ● | | Local community engagement | Reputation, Health and Safety | Enhancing lives | 4.2 Social performance |
| | | ● | | | Human rights | Reputation, Project | Compliance with human right enforcers | 4.2 Social performance |
| ● | ● | | | | Circular economy | Market, Sustainability | Circular product and service offerings | 4.3 Environmental performance |
| ● | | | | | Energy and emissions | Market, Sustainability | Emissions, Waste | 4.3 Environmental performance |
| | | ● | | | Fair tax | Reputation, Financial | Fair distribution of tax | 4.2 Social performance |



Repair and maintenance of the
Tower Bridge, London.
BAM Nuttall.



3. Value creation

3.1 Business model

Business lines

BAM's operating companies are active in the business lines Construction and Property and Civil engineering, as well as in Public-private partnerships.

BAM's European home markets are the Netherlands, Belgium, the United Kingdom, Ireland and Germany. Furthermore the Group delivers projects in Denmark, Luxembourg and Switzerland.

Construction and Property

BAM has non-residential construction activities in all its home markets, as well as in Switzerland and Denmark. In addition, BAM delivers residential construction projects, mainly in the Netherlands and Belgium. BAM International is undertaking the non-residential construction projects outside Europe, in the Middle East and Indonesia in particular.

BAM's non-residential property development activities are in the Netherlands, the United Kingdom, Ireland and Belgium. Family homes are mainly developed in the Netherlands. BAM integrates the development and construction of these projects.

The business line Construction and Property employs approximately 9,000 staff.

Civil engineering

The civil engineering activities are in all BAM's home markets, as well as in Luxembourg. BAM International carries out civil engineering works in niche markets worldwide.

The business line employs approximately 10,000 staff.

Public Private Partnerships

BAM is present in the European public private partnerships market. These projects deliver construction and recurring maintenance revenue for the business lines. BAM operates concessions for roads, rail, education, health care and government buildings.

BAM PPP employs approximately 100 staff.

For the financial performance of BAM's business lines see chapter 4.

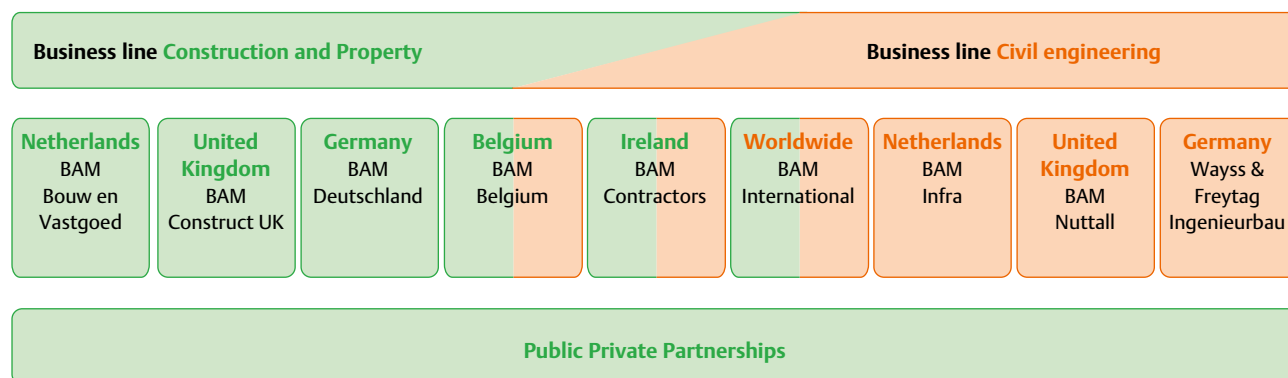
New business models

BAM's unique product market combination and broad geographical presence, as well as its relationship with clients and the supply chain and stakeholders enable BAM to continuously expand and increase its potential. BAM's strategic agenda 'Building the present, creating the future' (focus project portfolio, shape business portfolio, create future portfolio) is reflected in BAM's business model.

In line with BAM's strategic objective to create a future portfolio, a startup programme was set up in 2016. This programme focuses on developing new business models at the edge of BAM's existing organisation. Using the Lean Startup Methodology as a process guidance new business models based on digital opportunities are explored.

6 Organisational structure

January 2017



Creating financial value

Shareholders and financial institutions provide funds which BAM uses in its business lines Construction and Property and Civil engineering, as well as in Public-private partnerships.

BAM's strategic target 2020 is a >10 per cent ROCE. BAM invests free working capital from the (non) residential construction and civil engineering activities in selected property and PPP projects. These projects generate a return on the investment and provide construction and recurring maintenance revenue for the business lines.

BAM uses capital in its business to continue with an extensive range of products and services in its construction and property, civil engineering and public private partnership business lines. With the current product portfolio and expertise, presence in and cooperation between these business lines of BAM's five home markets BAM is enabled to utilise free working capital from its operations to invest in selected property and PPP projects which again generates construction contracts.

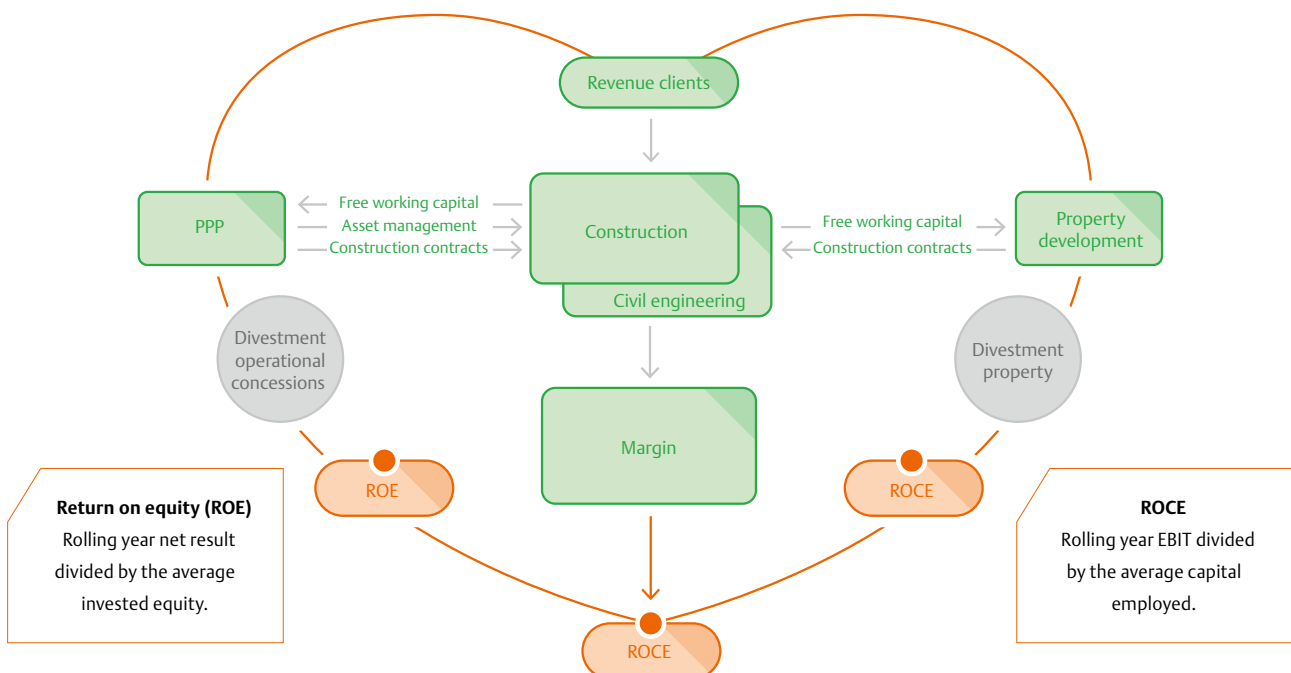
> Figure 7 illustrates the financial interaction between the business lines including the relevant financial metrics to assess BAM's performance.

Creating environmental value

BAM aspires to have a net positive impact. In environmental terms we aim to be climate and resource positive. This is achieved through collaboration with our supply chain, encouraging innovative thinking through our products and realising the (social, economic and environmental) benefits of circular economic business models. This circular economic value proposition is enhanced in a market where materials and labour costs rise due to fluctuations in demand. BAM is therefore able to offer life cycle solutions to maintain higher residual values for key assets in the built environment.

Climate positive

BAM delivers products to the market or services to our clients which contribute to wider emissions reductions. This includes developing new assets which are low or zero carbon (or improving existing), deploying renewable energy systems or energy reduction measures for our clients or communities (e.g. as part of an esco offering) and delivering reductions in lifecycle carbon impact of buildings and infrastructure (through material selection, design or asset management). This way, BAM strives to reduce its own direct negative impact on natural capital as well as the impact in the use phase.



Resource positive

The use of raw materials and land, producing waste during the building process has a negative impact on natural capital. The Group has made progress on reducing construction waste through becoming more efficient, utilising offsite manufacture and by working with its supply chain (up and down stream) to eliminate waste through the life cycle of its developments. The ultimate goal is to produce zero construction waste. BAM's ability to achieve this is partly determined by forces outside of its immediate control e.g. National and European waste legislation. However, acknowledging that the creation of waste costs money (in wasted materials and in processing / disposing / dealing with waste) and therefore by aiming to reduce BAM's waste 'budget' to zero will lead to benefits across the value chain too.

BAM creates value by having the least amount of impact on natural capital and ideally contributing towards restoring natural resources. By adopting the principles of the circular economy, products and services should ensure that materials which are used to build buildings and infrastructure are either natural and renewable or recoverable at high value. This may include working with suppliers to develop a 'circular' material and building element, a new business model, as well as designs which allow assets to be used in different ways and therefore retain their value over a longer period of time.

See environmental performance in chapter 4.3.

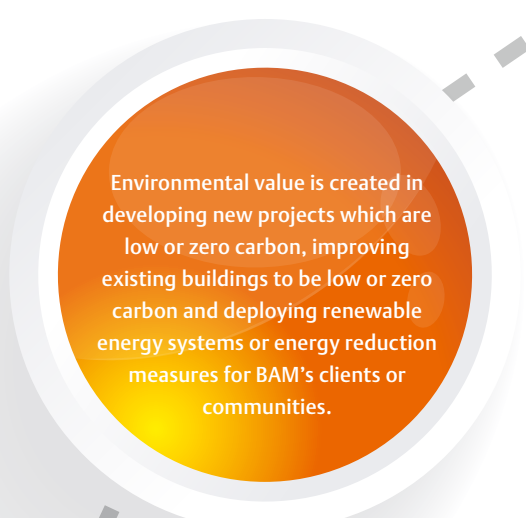
Creating social value

This target is about making a real and positive difference to the lives of people we come into contact with through BAM's work. This is about adding real value (through activities that would not happen without BAM's support/intervention) and also supporting people through grass roots organisations as well as those with a wide reach. BAM's enhancing lives activities largely focus around employment, training, education, community and charity engagement. Outcomes support one or more of social, economic and environmental sustainability leading to a positive impact on social and human capital. This will involve direct support from BAM, but also through partnerships with its supply chain.

See social performance in chapter 4.2.

Value chain

The Group's value chain management and subcontractor engagement provide the opportunity to bring value to BAM's clients from innovations and cross-fertilisation from the value chain. With lean planning techniques, BAM can incorporate schedules of supply chain partners, allowing for a reduction in labour and equipment costs. Value chain management requires sharing BAM's business principles and policies on CSR, including our targets, and BAM requires its major value chain partners to share information on their CO₂ emissions.



Environmental value is created in developing new projects which are low or zero carbon, improving existing buildings to be low or zero carbon and deploying renewable energy systems or energy reduction measures for BAM's clients or communities.

Five innovative gravity based foundations for a windfarm in the North Sea. BAM Nuttall, BAM Infra, BAM Infraconsult.



See an opportunity

Customers do approach BAM and BAM identifies customers, in business-to-business, business-to-consumer and business-to-government relations. It all leads to the question: will BAM make a proposal to the client? Please refer to the stage gate tender procedure on page 43 for a detailed description of the supporting decision making process.

Design

Some argue that design is where art meets science. For BAM it means: the process of optimising resources to meet functional demands, a creative process considering laws of physics, economics and society. Financial, human and intellectual capital are used to make the project design. An increasing part of design is done digitally.

Engage with other stakeholders

BAM's bid needs to meet needs and demands of all relevant stakeholders to be sustainable and winning. Engagement provides the opportunity for better decision making by bringing together stakeholder demands and creating value for them.

Engage with suppliers

Suppliers are a special stakeholder category. Their knowledge, people and other resources provide 76 per cent of BAM's turnover which BAM brings as value to its clients. Working with BAM provides them the opportunity to increase their value through innovation and to deliver net positive solutions whilst considering its impact on 'people' and 'planet'.

Propose to the client

Value is described, to be judged by the client, mostly in terms of financial value and quality. Quality is often expressed in sustainability terms, which often relate to the impacts on natural and social capital.

The client accepts

The approval of the final contract is the conclusion of the bidding process, and the decision is made to continue the value creation process.

Prepare the site

Society and local communities are impacted at the site that BAM prepares before building starts: excavations and landscaping can have a negative impact on society (noise, dust).

Order materials

BAM's suppliers provide the materials that BAM orders, which creates jobs and stimulates supply chain innovations. Financial capital is used to finance materials and services before the project is finished.

Maintain asset value

In order to deliver maximum value to clients, BAM offers flexibility, adaptability, and expertise, considering value retention, not just for the first life, but with subsequent uses in mind. Learn from buildings and improve designs for future projects.

Build

BAM's employees coordinate workers and subcontractors with BIM and lean techniques to reduce all avoidable cost in assembling materials, to create maximum financial value for BAM's financial stakeholders. Hindrance during construction hours can have a temporary negative impact on local society.

Deliver and maintenance

- Functionality to the client
- Turnover to the suppliers
- Knowledge to the employees
- Shareholder value to the shareholders
- A better world to society
- Financial capital is net positive

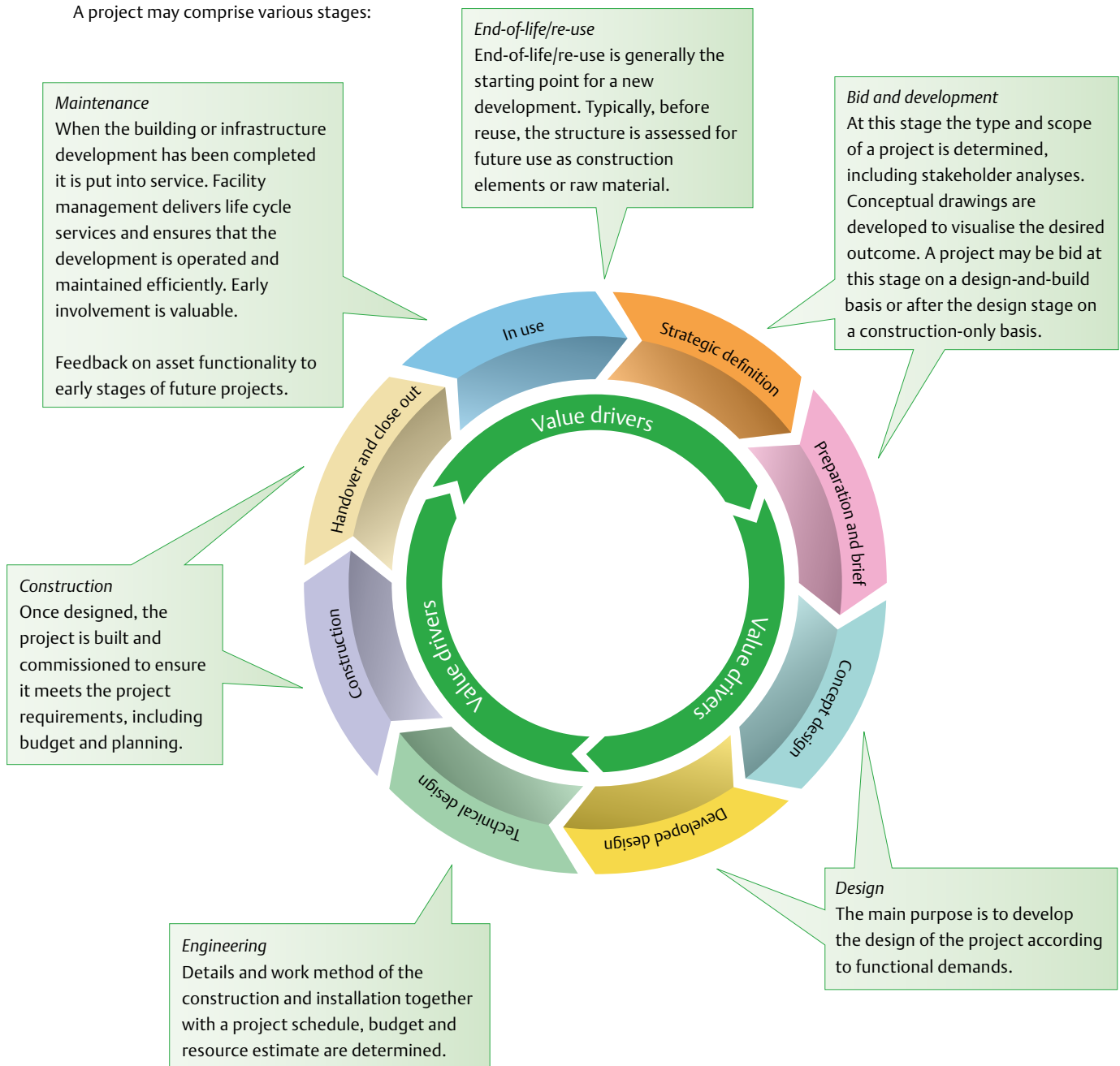
BAM's operating companies achieve most of their turnover in collaboration with their subcontractors and suppliers. More than 76 per cent of turnover is sourced from supply chain partners. Projects may also be carried out in collaboration with other construction companies (as part of a joint arrangement).

Natural, human and financial capital are typically sourced locally in BAM's home markets. In the Netherlands, 97 per cent of BAM's purchases were locally sourced in 2016. BAM expects comparable

percentages in its other home countries. An exception to the rule is tropical timber (typically under FSC- or PEFC-labelling). BAM operates mainly in a business-to-business environment and in a business-to-government environment. Within all its European home countries, BAM works for national and local governments as well as property investment and development companies. Typical supply chain partners are mechanical and electrical suppliers, often in conjunction with local labour suppliers as well as local small and medium enterprises.

9 — Key business activities

A project may comprise various stages:



The construction industry provides services on a project-by-project basis. An increasing part of the design and engineering is done digitally in the concept of 'make it before you make it'. A project is built in a digital form and the building process can be 'played' digitally, resulting in a reduction of among others failing costs.

The earlier BAM gets involved in a development the greater its ability to influence the sustainability of the development at a lower cost. When BAM is the property developer or where BAM is part of a public private partnership, BAM is in the best possible position to maximise sustainability outcomes, as the company can set sustainability ambitions in the early concept stages. This allows life cycle thinking to be taken into consideration at the early design stages, allowing for better use of capital investment to be considered against lower maintenance and operational costs.

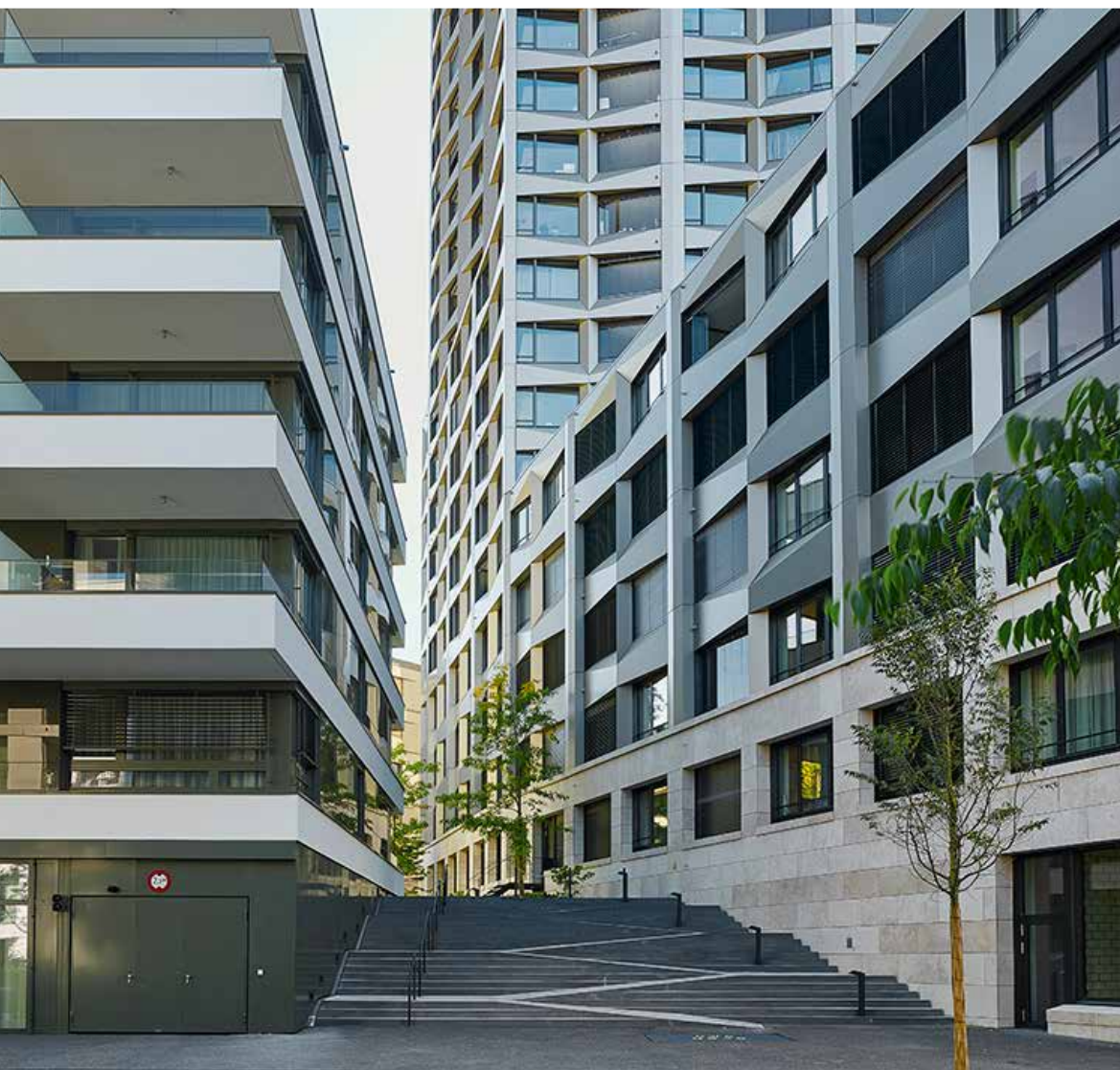
Innovative solutions and intellectual capital are developed by BAM's operating companies when developing sustainable solutions to meet its clients' needs. BAM also supports a number of organisations in the research of specific technology and process innovations. BAM is also part of a number of international and industry leading forums sharing best practice on sustainability (see chapter 3.2 Stakeholder engagement and material themes).

BAM invests in digitalisation by piloting Microsoft HoloLens

BAM has tested the HoloLens on site. The HoloLens enables users to see holograms within the existing environment and providing them with the right information at the right time.

The introduction of BIM has changed the nature of construction. Processes are becoming more automated and the demand for information from clients and site teams has increased. The use of wearables is helping to drive these changes, digitising traditional 2D drawings and providing assembly instructions, which show individuals how to carry out each task, step by step. The HoloLens also enables to improve health and safety and training. It ensures that users have two free hands to perform actions and allows others to see the same view as the wearer, so that help and advice can be given; reducing the risk of errors and failure costs.





Limat Tower, Dietikon,
Switzerland (apartments
and offices). BAM Swiss.



3.2 Stakeholder engagement and material themes

Stakeholder engagement

BAM recognises that real business benefits can only be achieved with the involvement of its stakeholders. During 2016 BAM met with its clients, main suppliers and other stakeholders in multi-stakeholder forums to further align BAM's policies with stakeholder demands.

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 continuously engages with its stakeholders to understand their priorities and concerns through benchmarking, sector meetings, client surveys and direct contracts. BAM's key stakeholder groups, and its interactions with those stakeholders are:

Clients

BAM is in daily discussion 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. Some clients have developed their own sustainability benchmarks, including ProRail, the government task organisation that takes care of maintenance and extensions of the Dutch railway network infrastructure, with its CO₂ Performance Ladder. Positioning on the ladder forms part of the tender evaluation process and positively affects BAM's ability to win contracts. It is therefore important that BAM keeps itself informed of and is able to respond proactively to this and similar initiatives.

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 and transparency and control. All dates and locations of road shows, seminars and other investor relations activities are published on the BAM website. The Group has also been responding to CDP's investor information requests since 2008.

Employees

BAM's employees are its most important asset. As part of BAM's performance management process, employees' personal learning and development plans are evaluated annually between manager and employee. Main discussion points are development plans and expectations. BAM also has active workers' councils in the operating companies to discuss organisational changes and other related matters. For younger employees in the Netherlands and in the UK

'Young BAM' committees organise events to learn about projects and inspire to provide feedback.

Suppliers and subcontractors

BAM's procurement officers are in daily contact with suppliers and subcontractors to discuss amongst others health and safety. Also, circular economy practices are increasingly discussed. Supply chain partners are increasingly being involved at the early stages of the bidding process and helping to develop and plan BAM's projects through lean planning meetings and thereby optimising the efficiency of the build programme through the value chain. By involving its supply chain partners, BAM invests in relationships.

Society

By its very nature, BAM's construction and civil engineering works have an impact on local communities, occupants and other users of buildings and infrastructure and society as a whole. Main discussion points differ per governmental body, but health and safety as well as human rights are common. Chapter 4 of this report describes BAM's results and gives several examples of its community engagement activities in 2016.

Regulators

Through its delivery of projects, BAM has ongoing contact with local government bodies regarding the issuing of permits, compliance with regulations and supervision of its activities. BAM is involved in many governmental initiatives including several Green Deals in the Netherlands. BAM Nuttall and BAM Construct UK are members of the UK Green Building Council. BAM aims to engage regulators on issues such as zero carbon buildings, lifecycle carbon impacts of infrastructure and other sustainability related issues within the built environment.

Multi-stakeholder dialogue

In addition to its engagements with different stakeholders across its operating companies, the Group organises a yearly multistakeholder meeting hosted by BAM's CEO. Local smaller parties as well as executives of international stakeholders and governmental bodies and institutions have attended. The meeting is used not only to present and check BAM's strategy to all directly or indirectly involved parties but more importantly to jointly discuss cross industry trends and movements in the entire construction value chain.

In 2016 BAM organised its stakeholder meeting together with two stakeholders: Bouwend Nederland and Holland ConTech. This first time jointly organising effort was in line with BAM's core value 'open collaboration'.

The stakeholders selected for the dialogue comprised fifty management-level representatives of clients, financial institutions,

suppliers, architects, start-ups, NGOs, and knowledge institutes that are actively involved with BAM activities and 30 executive representatives of these same organisations. They were joined at the meeting by BAM executives and internal stakeholders from BAM's operating companies.

During this year's meeting inter-stakeholder groups were formed to create action plans to benefit digitalisation. BAM took the lead in bringing the parties together. The plans were presented to all party executives to ensure buy-in. Digitalisation was discussed in the light of the following themes:

- Circular building;
- Using non-proven technologies;
- Cooperation in the value chain;
- Learning from startups;
- Data ownership;
- Starting with the end user;
- Culture.

Input from stakeholders for BAM:

- BAM is expected to take the lead on digitalisation in the construction value chain;
- The present stakeholders are open towards forming joint project teams on certain digital or sustainable projects;
- A need for more open discussions was expressed.

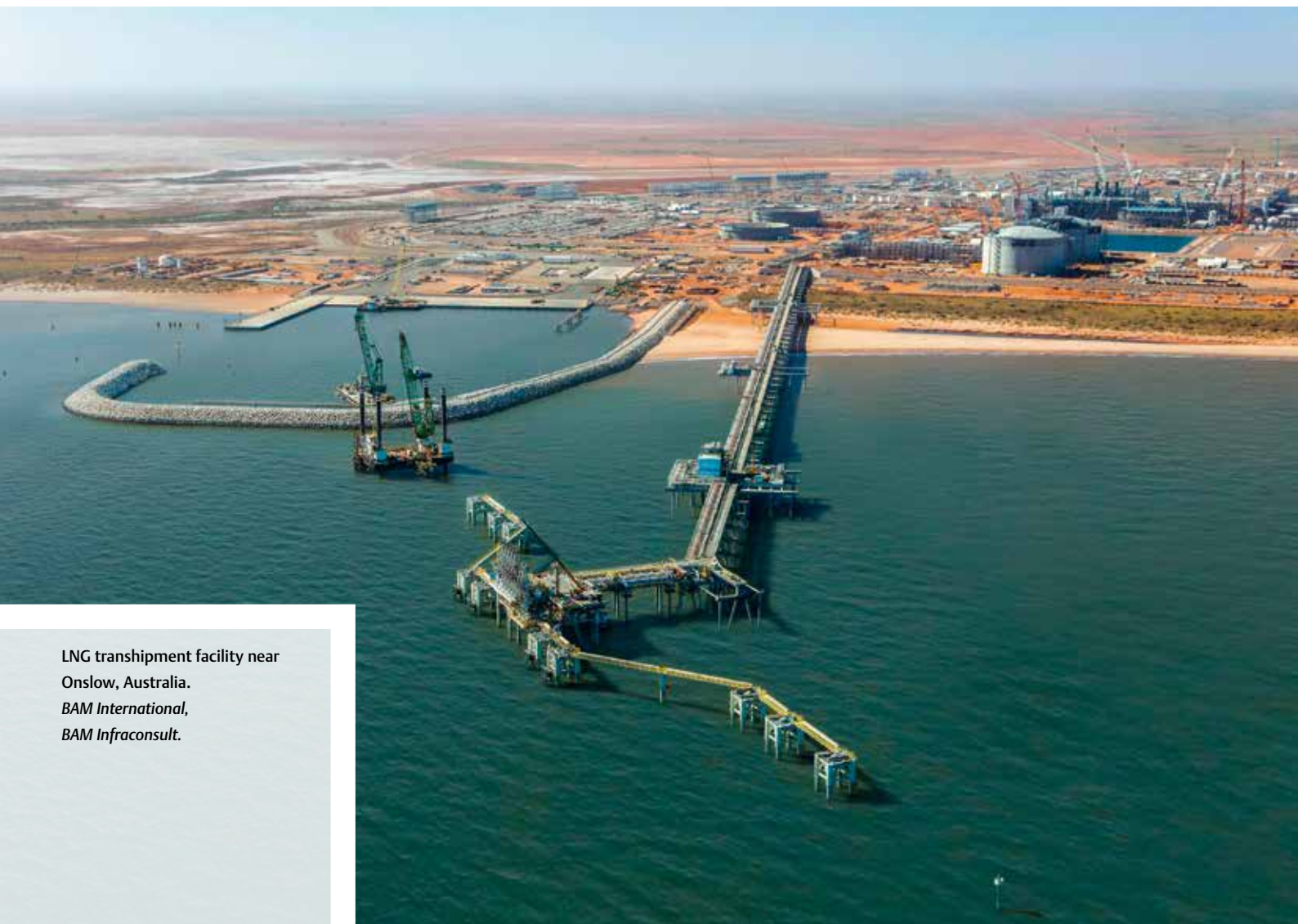
BAM has taken the lead by hosting follow-up meetings in 2017 to promote further discussion and when applicable execute the first steps of the experiments.

Material themes

As part of the development of the strategic agenda for 2016-2020, the Group conducted a materiality assessment. Material themes are those that substantively affect BAM's ability to create value over the short, medium and long term.

As a first step in the process of identifying material themes, BAM selected relevant matters from a longlist of topics, based on their

LNG transhipment facility near
Onslow, Australia.
*BAM International,
BAM Infraconsult.*



ability to affect financial, environmental and social value creation for BAM's stakeholders. This longlist included aspects derived from the fourth edition of the Guidelines of GRI (Global Reporting Initiative), BAM's Group strategy, the results of research into stakeholders' interests and feedback from stakeholder dialogues and general meetings of shareholders.

Next, a Group-wide selection of BAM employees evaluated the importance of these relevant matters in terms of their known or potential effects on BAM's activities, products, services and relations, both within and outside of BAM, within the timeframe 2016-2020. 'Effect' within BAM was defined as 'impact on BAM's success'.

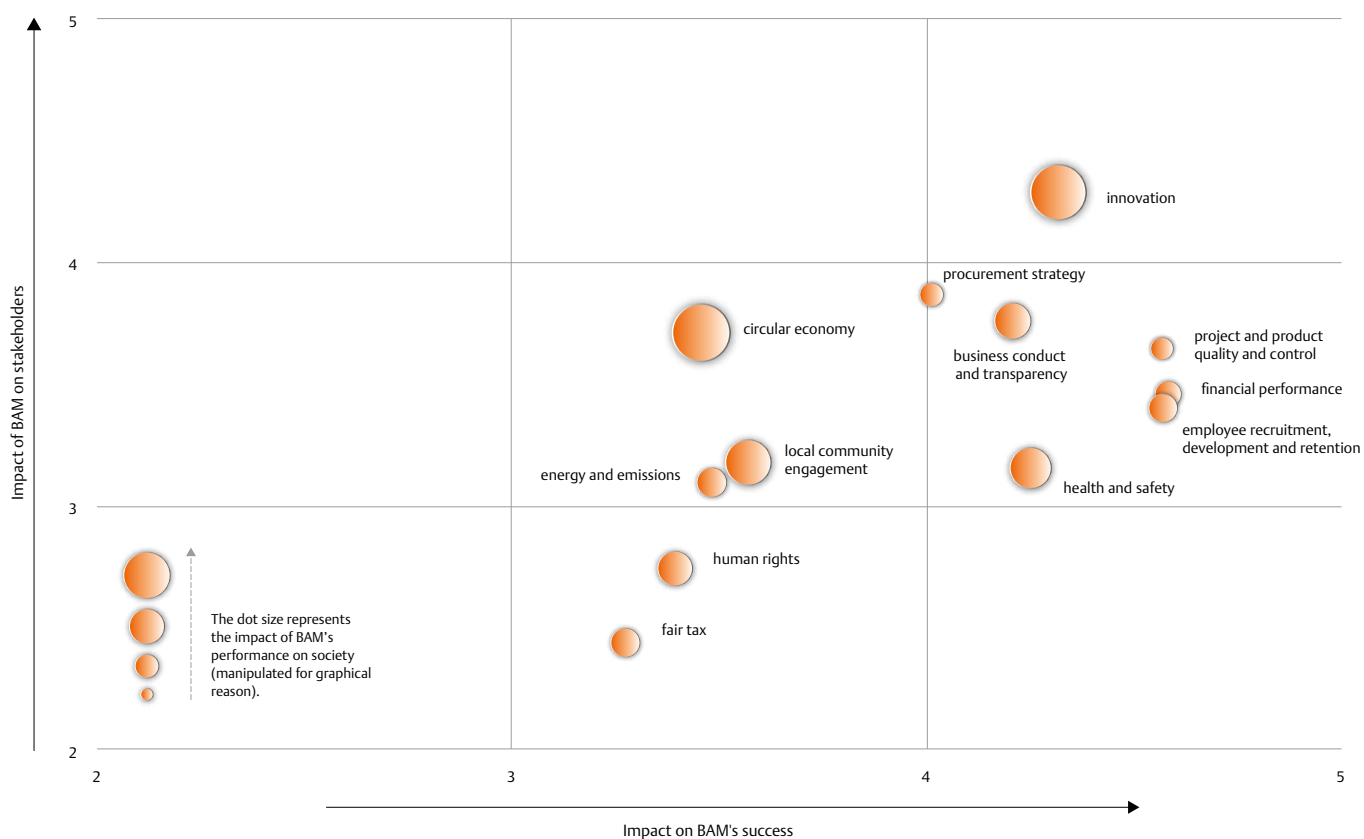
Stakeholders were asked to identify and prioritise the potential impact of these matters on themselves and on society. Most relevant for the clients group were 'health and safety' and 'project and product quality and control'. The group of employees specifically indicated 'employee recruitment, development and retention' as a material theme. Providers of financial capital indicated that BAM's performance on 'circular economy' is most relevant to their organisations. BAM's subcontractors and

suppliers as well as the group representing society (NGOs, government and knowledge institutes) specifically indicated 'business conduct and transparency' as the most material theme. They were also asked to introduce and assess matters that were omitted from BAM's initial materiality assessment. Topics that were added as important were culture and open collaboration. These subjects are pillars of BAM's strategy and already elaborated in this report and will also be included in next year's survey.

The stakeholders that were invited to the stakeholder dialogue were asked to fill out a materiality survey. In the light of the theme 'digitalisation' it was to be expected that 'innovation' would rank high in responses.

The materiality matrix displays the prioritisation of the matters based on their relative importance to BAM and to BAM's stakeholders. It should be noted that opinions of various stakeholders and appreciation in BAM's home markets may vary.

This report has been structured according to the material themes. It addresses BAM's performance in relation to the following topics that are positioned in the materiality matrix:



Health and safety

Definition: Health and safety (zero accidents) of all employees and subcontractors and everyone involved with BAM's activities, including the general public.

Impact: '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. Occupational health and safety contributes to the satisfaction of the Group's employees and their relatives, BAM's subcontractors, its supply chain partners and others involved with BAM's construction sites. Safety also affects BAM's clients and BAM's reputation.

Management approach: A Group-wide guideline for safety management provides BAM's operating companies with a framework within which their safety management system must comply.

Meeting the strategy means focusing on the quality of the underlying goals: living the safety ambition of 'zero accidents' every day is the goal for safety. Zero accidents means the mind-set (intrinsic motivation) and true believe that it's achievable to create a safe work environment which will allow 'everyone home safe every day!'.

Creating the right environment for knowledge sharing and learning (in BAM's complete supply chain) is most important to reach the Group's safety targets. This will be done by:

- Supporting the operating companies to develop leadership and behaviour by implementing the new Safety Behaviour Audit (SBA);
- Recognition of performance by implementing and follow up on the Safety Exchanges (SEs);
- Strengthening BAM's (safety) culture supported by uniform safety communication processes, modern methods and channels;
- Improving the Safety Group performance to IF (Incident Frequency) < 3,5.

Safety activities

At the annual Safety Awareness Audits (SAAs), BAM used to monitor the extent to which the safety management systems of operating companies comply with the guideline and the extent to which employees are aware of the safety risks inherent in their projects. Now that the majority of operating companies have achieved reasonable scores in all areas the opportunity was taken to harness the report in a different direction: that of the Safety Activities (SAs). On a yearly base at least one SBA was scheduled per operating company, the number of SAs was based on turnover and performance was added. Two types of SAs were launched: Safety Behaviour Audit and Safety Exchange.

➤ For BAM's performance, see chapter 4.2 Social performance.

Quality and control

Definition: Quality of tender process, efficient project management and effective project execution with the aim to meet or exceed clients' expectations.

Impact: To exceed clients' expectations, BAM needs to continuously improve the (perceived) 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 to realising the appropriate level of financial and non-financial results on construction projects.

Management approach: Since 2014 BAM has increased its efforts to improve the quality of its tender process in order to safeguard its current and future results arising from construction projects.

The evaluation of BAM's internal governance framework has resulted in the update of company principles and management guidelines, including strengthening BAM's project selection and tendering process for large and high-risk projects. In connection with this development, peer reviews on project estimates are undertaken under the leadership of the Tender Desk Director.

In order to comply with product responsibility, BAM makes sure that all projects where its operating companies are responsible for design and construction are certified. In other projects (PPP projects) BAM uses verification and validation methods. Each operating company has a quality manager who is responsible for the quality control of the operating company's processes. System audits are conducted by third parties. On all levels, outcomes are assessed by the senior management of BAM's operating companies.

➤ For BAM's performance, see chapters 2 Strategy and 3.3 Risk management.

Business conduct and transparency

Definition: Openness regarding and adherence to generally accepted standards and values and compliance with local statutory and other rules and regulations, particularly with respect to the acquisition and performance of contracts.

Impact: BAM's reputation and licence to operate depend on responsible business conduct, by stimulating dialogue on dilemmas. Ensuring compliance with anti-corruption legislation enhances efficiency by reducing transaction costs for BAM and for BAM's stakeholders. Furthermore, BAM believes that doing business honestly is vital to increasing competitiveness for BAM and for BAM's partners. Competitive behaviour contributes to innovation and collaboration. It creates an environment in which the best products will win and in which BAM's stakeholders 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.

Management approach: The chapter Reputation risk describes BAM's management measures related to business conduct.

> For BAM's performance, see chapter 4.2 Social performance.

Financial performance

Definition: Overall financial health, including balance sheet, profit and loss, property divestment and working capital improvement.

Impact: A healthy financial performance provides BAM with the means to undertake transactions with its supply chain partners, which leads to the opportunity to develop new activities and to pay BAM's employees and shareholders.

Management approach: Continuous focus is put on strengthening BAM's balance sheet and net results by improving its financial processes to ensure a solid track record on project execution and margin stability, including close monitoring of its 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% by 2020. For BAM's performance, see chapter 4.1 Financial performance.

Employee recruitment, development and retention

Definition: Stimulating employees to use their competencies, capabilities and experience in a way that adds value to the business and provides personal growth, technical innovation and profit.

Impact: BAM increases its intellectual capital and the human capital of its stakeholders by investing in employee development. While the impact of employee development on wider society is minimal, it is far greater within BAM, where it contributes to employee engagement and lifelong learning. BAM recognises the importance of Group-wide development and implementation of the talent strategy and agenda, succession planning and internal mobility, based on BAM's organisational development and strategic aims.

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 connect better to the wishes and expectations of its clients and to society in all BAM markets. In line with its vision on diversity BAM aims to attract people with different profiles and backgrounds in order to build

teams that are fit for future challenges and will contribute to achieving BAM's strategic goals.

Management approach: The Group's development approach is to encourage employees to take ownership of their development with the manager/company adopting a supportive/facilitating role. The employee's personal development is captured 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, which are all accessible via the internal My BAM Career site. Across the Group, BAM works with a number of universities externally and internally with the Group's training centres to ensure BAM continues to offer high-quality training and development programmes.

With BAM Business School, BAM offers an integrated approach to support employees in achieving their goals. The training portfolio allows employees to keep their professional knowledge up to date and to further develop the wider skills related to their role and their career paths. Courses include topics like integrity, entrepreneurship, commerce, new contract forms, project development, 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 4.2 Social performance.

Energy and emissions

Definition: 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.

Impact: The Group's energy consumption contributes to a significant amount of its costs and is an indicator of the efficiency of its processes. As a large player in an industry with relatively high energy consumption versus other industries, its energy usage also has a great impact on society. Buildings account for approximately 40 per cent of European Union's (EU) energy demand. 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 the field of energy and emissions, BAM can create value by building energy efficient buildings and by renovating buildings to higher energy performance standards.

Emissions that relate to the Group's energy usage are relevant to BAM due to risks driven by changes in regulation and worldwide support from governments to tackle climate change. For example: the UN's Sustainable Development Goals (see chapter 2 Strategy for more information on BAM's targets), the Paris Agreement and the EU Emissions Trading System. Buildings



Dutch Supreme Court,
The Hague, opened by
King Willem Alexander on
20 April 2016.
*BAM PPP and BAM Bouw
en Techniek.*



account for 36 per cent of EU CO₂ emissions. The operation of a building accounts for approximately 80 per cent of the total CO₂ emissions through the building's life cycle. Most of the rate of new construction continues to remain low.

Management approach: 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's product-mix of civil and construction work changes constantly due to market conditions, resulting in less predictable reductions in BAM's absolute emissions. BAM monitors and benchmarks progress on these targets on a quarterly basis for different activities within the company. BAM focuses on reducing its direct CO₂ emissions by lowering energy use 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 4.3 Environmental performance.

Circular economy

Definition: An economy which aims to keep materials, components and products at their highest utility and value, at all times.

Impact: Globally, the construction industry accounts for 40-50 per cent of natural resource use and 25 per cent of all timber use. BAM has a continuous need for raw materials, water and energy. This means primary processes are affected by increasing volatility in raw material and energy prices. The products produced by the Group must also meet current and future demands, where the impact of changing laws and regulations, in particular, has proved to be very significant. Waste production affects BAM's licence to operate and is an indicator of the efficiency of BAM's processes. Also, waste incurs costs due to the low value of residual material. Activities involved in the construction process generate approximately 25-30 per cent of total demolition and construction waste within the European Union. As a large construction company, the Group's waste production affects society. As approximately 90 per cent of materials are recycled, it concerns large amounts of materials that are to be reused. BAM has identified opportunities for innovation based on changing client requests, particularly in relation to a greater focus on the recycling of materials and the use of sustainable materials, including timber sourced from sustainable forests.

Management approach: Firstly, BAM innovates to reduce material consumption during the design process. The Group works with its supply chain partners to identify more sustainable alternatives both upstream and downstream of manufacturing and operational processes. BAM focuses on improving the reuse potential of materials as well as renewable materials by asking its main suppliers to provide an insight into the source of the materials.

BAM has set targets for both waste reduction and recycling. The Group monitors and benchmarks progress on these targets on a quarterly basis for different 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 4.3 Environmental performance.

Local community engagement

Definition: The relationships with the communities surrounding BAM's activities.

Impact: By its very nature, the Group's construction and renovation work has an impact on the local community, occupiers and other users of buildings and infrastructure and society as a whole. Community engagement affects the Group's licence to operate and allows BAM to build faster, which directly leads 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. BAM considers community engagement and involvement of people from diverse backgrounds and provides an opportunity to create value. This is known as 'social return' and BAM actively supports its implementation. People who have been unemployed for a variety of reasons (such as poor education, health issues, and people suffering from disabilities), gaining employment due to support given by BAM are considered to be benefitting from social return initiatives. Initiatives such as these can be defined as providing 'Social Return on Investment'.

Management approach: On many of its projects, BAM makes an inventory of local interests and, based on this, opts for the best approach to increase its licence to operate (which could be participation in local events). In addition, BAM participates in the Considerate Constructors Scheme in the United Kingdom and in the similarly inspired Bewuste Bouwers scheme in the Netherlands.

> Example KPI: enhance one million lives in local communities by 2020. For BAM's performance, see chapter 4.2 Social performance.

Procurement

Definition: Selecting suppliers and subcontractors and stimulating them to practise their skills and products in a way that adds long-term value to BAM and its clients as well as the suppliers and subcontractors, providing technical innovation and profit.

Impact: Labour practices of the Group's suppliers and subcontractors affect BAM's reputation and are associated with the risk of losing work. The Group's suppliers and subcontractors have to bring their practices at least up to BAM standards to be able to work for the company and in doing so will have a good influence outside of the Group as well.

Management approach: To develop the Group's supply chain and incorporate its values, BAM seeks added value, long-term, mutually beneficial relationships with partners who can help improve the Group's supply chain. In order to achieve this, BAM is developing selected group(s) of suppliers and subcontractors on different levels (such as unit, operating company, country and Group) within BAM. By having a preferred group of suppliers and subcontractors we are 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 our 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 4.2 Social performance.

Innovation

Definition: The creation of new viable business offerings.

Impact: Innovation influences the ability to adapt to changing market needs and competitiveness with current competition and future entrants into BAM's 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.

Management approach: 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 Strategy.

Human rights

Definition: 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.

Impact: 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 good influence outside of the Group as well.

Management approach: In 2006, BAM and Building and Wood Workers' International (BWI), signed a framework agreement 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 Principle concerning Multinational Enterprises and Social Policy;
- The OECD Guidelines for Multinational Enterprises.

Dilemma:

In a market where cost often takes precedence over value, especially at tender stage, we see reduced uptake on our innovative solutions. For many clients, capital cost is deemed more important than operational costs (the latter having a greater impact). This approach yields less benefits for their long term interests.

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. BAM is committed to achieving social justice and sustainable development in its activities with its trading partners, subcontractors and suppliers. In that regard, BAM and BWI are working together to ensure that the following social criteria are effectively applied:

- A ban on forced labour;
- The right to equality and diversity in terms of ethnicity, race, gender, religion, political affiliation, nationality or other distinguishing characteristics;
- A ban on child labour;
- A safe and healthy working environment;
- The right to establish and join trade union organisations;
- The right of employees to receive fair pay and respect for the minimum wage;
- The right to suitable working conditions (working hours, facilities, learning and development, health and safety).

Regular meetings are held with management representatives from BAM and trade union organisations, including BWI, to monitor implementation of the agreement. Sub-subcontractors must comply with labour conditions as BAM enforces them on subcontractors. In the UK, The Modern Slavery Act 2015 was announced, requiring 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 4.2 Social performance.

BAM is committed to achieving social justice and sustainable development in its activities with its trading partners, subcontractors and suppliers.





Responsible tax

Definition: 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 business and being transparent about approach and outcome.

Impact: 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.

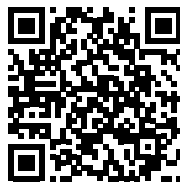
Management approach: Therefore, BAM strives to come to a responsible approach to tax and supports a responsible approach to tax as an integral part of its sustainability agenda.

Find BAM's responsible tax statement on the website www.bam.com.

➤ For BAM's performance, see chapter 4.2 Social performance.



Port House, Antwerp.
BAM Belgium (Interbuild).
Design: Zaha Hadid Architects.





Deventer City Hall,
the Netherlands.
BAM Bouw en Techniek.



Business principles

Social, environmental and economic aspects in the short and long term are weighed up whenever strategic decisions are taken. The business principles of BAM represent the Group's beliefs and are connected to our values. Along with the code of conduct, these principles form a key part of the internal environment in which risk management is conducted.

A. People: We offer added value to clients, employees, business partners and the community.

1. Clients: We always do our utmost to exceed our client's expectations. We work in partnership with our clients to deliver high-end projects within the timescale set, both safely and with respect for the environment. We encourage our clients to work with us to develop suitable sustainable solutions. We aim to be the preferred supplier for CO₂-neutral solutions.

2. Community: We promote good communications with the local community. By its very nature, our construction and renovation work has an impact on local communities, occupiers and other users of buildings and infrastructure and society as a whole. We are pro-active therefore in minimising the level of negative impact on the local environment and seek to make a positive contribution to local communities.

3. Employees: We believe in our employees. We aim to create a safe and inspiring environment for our employees to develop their skills and in turn enable them to contribute to the further development and growth of our organisation.

The commitment to our employees is demonstrated by:

- **Health and Safety** – Health and Safety is the top priority of our company. We are committed to the continuous improvement of our performance in Health and Safety for all our employees and subcontractors and everyone involved with our activities, including the general public;
- **Equality and diversity** – We offer a challenging working environment where everyone feels valued and respected. We are committed to offering equal opportunities and we ensure that job applicants and employees do not face discrimination on the grounds of gender, marital status, race, skin colour, ethnic origin, religious belief, sexual orientation, disability, or age;
- **Learning and development** – We create a learning culture and provide opportunities for our employees to fully apply their knowledge and skills in the service of the company. We are committed to professional development and will help our employees to continue their development in the interests of the company and its objectives.

4. Supply chain partners: We procure responsibly. We treat our supply chain partners honestly and respectfully. We work with subcontractors and suppliers to ensure that they operate safely and in an environmentally-conscious way. Together with our preferred partners, we promote and develop sustainable solutions and best practice for the industry.

B. Planet: We recognise our responsibility to future generations.

5. Energy: We strive to reduce our impact on climate change. We will improve our energy efficiency, reduce our CO₂ emissions and work with our clients to develop CO₂-neutral solutions.

6. Raw materials: We are becoming more efficient in our use of materials. We believe in reducing our impact on the supply of natural raw materials used in our products. We will work with our clients and suppliers to use alternative materials and methods in order to optimise the use of raw materials. We also promote measures to recycle and reduce waste.

7. Environment: We will limit our environmental impact. We take all possible reasonable measures to ensure that our activities are conducted in a way that minimises the impact on the local environment. We promote environmentally-friendly operations and seek opportunities to promote biodiversity on our construction sites.

C. Profit: Creating economic value.

8. Innovation: We innovate to identify balanced sustainable solutions. Innovation is essential for our development and to identify powerful sustainable solutions in the built environment. Together with our partners in the supply chain, from clients to subcontractors and suppliers, we will provide sustainable solutions in which economic, environmental and community interests are well-balanced. This approach ensures that we use materials efficiently and provide good value to our clients.

9. Prosperity: We believe that sustainability results in economic value and we choose to create value by working on effective and profitable solutions for our shareholders that contribute to a sustainable future. We believe that by applying these business principles, we create value for our shareholders, clients, employees and for society as a whole.

3.3 Risk management

11 — Main risk areas

The main risk areas are:

- Market
- Reputation
- People
- Project
- Financial
- Property development
- Technology
- Information technology
- Sustainability
- Health and safety

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 new 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 brings a stronger focus on cultural values, further supporting the BAM brand and strategy.

Risk appetite is defined as the level in which BAM is willing to accept risks in the ordinary course of business in order to achieve its objectives. Key factors in determining risk appetite are the risk categories:

Strategic: Based on knowledge and experience in the home markets, BAM tenders on complex multidisciplinary projects, which involves the controlled allocation of risk between the client 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 projects based on contractual availability (i.e. fixed compensation) and not on volume (i.e. variable compensation). BAM invests in property development projects provided they are profitable and have a clear and profitable exit strategy that has been defined in advance.

Operational: BAM aims to limit the risks that could jeopardise the execution of its business activities.

Compliance: Adherence to all applicable laws and regulations including the BAM Code of Business Conduct is fundamental to BAM.

Financial: BAM is committed to maintaining a solid financial position to guarantee access to financial markets and to maintain the trust of its clients, supply chain and other partners. BAM is averse to reporting risks that could impact the reputation of the company.

Risk management framework

The Supervisory Board oversees and advises the Executive Board, which has the overall responsibility for enterprise risk management in the Group. BAM's framework, which is based on COSO (Committee of Sponsoring Organisations of the Treadway Commission), is integrated into the regular planning and control cycle, creating a Group-wide focus on risk management. There is a strong focus on developing employees' risk awareness and risk attitude in a changing environment, for example by including the risk management philosophy in the curriculum of the BAM Business School, the in-house training institute.

The risk management and monitoring system provides a platform for sharing knowledge and expertise among the operating companies in a structured manner, making risk management a key enabler in achieving the strategic objectives. Corporate functions and subject matter communities across the Group accelerate the process of acquiring and sharing knowledge and expertise through a consistent risk management language and approach.

The 2016-2020 Group strategy was defined by the Executive Board and representatives of the operating companies and the corporate functions. In the strategic planning process, the strategy was translated into strategic objectives and initiatives at Group, operating company and corporate function levels, considering the risk appetite specified above. The main risks to achieving the objectives were assessed and prioritised through dialogue sessions.

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

General management measures

Besides a variety of specific management measures, the following general management measures as part of its risk management and monitoring system.

Business principles

The business principles (see page 37) represent the Group's beliefs and key do's and don'ts and are connected to our values. Along with the Code of Conduct, these principles form a key part of the internal environment in which risk management is conducted.

Management guidelines

The Group provides guidelines and instructions to the management of the operating companies. The guidelines define the levels of responsibility of the operating companies and set requirements for the quality of vital management measures and include, among other things, limits for entering into risks and commitments related to investments and bidding on projects. The guidelines are assessed – and amended if necessary – based on changes in the risk appetite for achieving the objectives, the risk profile, or changes in the internal organisation.

In addition to the management guidelines, there are more detailed instructions for external reporting, information security, tax and treasury-related matters.

Budgeting, reporting and (internal) controls

The Group uses uniform guidelines and accounting policies which serve as the basis for all financial, non-financial and management reporting. As part of the detailed monthly and quarterly reports, the operating companies report on changes in (projected) company revenues, financial results, working capital and liquidity, order book and sustainability.

BAM invests in digitalisation to be an industry leader in how and what the company builds.



Apartment building The Garden, Berlin. BAM Deutschland.



Main risk areas

Several risk areas and measures have been identified in relation 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.

Market risk

Risk description

The markets where BAM operates are subject to macro-economic volatility and are affected by government investment programs, economic downturns and political developments. In most of the Group's home markets, there is intense competition.

Possible impact

Limited availability of capital may lead to cancellation and deferral of property development, construction and PPP projects, putting pressure on the value of BAM's portfolio. Intense competition may lead to a buyer's market, which will impact margins, lead to a shift of design and contract risks to the contractor and compromise the pre-financing of projects by clients.

Management measures

As market conditions vary per country, BAM aims to keep a diversified geographical footprint. Based on the new 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 the future business portfolio BAM is rationalising its propositions and developing new solutions for clients and are investing in digitalisation to be an industry leader in how and what BAM builds. BAM invested in the required capabilities to support the achievement of the strategic objectives, for example by creating or reinforcing corporate functions in the areas strategy, digital construction and innovation, but also by harmonising processes and procedures.

The updated tender stage gate procedure is key in managing a healthy order intake for the Group and guides a tender through various stage gates based on the complexity and size of the tender, before the company enters into a contract. The progress on the realisation of the strategic objectives is monitored through monthly and quarterly reports and meetings in which the leading indicators to effectively compete in the rapidly changing environment are key.

Reputation risk

Risk description

The trust placed by clients, shareholders, lenders, construction partners and employees in the Group is vital in order to be able to ensure the company's continuity. The Group's main fraud risk with reputational impact is corruption.

Possible impact

BAM's reputation may be damaged if it fails to successfully mitigate the main risks, including fraud.

Management measures

For BAM, it is fundamental to adhere to generally accepted standards and values and comply with local statutory and other rules and regulations, particularly with respect to the acquisition and performance of contracts. This is set out in the Group's business principles, code of conduct and related policies such as those relating to bribery, corruption and competition. All employees are required to act fairly, to honour agreements and to act with care towards clients and business partners, including suppliers and subcontractors. Compliance is promoted by the Executive Board and this is kept under constant review in order to make integrity a fundamental part of day-to-day activities. The Group has a whistle-blower policy in place so breaches of the code and policies can be reported.

The Group believes it is important that employees can report any suspicion of wrongdoings within the Group and that they are able to report such matters without fear of reprisals. Both the code of conduct and the whistle-blower policy are easily accessible to employees. For example, they can be found on the Group's intranet site and on its corporate website. Compliance officers monitor compliance and provide advice on issues involving integrity.

People risk

Risk description

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

Possible impact

BAM's unique culture is underpinned by its values that guide its behaviour. Failing to establish a culture based on predictable performance, scalable learning, ownership and open collaboration will negatively impact the success.

Management measures

BAM 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. BAM increases the mobility of employees in core businesses. This is facilitated by the international recruitment site, which publishes all vacancies and career opportunities within the Group. BAM works together with recruitment agencies, through advertising and by collaborating with various training institutes to attract top talent. The Group invests in further developing employees through various training programmes, including a management trainee programme and prepares candidates for key positions aiming to improve (inclusive) leadership.

Project risk

Risk description

Construction activities are BAM's core business, which include tendering, procurement, contract management, project management and the corresponding value chain. BAM is active in thousands of projects in which it is exposed to a large variety of risks in a sector that is known for having an asymmetrical risk profile. Selecting the right projects under balanced contractual conditions is critical.

Possible impact

Failing to achieve a healthy order intake and flawless project execution leads to fluctuations in the project results and eventually to BAM not achieving its strategic objectives.

Management measures

BAM implemented the following measures to control project risk.

Tender stage gate procedure and peer reviews

The results of projects are mainly determined during the tender stage. Effective 2016, the Group launched the updated tender stage gate procedure. See the separate section on page 43.

Project team composition

The composition of the project team is critical for the success of a project. BAM strives to select project teams based on the right capabilities in areas such as leadership, ownership, combined experience and collaboration.

Innovation

The Group's industry is at the forefront of major technological changes. BAM invests heavily in implementing concept and process innovation related to sustainability, virtual building, digital and lean construction.

Partnering

The comprehensive knowledge and extensive experience of its operating companies enable the Group to complete major projects successfully on its own. Nonetheless, it can be advantageous – also from the point of view of spreading the risks – to work in a joint arrangement when dealing with larger projects. In projects that exceed €300 million, BAM in principle bids together with partners. This usually involves establishing a general partnership (a legal form in which all parties are jointly and severally liable for mutual commitments connected with the performance of the project). The Group enters only into joint arrangements with solid and solvent partners. If the risk to which the partner is exposed is nevertheless assessed to be too high, BAM demands other securities which can take the form of a bank guarantee or of the partner leaving sufficient cash invested in the joint arrangement.

Project monitoring

During the execution, the project team periodically and systematically assesses the opportunities and risks attached to the project. If necessary, the project team implements measures to reduce newly identified risks, focusing mainly on the quality of the construction work to be completed and the avoidance of construction faults. Regular progress reports are submitted to regional, operating companies' and Group management.

Contract risk

To limit contractual risks, BAM uses standard contracts for projects wherever possible. Where a non-standard contract is used, BAM's (in-house) lawyers and other specialists will assess the contract beforehand. Standard contracts include for example clauses that provide that price increases in wages and materials may be charged on to the client during the construction period.

Subcontractors and suppliers

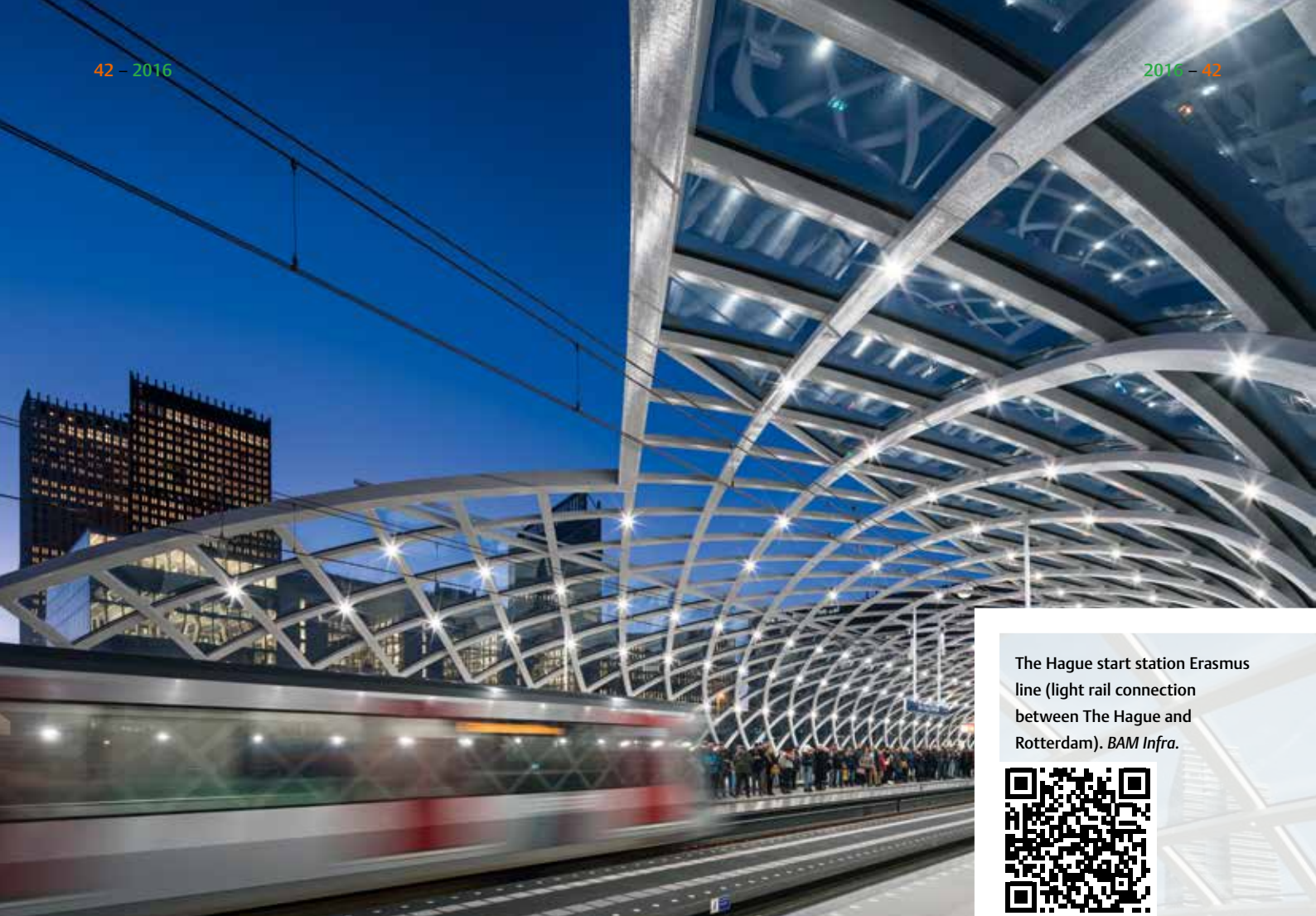
On an annual basis, the Group procures more than 70 per cent of its revenue from suppliers and subcontractors. These companies have a major impact on the projects, both in financial and in technical terms. The Group aims to build strong partnerships with its suppliers and subcontractors to ensure that the construction process runs as smoothly as possible and to achieve the optimum lowest possible costs and high quality of products. Suppliers need to be involved in the project at an early stage. The Group strives to set up partnerships and framework contracts, which contain agreements about fees and conditions (such as delivery times, invoicing, risks and bonus discounts). Project-specific orders can then be placed under these framework contracts. The performance of subcontractors and suppliers on the above mentioned criteria is periodically measured in a 1-4 scale and actively monitored and engaged.

Payment risk

Operating companies limit payment risks of projects as much as possible by agreeing on contractual payment schedules. This ensures that the client's payments are at least in balance with the progress of the work performed. For projects completed in emerging markets and developing countries, adequate security is agreed or export credit insurance is purchased prior to the start of the project in order to hedge political and payment risk. When entering into financing arrangements, BAM performs a credit check on clients. The Group focuses in particular on security provided by banks and the payment systems used by government bodies.

Guarantees

In the construction industry, clients commonly demand guarantees by way of security that the project will be completed successfully. This guarantee may be provided by the parent company or, alternatively, by external parties such as banks and surety institutions. The Group has strict procedures in place to ensure that the contractual terms of the guarantees provided comply with the company's specific guidelines.



The Hague start station Erasmus line (light rail connection between The Hague and Rotterdam). BAM Infra.



Tender stage gate procedure

The tender stage gate procedure [see scheme below] is key in managing a healthy order intake for the Group and guides a tender 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, work schedule, finance, partners, safety, location et cetera.

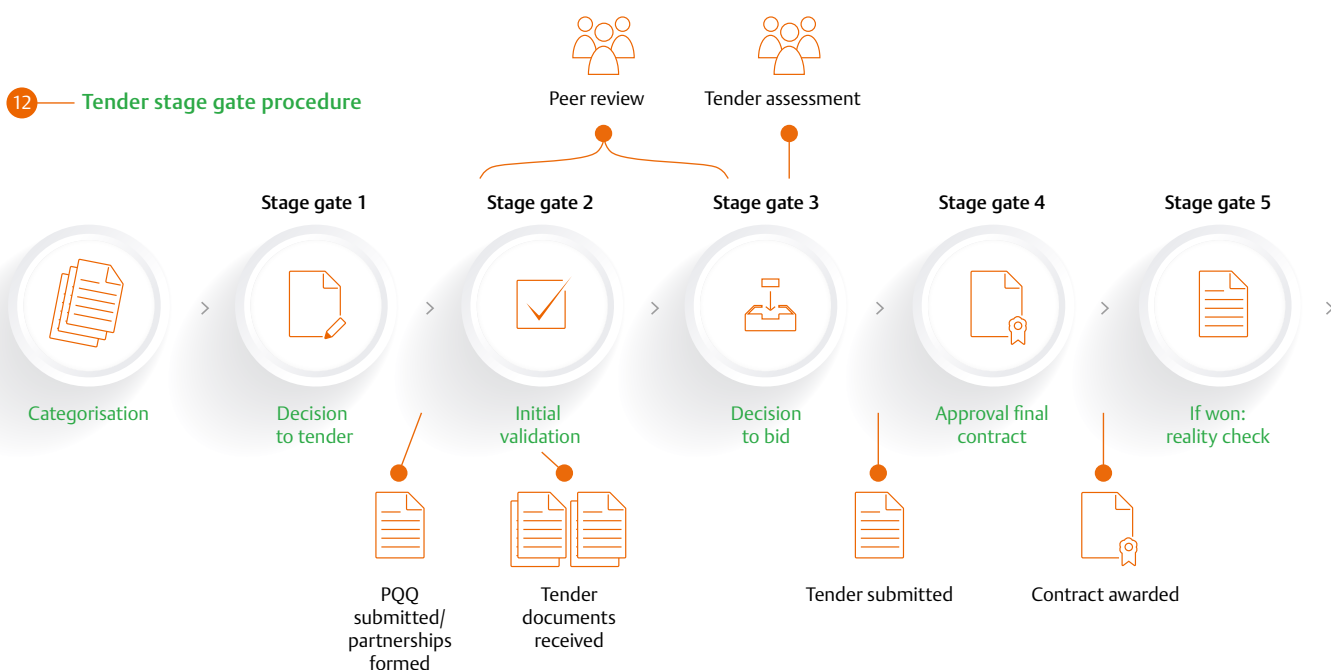
The stage gate procedure also includes several approval rounds depending on the risk profile. The procedure follows a governance structure based on tender categories to ensure tenders are reviewed and approved by the right level of management. Bids for major projects or projects involving exceptional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

The procedure is supported by the stage gate system, an application where all relevant data is maintained. This system allows the preparation of dashboards, reports and other management information to support the business going forward.

All required tenders based on their risk category are assessed by the Tender Desk and approved by the pre-established bodies. 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 required partners for the tender at hand.

Several peer reviews were performed by experts from other operating companies in the Group during the tender phase of major projects. These peer reviews mobilise the full knowledge of the Group and contribute in robustness of the proposal made to the client. Tender assessments were performed on those tenders where the Executive Board decided a more detailed (objective) assessment of the tender was necessary before approval to bid could be provided.

BAM is convinced that a strong and robust tender process, focused on all relevant risk and opportunity areas of the tender, is critical to further improve a healthy order intake. The systematic collection of tender data and the confrontation with the outcome during the execution phase provides the Group with valuable management information which helps in the preparation and evaluation of future tenders.



Financial risk

Risk description

The attractiveness of BAM as trusted partner to work with or invest in is strongly influenced by its financial position and ability to control financial risks.

Possible impact

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

Management measures

BAM 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 additional capital. The company enters 'equity-light' in property development projects and in PPP investments. The company's intention is 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 stated in note 3 of the financial statements.

Property development risk

Risk description

BAM is involved in property development on its own account. The level and timing of both revenues (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 satisfactory fund the projects.

Possible impact

Property development projects may be delayed or completed at a cost higher than budgeted. This in turn will affect the financial results (level and duration of capital employed, profit).

Management measures

If the Group intends to take on property development risks, this requires the prior consent of the Executive Board. The latter takes a decision based on the project proposals from the operating company concerned and associated analyses performed by the Group's Property Investment function. The general rule is that construction does not start until a substantial number of properties have been sold or, for non-residential, a large part of the project has been let or sold. However, the UK – 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. The Dutch property portfolio still includes a number of legacy residential construction projects where there is an unconditional obligation to build.

Technology risk

Risk description

The Group's industry is at the forefront of major technological changes. Digital technology starts to change value creation within the construction industry where traditional capabilities may become commoditised.

Possible impact

Competitors or new entrants to the market may marginalise BAM's differentiating capabilities and thus endanger the existing business model.

Management measures

Digital construction initiatives focus both on transformational and incremental innovations. These innovations are build on new digital technologies and should improve the clients experience as well as optimised construction processes.

> See chapter 2 Strategy and chapter 3.2 Stakeholder engagement and material themes.

Information technology risk

Risk description

Digitalisation, data, communication and connectivity are essential to BAM. A global presence also leads to cyber security challenges that require us to have the agility to constantly adapt.

Possible impact

IT is crucial in supporting and safeguarding the core and supporting processes. BAM relies more and more 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.

Management measures

BAM has strengthened its security strategy and policy with a clear governance structure and uses the latest technology to protect its environment. This includes implementing and testing of confidentiality and continuity measures as well as the integrity of data. Training and communication increase awareness around safe IT usage by BAM's people and partners, as this is considered essential.

Sustainability risk

Risk description

The construction industry heavily relies on natural resources, these deplete when consumption rates are faster than natural replenishment. Global warming and climate change cause more frequent extreme weather events including storms, heat waves, droughts, heavy rainfall with floods and heavy snowfall.

Possible impact

Failing to deliver more sustainable and innovative further may impede BAM's position towards clients and supply chain partners. Extreme weather events and material shortages may lead to disruption of the construction process.

Management measures

BAM has strengthened its corporate team responsible for sustainability during 2016 to support achieving continuous improvement and puts significant effort in reducing its environmental impact with an ambition of achieving a net positive result. To limit BAM's impact on resource consumption, the company works together with supply chain partners and clients to explore circular economic business models.

> See chapter 2 Strategy and chapter 4.3 Environmental performance.

Health and safety risk

Risk description

The nature of BAM's business may impose health and safety risks to its people. The well-being and safety of the people of BAM is vital to the company.

Possible impact

Health and 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.

Management measures

BAM has established several health and safety policies to provide guidance in this area. A central department, together with representatives at operating company level, supports the business to maintain and further improve a culture of healthy and safe behaviour. In this culture, prevention of incidents and the openness to discuss dilemmas are paramount. Several reporting processes monitor BAM's performance in this area.

> See chapter 3.2 Stakeholder engagement and material themes.

Insurance management

Insurance management is part of the risk management strategy of the Group. Insurance management is identifying insurable risks and buying the right insurance cover, with a balance between cover, cost and certainty of cover. The focus is on high impact events, and not on insuring frequent losses with low impact. All insurances are placed via professional insurance brokers and results are monitored at Group Level. All insurers have a minimum rating of S&P A-.

Within the operating company dedicated insurance management teams assess and insure the risks associated with the construction of projects. The Group sets the minimum requirements for insurances to be secured by the operating company. All insurance managers report to operating company management and the Group director Insurance.

Operational audit

Within BAM, the Operational Audit Department has been established as an objective, independent function to assess the effectiveness and efficiency of the control environment. The capacity of the audit function is focused on the main risks the company faces in the project business it is involved in. Operational audits are an important and powerful tool in the mitigation of project-related risks at an early stage.

In 2016, Operational Audit evaluated the implementation of the improved tender stage gate procedure and assessed the Group's compliance with the procedure. Furthermore, high-risk projects throughout the Group were visited shortly after contract award to assess the effectiveness of the project control system.

Claims and procedures

Companies operating in the construction industry are involved in discussions on the financial settlement of construction projects, including contract variations, the time of completion and the quality level of the work. Most of these discussions are concluded to the satisfaction of all concerned. However, in some cases it is impossible to avoid a discussion ending in legal proceedings. BAM is also involved in a number of lawsuits. Financial claims that the Group has pending against third parties are generally not capitalised unless it is reasonably certain that the amount in question will be paid. The Group takes great care to prevent such legal proceedings by implementing quality programmes and providing training for its employees. Examples of major legal proceedings involving BAM are given briefly below.

In 2005, during the construction of a drilled tunnel for the SMART North tunnel project in Kuala Lumpur, engineering firm Wayss & Freytag Ingenieurbau was faced with ground conditions that varied from the information provided by the client. Wayss & Freytag Ingenieurbau terminated the contract early 2006 as a result of the client's failure to fulfil its payment obligations and refusal to deal with Wayss & Freytag's claims for an extension of the construction period and reimbursement of costs. The client, in turn, also terminated the contract in January 2006. Wayss & Freytag Ingenieurbau lodged a claim against the client for more than €20 million as compensation for costs incurred. The client lodged provisional counterclaims of €5 million. An independent dispute adjudicator, in the contractually prescribed procedure, has ruled that Wayss & Freytag Ingenieurbau was entitled to terminate the contract. This verdict has been confirmed by an arbitration. The client appealed before the Federal Court, but meanwhile the parties initiated negotiations for settlement. These negotiations were successful. A full and final settlement was reached in January 2017.

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 client 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. The German Public Prosecution Service is also carrying out its own investigation to determine whether any criminal offences have been committed. The damage to property is considerable and the parties involved have claimed under several different insurance policies.

What impacted BAM in 2016?

Despite all the measures BAM has taken and the focus and attention given by its people, some risks that are related to the nature and complexity of the market and business environment impacted BAM in 2016. In this section some examples are demonstrated.

Transition to new organisation (market risk/people risk)

The re-focus within BAM following the 2016-2020 strategy programme 'Building the present, creating the future' impacted the way BAM wants to work. The transition to a new organisational model (which already started during the Back in Shape period) includes rationalisation of business models and businesses. This needs to be more collaborative, harmonised and agile so BAM can keep up with industry developments and be a frontrunner in its selected markets. Restructuring impacts BAM's business performance financially by one-off charges but also may create temporary uncertainty for the people of BAM. The Group strives to limit this period of uncertainty by implementing changes rapidly and providing clarity about the direction for the future. BAM also communicated extensively about the new strategy.

Brexit (market risk)

On 23 June 2016, the UK voted for Brexit. The UK 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 UK), 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.

The translation of the devaluated pound into euro reduced the reported revenue, results, closing cash balance and order book for the UK. A significant percentage of the revenue for 2017 is secured in projects which are already underway. Moreover, since the vote BAM has won several new orders. Further impact of Brexit remains uncertain, which is why BAM will continue to monitor developments closely, maintain tender discipline and adapt its organisation and operations if required.

A-symmetric risk profile in combination with public tendering (market risk/project risk)

BAM's performance in 2016 was still impacted by the phase-out of projects that were awarded in an economically difficult period. Considerable efforts were made to turn around those low-margin projects, but this could not prevent part of BAM's portfolio from

contributing less than the company needs to achieve its strategic objectives. At the end of 2016, the de-risking of the project backlog was largely completed. At the same time there are still projects, especially when publicly tendered, that impose an a-symmetric risk profile on BAM. The healthy order intake for the future therefore continues to be top priority, supported by data driven project selection, flawless execution and state-of-the-art supporting processes.

Safety

Although the focus on safety is stronger than ever before, the company is still facing incidents at project sites. The loyalty of the people of BAM towards meeting clients' schedules or meeting financial targets sometimes impacts the safety of the working environment. Besides having the knowledge and tools to work safely, it is crucial that employees can always openly communicate about unsafe situations with each other and with their manager.

Improvements to the risk management and monitoring system

The improvement of BAM's risk management and monitoring system is an ongoing process. The risk management function, operational audit and the external auditor all provide input for further enhancements. The improvement potential relates to developing and sharing better practices and the harmonisation of risk management processes throughout the Group.

Governance, Risk and Compliance (GRC)

Early 2017, enterprise risk management and the interconnected pillars related to governance and compliance have been further enhanced by establishing a new Governance, Risk and Compliance (GRC) function. The main responsibility for this new role is to further evolve the GRC areas in line with the strategy 2016-2020.

The GRC areas relate to the implementation and periodically recalibrating of BAM's governance structure in line with market trends and strategic development of the Group, enhancing the enterprise risk management (ERM) programme and further develop compliance (including privacy) in accordance with social standards and relevant laws and regulations.

Reporting external auditor

The independent auditor assesses BAM's internal control environment as an integral part of its audit procedures, mainly focusing on the key (financial) processes and reporting systems underlying the information contained in the financial statements.

BAM transitioned from PwC to EY as its external auditor in 2016. In their first year audit, the external auditor concludes that no material weaknesses or significant deficiencies have been found.

The external auditor describes areas of improvement that mainly relate to the clarification of central and decentral responsibilities and further formalisation of:

- BAM's business control framework;
- IT controls and procedures (logical access , security settings);
- Integrity and compliance framework (set minimum group standards, updating procedures).

The Group carries out appropriate actions to follow up on the recommendations.






In control statement

BAM can reasonably state that the risk management and monitoring systems, in respect of financial reporting risks, worked adequately during the year under review and no deficiencies were identified in relation to these systems and their operation that could have potential material implications on the financial reporting in 2016. The Group cannot guarantee that no risks will materialise and no system and procedures provide absolute certainty for the realisation of business objectives.

4. Business performance

4.1 Financial performance

13 — Target: Creating return on capital employed above 10 per cent

| Target | Performance | Progress |
|--|--|----------|
| Return on capital employed (ROCE) >10 per cent by 2020  In order to reach that target return must go up and capital employed must go down. | ROCE in 2016 amounted to 2.8 per cent (2015: 0.2 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 2016 improved to 1.5 per cent, 0.3 per cent points up compared to 2015. | ○○● |
|  Capital employed: Increase trade working capital efficiency below -/- 10 per cent of revenue. | The trade working capital efficiency improved to -/- 10 per cent at year-end 2016 compared to -/- 8.1 per cent at year-end 2015. | ○○● |
|  Capital employed: Reduce investment in land bank and property development below €500 million. | BAM achieved divestments of property and other assets for a total of €62 million in 2016 (2015: €95 million). Balance sheet value for land bank and property down to €630 million. | ○○● |
|  Improve capital ratio towards 25 per cent by 2020. | Capital ratio amounted to 19.7 per cent compared to 21.2 per cent at year-end 2015. | ●○○ |

In 2016, we made good progress implementing the strategy 'Building the present, creating the future.' We are focusing our project portfolio by disciplined, data-driven tendering and we have a pipeline with attractive opportunities. Across our business portfolio, we exited some non-core activities, completed the integration of Dutch Construction and property, and are refocusing our International infrastructure and German construction businesses. Despite some headwinds, we delivered a robust adjusted result for 2016 ahead of the previous year. We continued to de-risk and strengthen our financial position, and generated a strong positive cash flow. Our return on capital employed – a leading KPI for how we manage our business – started to move upwards thanks to the higher result and lower capital.

Management summary

- Revenue amounted to €6,976 million, 6 per cent down compared to 2015 of which more than half coming from the lower GBP exchange rate;
- Adjusted result before tax of €102.7 million, 16 per cent up compared to 2015;
- Order book decreased in the year by €1,300 million, or 11 per cent, to €10,200 million. More than a third part of the decrease coming from the lower GBP exchange rate;
- Total cash flow over €100 million, predominantly coming from better working capital positions.

14 — Key financial results

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|--|----------|---------|
| Revenue | 6,976 | 7,423 |
| Adjusted result before tax | 102.7 | 88.2 |
| Margin (%) | 1.5 | 1.2 |
| Result before tax | 60.1 | 13.3 |
| Net result attributable to the shareholders of the Company | 46.8 | 10.2 |
| Order book | 10,193 | 11,480 |
| Earnings per share | 17 cents | 4 cents |
| Dividend proposal | 9 cents | 2 cents |

15 Result before tax

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|---|--------|--------|
| Continuing operations | | |
| Adjusted result before tax, depreciation and amortisation charges | 167.1 | 158.7 |
| Depreciation and amortisation charges | (64.4) | (70.5) |
| Adjusted result before tax | 102.7 | 88.2 |
| Impairment charges | (50.7) | (39.1) |
| Restructuring and other exceptional costs | (33.5) | (38.6) |
| Pension one-off | 41.6 | 2.8 |
| Result before tax | 60.1 | 13.3 |
| Income tax | (10.9) | (2.3) |
| Result for the year | 49.2 | 11.0 |
| Non-controlling interests | 2.4 | 0.8 |
| Net result attributable to shareholders of the Company | 46.8 | 10.2 |

Revenue

Revenue decreased by €447 million, or 6 per cent, in 2016 principally due to a foreign exchange rate effect of the pound sterling of 3.4 per cent. The sector Construction and Property reported an average decrease in revenue of 1.7 per cent whilst revenue in the Civil Engineering sector declined by 11 per cent. Civil sector revenue was down, mainly in the UK due to foreign exchange rate effect and at BAM International due to lower activity in the oil and gas industry.

Order book

As at 31 December 2016 the order book (orders in hand for the next five years) amounted to €10.2 billion, representing a decrease of €1.3 billion in the year (2015: increase of €1.2 billion in the year). The decrease takes into account the cancellation of a large order and a negative exchange rate effect of €445 million. Of the current order book position, €5.4 billion (2015: €5.9 billion) is expected to be carried out in 2017 and €4.8 billion (2015: €5.6 billion) in the years after. In addition, the Group has more than €2.1 billion (2015: €2.3 billion) in the order book beyond five years, mainly comprising of long-term maintenance contracts for PPP projects.

Earnings per share

The number of outstanding ordinary shares of BAM increased by 0.2 million in 2016 to 270.6 million shares as at 31 December 2016, due to stock dividend minus the repurchase of shares for the conditional performance share plan. (Diluted) earnings per share amounted to 17 euro cents (2015: 4 euro cents).

Dividend proposal

The announced dividend of 9 euro cents per share (in cash or in shares) for 2016 (2015: 2 euro cents) will be proposed to shareholders at the Annual General Meeting of shareholders to be held on 19 April 2017. The recommended dividend is in line with our dividend policy to target a pay-out ratio in the range of 30 to 50 per cent of the net result. The dividend return amounts to 2.1 per cent, based on the 2016 closing price (2015: 0.4 per cent).

16 Financial position

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|-----------------------------|-------|-------|
| Cash and cash equivalents | 739 | 637 |
| Less: borrowings | (612) | (597) |
| Net cash | 127 | 40 |
| Add: non-recourse financing | 368 | 319 |
| Recourse net cash | 495 | 359 |
| Capital employed | | |
| - Non-current assets | 1,446 | 1,507 |
| - Net working capital | (456) | (340) |
| Shareholders' equity | 834 | 902 |
| Capital base | 947 | 1,026 |
| Total assets | 4,812 | 4,852 |
| Solvency (%) | 19.7 | 21.2 |

Cash and cash equivalents

Cash and cash equivalents was €739 million as at 31 December 2016 (2015: €637 million), of which €223 million (2015: €181 million) concerns the Group's share of cash and cash equivalents in joint operations.

Stakeholder interview

Wessel van Beerendonk is Architect and co-founder at Studio RAP in Rotterdam, the Netherlands. Studio RAP works with the most advanced digital fabrication methods to create a new expressive architecture. RAP realised in 2015 the first robotically fabrication building of the Netherlands.



Wessel van Beerendonk, Architect

What is the most important catalyst for further sustainable development in construction?

‘Profitable innovation is the most important factor for sustainable development in the construction industry. As an architect, I believe that we have the power to deliver a substantial contribution to our society by transforming the fragmented, one-dimensional building process into a digital integrated building process. We’ve got to redefine the role of

possibilities of the digital and the material world. This reunification results in a more straightforward building process where experts can work together, simultaneously, on solutions for a building’s total lifecycle; resulting in a circular construction industry. Under the master-builder’s guidance, the combined intelligence of architect, engineer, contractor, producer, investor and client results in much more than product innovation. It ultimately revolutionises the entire building process.’

solutions. Digitalisation gives us the scope to see buildings as containers of materials but also of functional possibilities, spatial qualities and contemporary values. Automation gives us the possibility to build this wonderful environment time- and cost-effectively without forcing repetitive, exhaustive or dangerous low-wage jobs onto our working population.

Concluding; the construction industry has the power to reinvigorate itself and our society. By choosing long over short-term, circular over linear, innovation over tradition, ideas over dogmas and by leaving the wasteful, conservative models of the past for a profitable, sustainable future for all.’

‘The construction industry has the power to reinvigorate itself’

the contemporary architect towards that of a digital master builder; one who utilises the untapped potential of digitalisation, automation and prefabrication for more expressive and efficient building design.

At Studio RAP we believe in digital fabrication, especially robotics, as the enabler to close the gap between the

How do we ensure sustainability will continue to be a theme – and what role does digitalisation and innovation play?

‘Profitability is key. We’ve reached a pivotal point in history where we, the digital generation, have all the tools at our disposal to translate the awareness of our planet’s finite resources to tangible



Horse Inn at Liège Airport in
Grâce-Hollogne near Liège.
BAM Belgium (Galère).



Borrowings

As at 31 December 2016 total borrowings amounted to €612 million (2015: €597 million) of which €368 million (2015: €319 million) concerned non-recourse debt. The increase in 2016 is driven by non-recourse debt. Non-recourse loans associated with PPP projects increased with €79 million (2015: decrease €11 million) and property development decreased in 2016 with €30 million (2015: €46 million decrease) principally due to PPP investments and project divestments in the year with consequential debt payments.

As at 31 December 2016 a net cash position is achieved of €127 million (2015: €40 million net cash position). This position comprised of cash and cash equivalents minus borrowings of €612 million (2015: €597 million).

The Group refinanced its two credit facilities in 2016. The subordinated loan with a nominal value of €125 million was repaid following the placement of unsecured subordinated convertible bonds for €125 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 €5.2245 which represent a 32.5 per cent premium to the volume weighted average price of the shares quoted on the Euronext stock exchange in Amsterdam between opening of trading on 6 June 2016 and pricing. The bonds will be redeemed at their principal amount on or around 13 June 2021. Upon exercise of the conversion rights, bond 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 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.

In November 2016 the Group has reached agreement with a bank syndicate on the renewal of the committed revolving credit facility for an amount of €400 million until 31 March 2022. This new facility replaces a facility of €417.5 million that was due 30 January 2018. The qualitative terms of the facility are material similar to the previous facility, the credit margin and commitment fee have been improved. As at 31 December 2016 the committed syndicated credit facility was not used, just as in 2015.

17 Borrowings

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|--------------------------------|------------|------------|
| Non-recourse debt | | |
| PPP | 274 | 195 |
| Property | 86 | 116 |
| Other | 8 | 8 |
| | <u>368</u> | <u>319</u> |
| Subordinated loan | - | 124 |
| Subordinated convertible bonds | 113 | - |
| Recourse debt | | |
| PPP | 50 | 53 |
| Property | 74 | 87 |
| Financial lease | 7 | 15 |
| | <u>244</u> | <u>279</u> |
| Borrowings | 612 | 597 |

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 €495 million as at 31 December 2016, €136 million up compared to 2015.

Capital employed

Non-current assets

On balance, non-current assets decreased in the year with €61 million (2015: increase €38 million).

As the annual depreciation was partly compensated by the net capital expenditures in the year, the carrying amount of property, plant and equipment decreased with €22 million to €270 million. The majority of the capital expenditures and disposals concerned the asset category equipment and installations in the sector Civil engineering.

Intangible assets predominantly comprises goodwill with a carrying amount of €379 million, a decrease of €27 million compared to 2015 owing to the exchange rate of the British pound sterling compared to the prior year with an effect of €23 million. Furthermore an amount of €4 million goodwill was disposed of in relation to the divestment of Heilijgers. Goodwill is tested for impairment annually and this did not result in an impairment. The sensitivity analyses indicated that for a German cash-generating unit, representing a goodwill amount of €12 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.

PPP receivables increased in 2016 to €359 million from €284 million principally due to construction progress on current PPP projects (€190 million) compensated by the transfer of two projects to the joint venture with PGGM (€87 million). In 2016, no PPP receivables were reclassified to assets held for sale to the PGGM joint venture (2015: one project with an amount of €39 million).

The carrying amounts of investments (accounted for using the equity method) and other financial assets decreased in the year with €8 million (from €94 million to €86 million) respectively decreased by €6 million (from €98 million to €92 million). The increase in other financial assets includes a reversal of impairment charges of €2 million.

Net working capital

Net working capital (current assets excluding cash and cash equivalents minus current liabilities excluding current borrowings) as at 31 December 2016 amounted to minus €456 million (2015: minus €340 million). Gross investment in property development has been reduced with €110 million in 2016 to €630 million, as a consequence of property sales, divestments and an impairment charge of €48 million (2015: €37 million). Net investment in property development, taking into account associated borrowings, amounted to €475 million (2015: €544 million).

The further improvement of net working capital in 2016 was mainly driven by an improvement of prefinancing of our construction contracts.

Shareholders' equity and capital base

Shareholders' equity significantly decreased by €68 million in 2016 to €834 million as at 31 December 2016. This decrease is principally due to the unfavourable development of the remeasurements of post-employment benefit obligations (€53 million) due to lower discount rates and foreign exchange rate differences (€66 million), partly compensated by the net result for the year of €47 million.

Capital base includes the new subordinated convertible bonds of €112.5 million (2015: €125 million for the repaid subordinated loan). The difference between the nominal value of the convertible bonds of €125 million and the reported value of €112.5 million, consists of the valuation of the conversion right and transaction cost.

Solvency

As at 31 December 2016 solvency is 19.7 per cent (2015: 21.2 per cent) determined by using the capital base. Given the lower capital base and the stable balance sheet total, solvency

decreased in 2016. Recourse solvency, the ratio in accordance with the bank covenants, slightly decreased to 29.0 per cent as at 31 December 2016 (2015: 29.3 per cent), which comfortably exceeds the required minimum of 15 per cent.

Other significant movements in balance sheet items

Post-employment benefits

The net defined benefit liability amounted to €82 million as at 31 December 2016, an increase of €5 million compared to 2015 principally due to changes in actuarial assumptions, specifically the discount rate used. The current year balance allows for pension one-off gains of €42 million in connection with pension plan amendments in defined benefit schemes in the Netherlands, the United Kingdom and Ireland.

Provisions

Provisions, other than post-employment benefits, slightly decreased by €8 million to €142 million (2015: €150 million), mainly effected by the release of the dividend guarantee provision for the Van Oord disposal. The restructuring provision increased by €1 million to €42 million as at 31 December 2016. Additional restructuring provisions, related to both organisational changes and market circumstances, and releases of unused provisions totalled €34 million, predominantly in the Netherlands. Payments on restructurings, mainly from the Back in shape programme, amounted to €33 million.

Deferred tax assets and liabilities

The Group has a net deferred tax asset of €223 million (2015: €221 million) principally reflecting the tax losses carry forward in the Netherlands and Germany. The valuation as at 31 December 2016 allows for estimates of the level and timing of future taxable profits for the upcoming nine years (the Netherlands) and for an indefinite period (Germany) including available tax planning opportunities.

Assets and liabilities held for sale

The assets and liabilities held for sale as at 31 December 2016 amount to €40 million (2015: €42 million) for the assets and €4 million (2015: €46 million) for the liabilities and are fully attributable to the proposed sale of all 47 property development positions in the Northeast part of the Netherlands. In 2015 the assets and liabilities held for sale were fully attributable to one PPP project, that was transferred to the joint arrangement with PGGM in 2016.

Business line results

With effect from 2016, BAM has changed its reporting sectors to align with its implemented updated strategy. The ten operating companies now report as three sectors: Construction and Property, Civil Engineering and PPP. The Construction and Property activities are now managed and reported as one integrated business line. In addition, construction activities in Ireland, Belgium and at BAM International have been reclassified from Civil engineering to Construction and Property. Comparative figures for previous year have been adjusted. The reporting sector PPP remains unchanged.

18 — Construction and Property

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|----------------------------|-------|-------|
| Revenue | 4,124 | 4,202 |
| Adjusted result before tax | 3.5 | 15.1 |
| Margin (%) | 0.1 | 0.4 |
| Order book | 6,264 | 6,559 |

In Construction and Property revenue was €4,124 million, which was lower by €78 million compared to 2015 due to the impact of the pound sterling (-€157 million). Revenue rose in the UK, Ireland and the Netherlands. There was a shortfall in revenues in Germany due to project postponements and refocusing the activities on targeted regions. Revenue in Belgium reduced because of fewer property transactions.

The total sector result was €3.5 million including a property development result of €26.7 million, mainly from commercial property in the UK and Ireland. The Dutch non-residential Construction and Property restored profitability in 2016. In Germany, there was a loss of €33.3 million from lower volumes, settlements at older projects and subcontractor bankruptcies. This business is expected to be profitable in 2017. At Dutch residential Construction and Property, house sales (2,158) were broadly in line with the prior year (2,187). Despite growing demand for new build houses, development opportunities were limited by reduced planning and zoning capacity at municipalities. Margins here remained low.

The year-end order book was lower by €295 million, mostly caused by the weaker pound (€236 million), and market conditions in Dutch non-residential. The order book in the UK was slightly down on a constant currency basis. The order book in other countries was higher.

The total investment in property reduced by €110 million to €630 million at the end of 2016. These investments were financed by €69 million recourse property loans (year-end 2015: €80 million) and €86 million non recourse property loans (year-end 2015: €116 million).

19 — Civil engineering

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|----------------------------|-------|-------|
| Revenue | 2,899 | 3,260 |
| Adjusted result before tax | 83.4 | 66.6 |
| Margin (%) | 2.9 | 2.0 |
| Order book | 3,950 | 4,895 |

In Civil engineering, revenue reduced by €361 million to €2,899 million, of which €94 million currency effect. This was due to lower revenue from large multi-disciplinary projects in the UK, BAM International and in Belgium. Revenue in the Netherlands grew by 6 per cent. Margins in BAM's home markets were above 2 per cent. At BAM International, although total project results were positive, there was a loss due to lower revenue and increased tender cost linked to refocusing to selected on-shore markets. The movement in the sector order book of a decrease of €945 million mainly came from negative currency effects, the project cancellation in Belgium in the first quarter and adverse market conditions in Belgium and International oil and gas. The order book in the UK reduced. The percentage of the UK revenue for 2017 secured at year end was slightly lower compared to prior year.

20 — PPP

(x €1 million, unless otherwise stated)

| | 2016 | 2015 |
|----------------------------|------|------|
| Revenue | 197 | 185 |
| Adjusted result before tax | 17.1 | 18.7 |
| Order book | 342 | 558 |
| Average invested equity | 103 | 97 |
| Return on equity (%) | 16.6 | 19.3 |

The sector PPP had another good year providing a stable adjusted result before tax and maintaining a healthy return on equity.

The result was primarily driven by good operational project performance within the growing portfolio, successful refinancing of a number of projects and asset management profits on transfers to the joint venture with PGGM.

The continued success of the joint venture is reflected by PGGM's decision in 2016 to further increase its commitment. The total committed funding for the joint venture is now €775 million.

Whilst no new projects were added to the portfolio this year and the number of bid decisions expected in 2017 is somewhat reduced from previous years, the pipeline of active and imminent bids remains healthy with three major tenders having commenced in the final quarter of 2016 along with a steady flow of new opportunities that are scheduled to commence throughout 2017.

At the end of 2016 the number of PPP projects in the portfolio was 44 of which BAM PPP retains an interest in 40; for the remaining 4 projects only asset management services are provided by BAM PPP.

Two projects reached financial close in 2016:

- A94 road (A94), Germany
- N25 road (N25), Ireland

BAM PPP's projects are spread across BAM's European markets with revenue based mainly on the availability criterion. The ratio of accommodation to civil engineering projects is also balanced, although civil engineering projects are often greater in size.

The joint venture with PGGM made good progress during 2016, with the investment in two new projects. The joint venture provides BAM PPP with the twin benefits of a strong position from which to pursue further projects and a stable platform within which equity can be made available for new investments.

Strategy

BAM PPP harnesses the strengths, experience and expertise within Royal BAM Group, coordinating the provision of lifecycle solutions for the benefit of public-sector clients. The company focuses on BAM's European home markets where the Group has proven construction and maintenance skills and expertise. Its strategy aims to grow the portfolio to provide short-term construction turnover, long-term Facility Management and lifecycle turnover, equity investment returns and asset management income.

Market

The PPP markets continue to offer an attractive supply of bidding opportunities. Competition continues to be intense and is demonstrated by the increased number of competitors at the prequalification stage. The bidding opportunities are spread reasonably evenly across all of our markets with the exception of the UK. Interest in providing long term debt remains strong from both bank and institutional lenders for both primary and refinancing transactions.

BAM PPP Portfolio financial performance

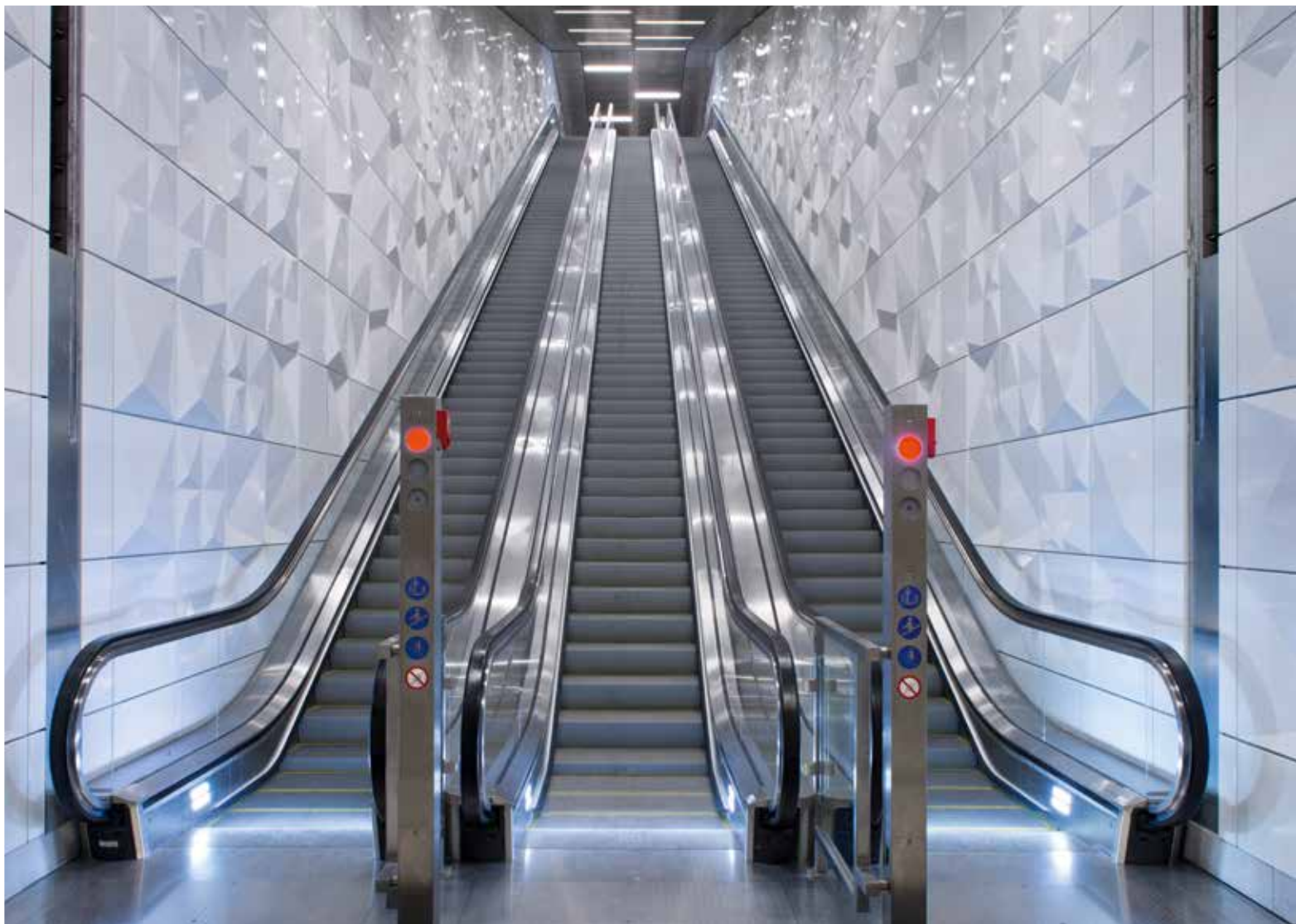
At year-end 2016, shareholders equity invested by BAM PPP totaled €66 million (2015: €72 million). BAM PPP invested €10 million and transferred €12 million to the BAM PPP PGGM joint venture in 2016. BAM PPP does not invest in projects until their structural completion, with the shareholders' equity part being financed with a bridging loan.

Committed equity is €120 million, all by the joint venture. The invested and committed equity totaled €186 million. New projects will mainly be undertaken by the joint venture.





Subway station (U-Bahnhof)
Heinrich-Heine-Allee in
Düsseldorf, Germany.
Wayss & Freytag Ingenieurbau.



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 Director's valuation and totals €238 million (2015: €239 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 €73 million (2015: €77 million).

Business development

The current portfolio provides BAM PPP with returns on equity investments, in addition, as at year-end 2016, to an order book of construction turnover of €785 million and Facility Management and lifecycle turnover for BAM sister companies of €3.5 billion. BAM PPP has in the pipeline 8 active bids, providing potential equity investments of €162 million, potential construction turnover of €1.4 billion and potential Facility Management turnover (excluding lifecycle) of €0.7 billion.

Directors' valuation

The directors' valuation is intended to illustrate movements in the value of the PPP portfolio during the year taking account of the impact of intervening transactions, through the application of a consistent methodology. The valuation is based on the forecast returns of the projects, based on current projections, and may differ significantly from the book value of the investments shown in the accounts. Cash flows accruing from projects are calculated on the basis of financial models, based on contractual terms with clients and have been approved by external lenders. The valuation is calculated using the widely acknowledged discounted cash flow basis, discounting all future cash flows to BAM PPP at an appropriate discount rate. All future cash flows are converted into euros. All projects that have reached financial close are taken into account; projects for which BAM PPP is the preferred bidder are excluded until financial close is achieved.

Discount rates

BAM PPP applies discount rates based on the company's knowledge of the market, the agreed transfer mechanism with PGGM, through the joint venture, and the use of a simple project phase analysis.

A higher discount rate is applied from financial close through to construction completion before stepping it down once into operations due to the reduced risk and greater certainty of future cash flows. BAM PPP believes this approach is preferable to using an adjusted market risk free rate approach as we have the benefit of up-to-date market information based on our discussions and agreement with PGGM.

21 Portfolio financial performance 2016

(x €1 million, unless otherwise stated)

| | | Nominal | Discounted |
|--|-----------|---------|------------|
| Invested equity | | 66 | |
| Committed equity | | 120 | |
| Total invested and committed equity | (a) | 186 | 165 |
| Future equity cash flows | (b) | 868 | 238 |
| Implied forecast unrealised value in the portfolio | (b) - (a) | | 73 |

Sensitivities

The > table below shows the sensitivity of the directors' valuation if all the project discount rates applied are changed simultaneously by plus or minus 1 per cent and 2 per cent.

22 Sensitivity of the directors' valuation

| Discount rate adjustment | Portfolio valuation (€ million) | Difference in valuation (€ million) |
|--------------------------|------------------------------------|--|
| +2% | 202 | -36 |
| +1% | 219 | -19 |
| 0% | 238 | - |
| -1% | 261 | 22 |
| -2% | 287 | 48 |

23 Directors' valuation 2016

(x €1 million, unless otherwise stated)

| | |
|--|-----|
| Valuation as at December 2015 | 239 |
| Dividends and distributions received since December 2015 | -10 |
| Repayments and divestments since December 2015 | -16 |
| Exchange rate movements | -8 |
| Rebased December 2015 | 204 |
| Valuation at December 2016 | 238 |
| New projects added | 15 |
| Revaluation 2016 ¹ | 19 |
| Increase/decrease in portfolio valuation | 34 |

¹ The revaluation 2016 consists of a combination of factors including:

- The discount unwind (over time, the discounted value increases given that the future value is a year closer);
- The impact of changes in discount rates applied as projects move into operations;
- Operational performance gains as a result of factors such as the impact of macro-economic changes, higher inflation, better performance, successful asset management, changes in demand and revisions to costs.

Acquisitions and divestments

There were no material acquisitions in 2016.

On 26 January 2016 BAM Infra Nederland bv has sold its water treatment activities, which formed part of BAM Infra Milieu, to SITA Remediation bv in Utrecht. The transaction referred to the four employees, work in progress and plant and water treatment equipment. BAM saw insufficient opportunities for further development of the water treatment activities and considered the added value of this specialisation for the Group limited. Furthermore, the transaction was in line with the streamlining of the organisation.

On 19 May 2016, BAM Technics sa in Belgium sold its Walloon subsidiary Balteau i.e. (installations électriques) to the management. Balteau i.e. is specialised in electrical engineering, high and low voltage for public, private and industrial buildings, data cabling, fire detection, alarm systems and electric heating. The company was founded in 1983 and was part of BAM from 2008. Balteau i.e. has more than two hundred employees and an annual turnover of approximately €40 million. The transaction also included the four affiliates of Balteau i.e., Electro Gdb, TCS Pirotte, Alarme Contrôle and Service Partner. BAM saw insufficient synergies to maintain its participation in Balteau i.e. and its affiliates.

On 29 August 2016, Royal BAM Group nv reached agreement with the management of its construction and properties subsidiary Heilijgers about a management buyout. The decision to transfer Heilijgers (over 100 employees; revenues in 2015 €40 million) to its management was part of BAM's strategy 'Building the present, creating the future'. One aspect of the strategy relates to shaping the business portfolio. Among other things this includes exiting operational activities that do not offer sufficient opportunities to use scale or differentiation as critical success factors. The management buyout offers Heilijgers opportunities for further growth.

On 18 November 2016 Royal BAM Group nv has signed an agreement with VanWonen Vastgoedontwikkeling on the proposed sale of a portfolio of all 47 property development positions in the north east of the Netherlands. The intended transaction is in line with BAM's strategy, whereby the business portfolio is being shaped and the property portfolio is being reduced to less than €500 million by 2020. In this context, BAM is adjusting the property portfolio by converting residential property positions outside the core urban areas into cash and using the proceeds to invest in equity light propositions in the core urban areas. BAM will remain active in residential and non-residential construction and the development of non-residential property in the north east of the Netherlands.



Adelphi Arts Centre, University of Salford. BAM Construct UK.



4.2 Social performance



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

| Targets | Performance | Progress |
|--|---|----------|
| Fully incorporate safety in daily activities to achieve a BAM incident frequency (IF BAM) of 4.5 for 2016 and of ≤ 4.0 for 2017. | IF BAM of 4.8. | ● ○ ○ |
| BAM values implemented in the operating companies in 2017. | BAM values discussed with management teams. | ○ ○ ● |
| Leadership development programme for top business management in 2019. | Analysis of current development programmes in operating companies. | ○ ○ ● |
| Olympus: project management development programme for top project managers in 2018. | Seminars with top project managers. Providers for development programmes are selected. | ○ ○ ● |
| Enhance one million lives in local communities by 2020. | Develop a group wide strategy and resource (including development of monitoring tools) to measure overall social impact across the group. | ○ ● ○ |

Where BAM can improve

Despite BAM's continuing effort to improve safety on its projects, the company deeply regrets the sad loss of one BAM employee, one passer by and one employee of a subcontractor on a joint venture project. The Group faced two fatal accidents in January 2017. As a result the upcoming Management Board meeting was combined with the international Safety Officer's meeting which took place in February 2017. The purpose was to create a specific action plan together that should avoid such incidents for the future, on a company level as well as on a personal level. Commitment, visible leadership and knowledge sharing are a few of the main topics in this plan. BAM is aiming for zero accidents, regardless of the severity of the accidents or the numbers of hours worked. We are in the process to generate a genuine and sustainable safety leadership culture across the senior management of the Royal BAM Group.

Health and safety

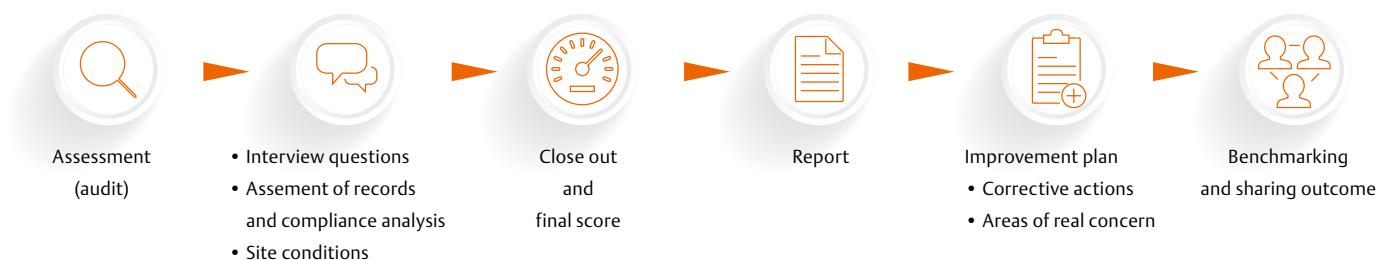
Royal BAM Group feels responsible for all people involved in or affected by the activities of the Group. This includes BAM's employees, clients, designers, partners, suppliers, subcontractors, buyers and the general public.

Safety

In order to effectively monitor its safety performance, BAM records statistics of the following groups:

- BAM employees (all employees with an employment contract with the company);
- Consortium/joint venture (all BAM employees, leasing employees, self-employed persons and employees of subcontractors and their subcontractors who are working for BAM);
- Other/third parties (principal, supervisor, inspector, supplier, visitor and so forth).

25 — Safety Behaviour Audit Process



Stakeholder interview



*Salim Ismail is an investor, speaker, advisor, entrepreneur and strategist. He is author of the bestseller *Exponential Organizations*, founding executive director of Singularity University and founder and Chairman of ExO Works. He is also co-founder of Confabb, PubSub Concepts and Angstro.*

Salim Ismail, Chairman of ExO Works

What is the most important catalyst for further digitalisation in construction?

'There are two of them. First, new materials, which come from all of these new technologies. New technologies allow us to radically create new materials very quickly. Second, the business model starts to get really affected in construction in an unexpected way. If you look at the way we traditionally do planning and projection of construction and how we deal with strategic planning, we kind of look out a few years and think we will need, for example, a certain amount of hotel buildings. But then appears Airbnb. Suddenly those hotel buildings are not needed anymore. So, there are unexpected facts that will affect the business model of utility, even the one on the surface. It seems like a hard industry to disrupt.'

How do we ensure digitalisation will continue to be a theme?

'I think this is a very profound effect. We are only just getting started. For example, ten years ago we had half a billion internet connect devices in the world. Now we are up to fifteen billion and we will be in a trillion in the next few years. That means we are only one and a half per cent of where we will be in a few years. That impact is very profound.'

What role does digitalisation and innovation play?

'Digitalisation is just getting started. There will be profound innovation across all sectors as many the technologies start multiplying, accelerating and intersecting at the same time. Each intersection has a very dramatic consequence when you think for example of the impact of drones in construction, prefab and 3D printing. They become more and more effective and impactful.'

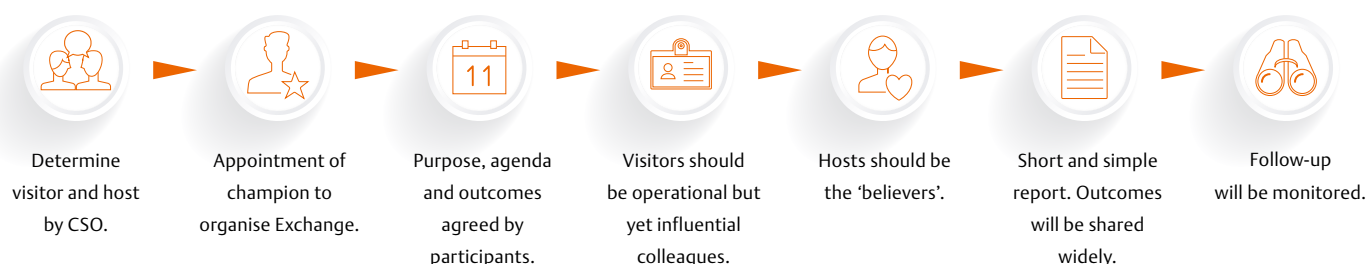
'Digitalisation is just getting started'



Construction of Dubai's Jebel Ali Port in the United Arab Emirates. Construction of 2,240 metres of quay wall, 2,240 metres of land side crane beam to accommodate 100-tonne STS cranes as well as a 440-metres long access bridge and a 2.6-kilometres causeway to link the new terminal being built on an island of reclaimed land to the main port.
BAM International, BAM Infraconsult.



26 — Safety Exchange Process



The IF for BAM is determined by the total number of industrial accidents leading to absence from work, per million hours worked on construction sites (on risk). In 2016 the IF increased to 4.8 (2015: 4.5), which is above the 2016 target of 4.5. The number of fatal and serious accidents (BAM employees, hired, subcontractors' employees, other) decreased from 153 in 2015 to 127 in total in 2016. 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.

Safety Behaviour Audit

With the introduction of the SBA, 'awareness' was replaced by 'behaviour'. This new type of auditing should lead to an increased focus on safety behaviour, commitment and performance, still based on an assessment and interviews, leading to a report and improvement plan. Moreover, a SBA is not just about safety but it is about leadership and behaviour in all parts of the company and supply chain.

Safety Exchange

This customised knowledge exchange, introduced in 2016, is an open dialogue between two operating companies that focusses on a debate for challenging and learning (themes from the safety maturity model, see next paragraph) in which they have to come up with solutions together.

2016 was a year of developing and learning to work with SBAs and SEs, in order to launch these new types of dialogue officially in 2017.

Maturity model

Based on twelve leading (safety) indicators, all of BAM's operating companies except for BAM PPP are measured on the subjects:

1. Visual leadership/Ambition;
2. Enforcement/Intervene;
3. Communication;
4. Continuous improvement/Innovation;
5. Training and development;
6. Supply chain management;
7. Tender risk management;
8. BIM/Safety by design;
9. Logistics and traffic management plan;

10. Method statement;
11. WASP/Partner plan;
12. Briefings/Encouragement.

By connecting two operating companies regarding one leading indicator, the set-up is made for each Safety Exchange.

Reporting

As of 1 October 2016 reporting was extended with adding high potential near hit/miss incidents. Creating uniform safety reporting across all operating companies is one of the strategic objectives, which enables access to the right management information.

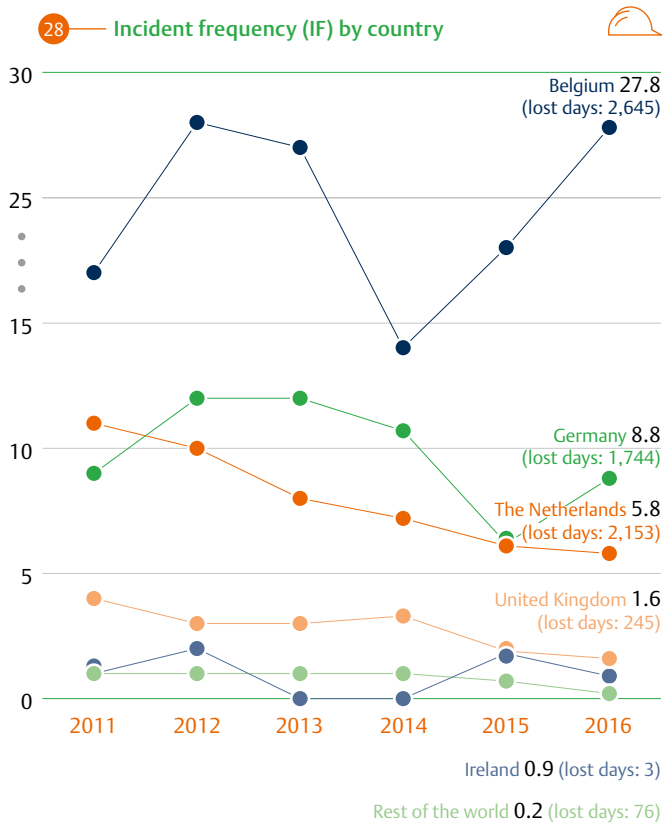
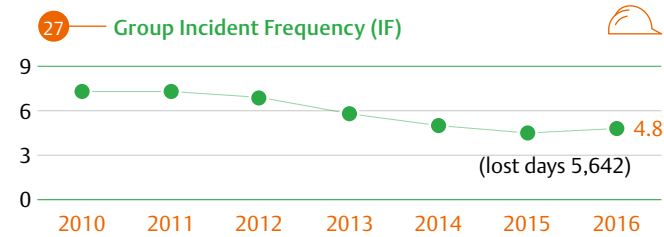
BAM is still in the process of enhancing the reporting process for worked hours of subcontractors. The Group strives to obtain reliable information by implementing automated on-site entrance systems as tourniquets, fingerprint readers, iris scans and card systems.

When a fatal industrial accident occurs, involving a BAM employee or a subcontractor, the following actions take place:

1. The operating company informs the Executive Board and the Corporate Safety Officer (CSO) directly after the accident;
2. The first details of the accident are communicated within 24 hours of the accident;
3. No later than the day following the fatal accident, a message will be published on BAM's intranet;
4. If the accident occurred in Western Europe, the COO, assisted by the CSO, will pay a visit to the operating company within 15 days after the accident;

Dilemma:

Due to economic pressures on tenders, main contractors often work with competitively priced sub-contractors or hired site personnel with whom a relationship of trust and ability has not been formed. Without the correct checks and processes in place, this could result in fewer safety measures, equipment or checks required to protect workers. BAM considers it unacceptable to reduce cost at the expense of health and safety measures, both for our own employees and our project partners.



Safety dialogue

The board game 'The Ultimate Match' was especially developed to enable employees and subcontractors to start a safety dialogue on Safety Day in an informal setting. Group-wide, many gaming sessions took place, which were well attended and received by the participants. Through serious gaming, BAM and subcontractor employees created an environment in which they could give constructive and honest feedback and – equally important – which left room for follow-ups on issues and ideas.

- For accidents occurring outside Western Europe: video-conference;
- Three weeks after the accident a 'safety start' takes place in the country where the fatality occurred; A safety presentation/ bulletin has been produced highlighting the lessons learned and who must have intervened. This has to be briefed out to all operatives.

More insidious than the fatal and serious industrial accidents is the number of workers who suffer impaired health or long-term illness caused or made worse at work. Many of these illnesses only manifest themselves years after exposure and many are ultimately fatal. BAM believes that all injuries, deaths and illnesses can and should be prevented. BAM is in the process of setting minimum health management requirements. Within ENCORD, Europe's forum for industry-led research, development and innovation in the construction industry, the Group has put on the agenda research and development regarding quartz dust and asbestos inhalation, diabetes and skin cancer.

Worldwide BAM Safety Day

The seventh Safety Day was held on 11 October 2016.

The starting point remained to improve BAM's safety

results at all construction sites, worldwide. Involvement of construction site employees and, not least, BAM management is crucial to get the message through. However, some 75 per cent of the employees at the average BAM site are employed by subcontractors. This means the performance of these colleagues has a major impact on the safety performance of the companies project teams. Explicitly involving BAM's subcontractors in the Safety Day therefore was a logical step towards improving the Group-wide safety results. The key objective of the 'one team, one mission' theme was to raise awareness about the crucial role of subcontractors in projects and – in line with the updated strategic agenda – emphasising the importance of cooperating, sharing knowledge and learning from each other.

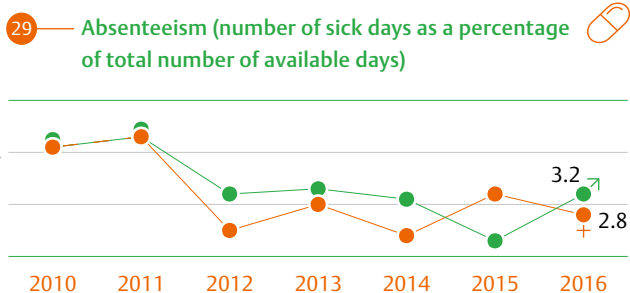


Health

BAM's vitality and health policy and procedures contribute to sustainable employability. The policy is based on a shared responsibility between employer and employee and has resulted in a decreasing trend in BAM's absenteeism figures over the past years.

The vitality and health policy is focused on:

- Prevention: promote health and well-being and increase awareness.
- Control: active guidance is provided by managers and case managers to reduce absenteeism, disability and ill health incapacity and promote responsible reintegration.



BAM initiated a building performance strategy to evaluate social, economic and environmental performance of its buildings. Discovering the relationship between the Indoor Environmental Quality (IEQ) and health and wellbeing (and productivity) creates an opportunity to help clients to consider better, sustainable design options in an early stage. IEQ refers to the quality of a building's environment in relation to the health and wellbeing of those who occupy space within it.

Business conduct and transparency

In 2013, the code of conduct of BAM was modernised. The signed agreement with the Building and Woodworkers' International promoted inclusion of human rights into the norms and values of BAM and aligned to other regulations such as the UK Bribery Act. New employees are required to sign a declaration of adherence to this code as part of their employment agreement with BAM. An e-learning tool has been launched to train and remind employees of these values and standards. The training is available in English, German and Dutch and has an obligatory character for all new BAM employees. By the end of 2016, 6,000 employees have completed the training, compared to 2,598 in 2015. In 2016 the number of completed trainings has increased due to a renewed focus on business conduct. The largest growth comes from the Dutch operating companies, others will further implement the tool in 2017.

In 2016 the Group started to strengthen the governance on compliance within the company. Two compliance officers' meetings were organised. The purpose of the two meetings was to share knowledge and to get to know the new developed tools and policies like the bribery policy, competition policy, the internal misconduct reporting procedure, the new SpeakUp-line and the new developed internal reporting. The new roles of compliance officer and confidential officer were also discussed and the compliance officers shared dilemmas they came across in their roles.

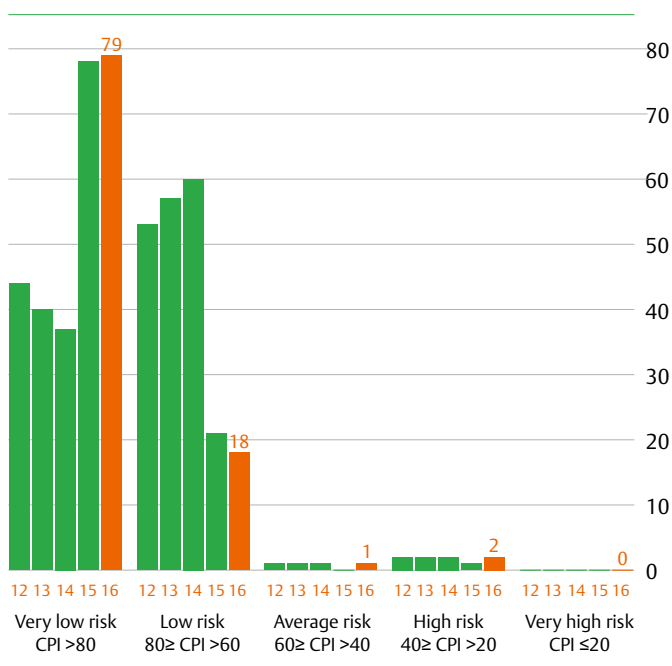
During the fourth quarter of 2016 BAM finalised its planning to complete outstanding actions to ensure compliance is embedded in the organisation. A communication toolkit is being created to help the compliance officers to implement the new developed tools in the operating companies.

BAM joins Girls' Day to promote technology sector

On 14 April more than ten thousand girls and three hundred companies participated in the seventh edition of Girls' Day in the Netherlands. BAM Infra hosted girls at project Rotterdamsebaan, Asphalt Plant The Hague and Schiphol Airport.

The project team participating in the day scheduled an introduction of BAM, a presentation on the Rotterdamsebaan, applying BIM/3D, augmented reality and experiencing virtual reality. The group continued with a visit to the Asphalt Plant The Hague, where the girls were taught the ins and outs of asphalt. At Schiphol the refurbishment of one of the landing strips was part of the programme. It was exciting to enthuse young girls for the technology sector and perhaps later to welcome them as future BAM colleagues. Girls' Day is organised by VHTO (national knowledge centre girls/women and beta/technics), to introduce girls aged ten to fifteen years to science, technology and ICT.

30 — Revenue according to Corruption Perception Index country (in %)



In 2016 no legal actions were reported by operating companies to BAM's headoffice for anti-competitive behaviour, anti-trust and monopoly practices or corruption.

Corruption index

The Corruption Perception Index (CPI) is calculated annually by Transparency International, which focuses on strict implementation of the UN Convention against Corruption. The CPI classifies countries according to their perceived level of corruption on a scale from 0 to 100. BAM achieves the majority of its turnover in countries with a Corruption Perception Index score higher than 80, i.e. in countries with a very low risk of corruption.

Responsible tax

Corporate income tax, taxes on wages, social security contributions, and VAT are also considered relevant taxes in relation to the turnover that BAM makes in the areas where it works. In 2016, BAM increased its transparency on tax payments by adopting public county-by-county reporting for the first time. These taxes provide good comparability in BAM's home countries and the rest of the world. Under these categories BAM's taxes amount to €783 million. Relative to BAM's turnover, the share of taxes paid deviates most from the share of turnover in the Netherlands. Here, BAM's share of taxes is relatively high compared to turnover.

In October 2016, the Dutch Association of Investors for Sustainable Development (VBDO), published a comparative study on tax transparency of 68 Dutch listed companies. BAM ranked ninth in overall ranking of companies. Tax is vital to society and by paying taxes companies contribute to society. BAM recognises that fair distribution of tax revenues is a key factor in fostering the business climate and economic growth that both multinational companies and societies need to thrive.

For more information on responsible tax, visit the website www.bam.com.

31 — Taxes paid in 2016

(x €1 million, unless otherwise stated)

| | Taxes | % | Turnover | % |
|-------------------|-------|-----|----------|-----|
| Netherlands | 404 | 52 | 2,531 | 36 |
| United Kingdom | 200 | 26 | 2,185 | 31 |
| Belgium | 47 | 6 | 743 | 11 |
| Germany | 89 | 11 | 732 | 10 |
| Ireland | 18 | 2 | 281 | 4 |
| Rest of the world | 25 | 3 | 504 | 7 |
| Total | 783 | 100 | 6,976 | 100 |

Employee recruitment, development and retention

The new 2016-2020 strategy has been the starting point for BAM's HR initiatives in 2016. The new HR strategy has been developed in several sessions with the ten HR directors representing all operating companies. The focus of the strategy is to have similar processes and exploit synergies across the Group. The important HR areas for business support are insights and development from BAM's people, recruiting new talent, compensation and benefits, and HR people support and data insights.

Continuous organisational development

The complexity of the world asks for continuous improvements and different ways of working. Therefore the organisation needs to be as agile as possible. Constant changes in different parts of the organisation are expected to be able to deliver the best products. Change will be the norm and communication is important. With the aim for further improving communication, 2017 will see the introduction of a European Works Council.

Culture

In defining the unique BAM culture and determining how to steer the culture in the strategic direction, the Group is enabled by the four values as written in the BAM strategy: predictable performance, scalable learning, pro-active ownership and open collaboration. Living the values and the culture will be an important theme for 2017, and BAM has made a start in 2016 by discussing the culture and values and how to integrate them in the daily work of BAM's employees.

Recruitment

The recruitment of new employees provides the perfect opportunity to diversify the workforce and find potential talent with different capabilities, various degrees of experience and different genders, nationalities and cultural backgrounds. Together, they can help BAM mirror its client base and execute its strategic agenda. Therefore the Group took all job and candidate profiles under evaluation in 2016. This will support BAM's search for the best fitting talent. To attract talent BAM works on employer branding standards and better applicant experience.

Stakeholder interview



Siri Krauß is a professor at the University for Technology in Stuttgart. She works at the Faculty of Civil Engineering, Building Physics and Economics. Among other things she's specialised in the fields construction management and construction industry.

Prof. Dr.-Ing. Siri Krauß, Hochschule für Technik, Stuttgart

What is the most important catalyst for further sustainable development in construction?

'Sustainability in construction covers a lot of different aspects: in a narrow view it focuses on the delivering of green buildings to clients and users, in a holistic approach it includes all activities of a construction company. Thus, companies

I think that above all the most important catalysts to promote the necessary transformation in construction will be information and inspiration: We need more reliable data to fully understand the financial implications of a more sustainable run construction business and more best practice examples to facilitate the embedding of sustainability into business practice.'

view of buildings, for example concerning carbon performance or operating costs, leading to better and more sustainable design decisions especially at the start of a project.

From the process view, the use of a building model will promote communication and collaboration between design specialists, contractors, clients and suppliers, helping construction companies to win over partners in the value chain and create greater productivity during the design and construction phase.

'Information and inspiration are key for a necessary transformation in construction'

will always have to look in detail at the location and the client of a building as well as the local market conditions to find out what drives sustainability under given circumstances. Costs, however, are often mentioned as a general key barrier for further sustainable development overlooking the fact that there is a growing evidence that this does not necessarily have to be the case.

How do we ensure sustainability will continue to be a theme – and what role does digitalisation and innovation play?

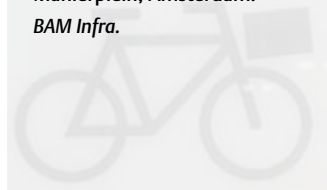
'I am convinced that innovation and digitalisation will lead to more sustainability in construction, concerning both products and processes. From the product view, data in a building model can be used to take a whole-life

In consequence, digitalisation and innovation will help companies to deliver buildings that provide greater satisfaction, well-being and value to the client as well as it will help them being more profitable and competitive.'

68 - 2016



Underground bike park
Mahlerplein, Amsterdam.
BAM Infra.



32 Female employees by region



(in % of total employees)

| | 2016 | 2015 |
|-------------------|------|------|
| Netherlands | 11 | 11 |
| United Kingdom | 24 | 23 |
| Belgium | 11 | 10 |
| Germany | 21 | 21 |
| Ireland | 26 | 25 |
| Rest of the world | 5 | 4 |

33 Employees per gender by employment type



(in %)

| | 2016 | 2015 | 2016 | 2015 |
|-----------|------|------|------|------|
| Full-time | 95 | 96 | 57 | 56 |
| Part-time | 5 | 4 | 43 | 44 |

34 Employees per employment contract by gender in 2016



(in %)

| | permanent contract | temporary contract |
|---|--------------------|--------------------|
| + | 91 | 9 |
| + | 89 | 11 |

35 Employees per employee category by gender in 2016



(in %)

| | Senior management | Middle management | Operational staff |
|---|-------------------|-------------------|-------------------|
| + | 7 | 9 | 16 |
| + | 93 | 91 | 84 |

36 Employees by age group



(in %)

| Age group | 2016 | 2015 |
|-----------|------|------|
| <20 | 1 | 1 |
| 20-29 | 13 | 15 |
| 30-39 | 24 | 25 |
| 40-49 | 27 | 27 |
| 50-59 | 26 | 24 |
| ≥60 | 9 | 8 |

BAM participates at EuroPride Canal Parade

BAM participated as a first construction company ever (together with Arcadis, Schiphol Airport, Rijkswaterstaat and Shell) in the 2016 EuroPride Canal Parade on the canals of Amsterdam. EuroPride is a pan-European international event dedicated to LGBT (lesbian, gay, bisexual, and transgender) pride. The motto of the BAM boat was 'Building Diversity'. With this participation BAM emphasises again the importance of diversity within the company. Dressed with colorful helmets and safety jackets everyone on the boat celebrated (together with an audience of approximately 560,000 people) the freedom and acceptance of being whoever you are.

Diversity

Diversity is a continuous focus since the construction industry has a low level of emancipation. A good signal on diversity comes from BAM's young graduates programme in the Netherlands. This was almost balanced at year-end: seven female and eight male participants. Diversity at senior levels has our attention, but shows only limited progress. The definition of diversity in senior roles extends beyond gender diversity, and calls for more attention to cultural backgrounds, differences in experiences and age diversity in the formation of project teams or in external recruitment.

Talent development

A talent review process was conducted with the boards of all operating companies to discuss current and future needed capabilities for BAM. The key business and project managers were discussed in terms of leadership, succession and opportunities for development. In follow-up meetings progress, talent exchange opportunities and short-term succession goals were discussed.

Attracting young graduates remains crucial to BAM. The existing Dutch graduate programme was refined and a move was made towards a single BAM graduate programme for the benefit of all home markets. The young talent career proposition was complemented with a finance graduate programme.

Internal (international) mobility will be supported to support internal learning by sharing.

Project Olympus, developing BAM's senior project managers

BAM's project managers are fundamental to the success of BAM. In order to be our clients' partner of choice we need the most talented project and tender managers. To achieve this ambition the Group-wide Project Olympus was initiated. Project Olympus aims to recognise and develop BAM's project managers and offer them rewarding career propositions. In order to realise this the Group designed a project management development programme and started a pilot to establish a project management community network for knowledge sharing and Group-wide collaboration. In several seminars BAM brought together project managers to connect and to share their views and experiences on leadership, personal development and knowledge sharing. The outcomes will be used as valuable input for future initiatives.

Employee engagement

During two meetings, one in spring and one in autumn, around hundred staff from all parts of the Group to discuss the strategy and share initiatives. Sharing ideas has led to Group connections and scalable learning: not reinventing the wheel but sharing shows the opportunities of being 'one BAM'.

Annual total compensation by country

In 2016 the rounded ratios for annual total compensation of BAM's highest paid individual to the average annual total compensation for all employees remained at the same level as in 2015, except in Germany. Here, the ratio decreased from seven to six, which means that the average salary increased more than the salary increase of the highest paid individual. The ratio of percentage increased in the Netherlands and decreased in Belgium and Germany.

The relatively high ratio for BAM's international business can be explained by the fact that Dutch management members work together with local workforce, thereby explaining the difference in salary standards.

BAM leader of Cobouw construction employer ranking

BAM is leading the 2016 Dutch Cobouw construction employer ranking in the engineering branch. Participants of the survey had to motivate their answer and explain why they think an organisation is a favorable employer. One of the main arguments to work for a company is the size of the company, interesting and/or challenging projects and the brand image of the employer. According to the respondents there are six factors that influence the choice of employer: primary employment conditions, work-life balance, interesting positions, job security, variation in work and growth opportunities.

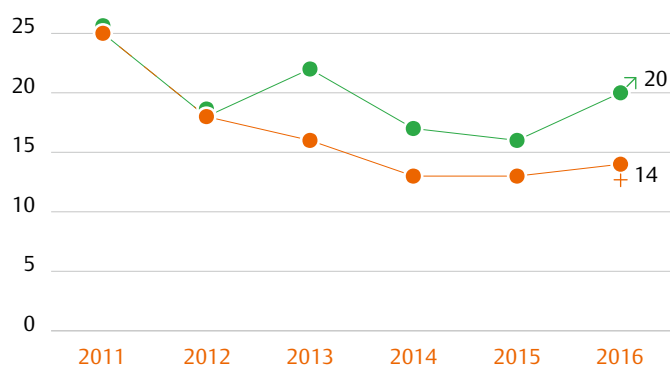
38 — Annual total compensation by country



(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))

| | | 2016 | 2015 |
|---------------------|----------|-------|-------|
| Ratio of percentage | | | |
| | Increase | ratio | ratio |
| Netherlands | 3% | 14 | 13 |
| United Kingdom | -9% | 7 | 7 |
| Belgium | 26% | 8 | 6 |
| Germany | 7% | 7 | 6 |
| Ireland | -7% | 6 | 6 |
| Rest of the world | 9% | 25 | 23 |

37 — Average hours of training per employee



Enhancing lives

As part of its strategy, BAM has initiated a target around enhancing lives by 2020. This consists of:

- Acknowledging the benefits it provides to local communities;
- Education and skills;
- Charity partnerships;
- Generally by enhancing the lives of its workforce.

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

Community engagement progress

In 2016, 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 operations. These were initiatives as part of existing programmes, such as the Considerate Constructors Scheme (CCS), Bewuste Bouwers and Making TIME for Communities, as well as unique initiatives of engagement managers on projects and site-specific sponsoring or charity work.

Considerate Constructors Scheme

CCS fosters good communication with the local community and promotes professionalism on building sites. Both BAM Construct UK and BAM Nuttall in the United Kingdom are associate members of the CCS. Construction 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.

Bewuste Bouwers

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 2016, 78 sites were registered under the scheme in the Netherlands (2015: 78).

Making TIME for Communities

BAM Construct UK continued its commitment to targeting the social issues highlighted in the Making TIME for Communities strategy. For the fourth year running, BAM Construct UK's community initiatives were award winning, with the Coventry and Warwickshire Construction Shared Apprenticeship Scheme winning two awards. The scheme, which is a unique public/private partnership between Coventry City Council, BAM Construct UK and local colleges, won the Partnership Initiative of the Year

Award. BAM Construct UK uses the London Benchmarking Model (www.lbg-online.net) to quantitatively measure the monetary value of its community efforts. In 2016, over €558,463 (£454,036) was invested into the communities surrounding BAM Construct UK's projects, which benefitted over 20,000 people.

BAM Construct UK continued to use an apprentice-tracking tool to document the number of young people gaining expertise on its sites. In 2016, over 390 apprentices and over 50 trainees have gained over 24,000 days of site experience on BAM projects.

Procurement

BAM uses a tool to measure supplier performance. During project preparation, implementation and follow-up, the tool assesses suppliers against the themes safety, quality, total cost, logistics and engineering and process. Operating companies are at liberty to add any specific criteria. On a scale of 1 to 4, each supplier has to score at least 3 for each criterion. In 2016 a total of 4,198 supplier performance assessments were carried out.

Human rights

In 2006, BAM and the international federation Building and Wood Workers' International (BWI), signed a framework agreement to promote and protect employee rights. On 26 May 2015, a delegation of BWI and trade union organisations FNVBouw STICC visited the BAM project site of Hoog Catharijne in Utrecht, the Netherlands. No anomalies were detected in any of the areas that have been assessed by the BWI. A report, issued by FNVBouw confirmed this and stated that, among other things, there is an extensive safety programme on site, employment is freely chosen, there is no discrimination in employment, child labour is not used, working conditions are decent, safety representatives are chosen and the employment relationship is established.

In September 2017 this delegation will visit a BAM project site in Dubai. Special attention will be paid to:

- The safety programme on site;
- Migrant workers;
- Recruitment policies;
- Working conditions;
- Discrimination.

Combatting slavery

BAM is currently finalising a statement of compliance with The Modern Slavery Act 2015 (UK), publishing its commitment to combatting slavery and human trafficking throughout its operations and those associated with its business, for example within its supply chain.

BAM International refurbishes local school at Kilimanjaro Airport

BAM International demonstrated its social engagement at the primary school in Ngurdoto, Tanzania. The school, which provides education to approximately 850 children, was in a deplorable state. The sanitary facilities – only ten toilets and no connection to a sewer system – as well as eleven classrooms, were in a deplorable state. Sanne de Haan, student engineer, has drawn up a plan, including a cost estimate, for a thorough overhaul including an added veranda, an upgrade of the kitchen building and the construction of two to four new classrooms. The works will be executed under supervision of a local contractor.



Terminal 3, Julius Nyerere International Airport, Dar es Salaam, Tanzania. BAM International.

Stakeholder interview



Amar Hanspal has been Senior Vice President of Autodesk Product Group since 2015. He oversees the Autodesk's core cloud platform (Autodesk 360) and the full range of Building Information Modelling products for the Architecture, Engineering & Construction Collection®.

Amar Hanspal, Senior Vice President at Autodesk

What is the most important catalyst for further digitalisation in construction?

'Competitive advantage is the single most important catalyst for a construction company's decision to go fully digital. Given the high revenue, high risk and low margin nature of the industry, every point of efficiency and quality gained by better connecting teams to the right information is significant. Digitalisation is proven to deliver better outcomes, but it's really only the first step in the improvement of the entire project lifecycle from design to

opportunities. Once construction teams become fully digital, the opportunities for increased profit margins and the reduction of risk become endless.'

How do we ensure digitalisation will continue to be a theme?

'At a time when every industry, from transportation to retail to healthcare, is being redefined by technology, the digitalisation of the construction industry is an ongoing theme and doesn't need much encouragement.'

and big data to generate insights alternatives. We are just scratching the surface of the difference that machine learning, artificial intelligence, generative design, robotics, 3D printing and new materials will bring to the world of construction.'

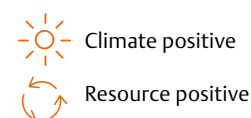
'Digitalisation of the construction industry is an ongoing theme'

handover. The move to digital begins with Building Information Modelling (BIM). It is no longer is an option, but rather a requirement to remain relevant in a rapidly evolving industry. Beyond that, extending BIM to the field through cloud-based collaboration solutions creates additional







What role does digitalisation and innovation play?

'Innovation emerges from the exploration and connection of multiple ideas. We are only now starting to see the full potential of connectivity, infinite compute power

4.3 Environmental performance



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

| Targets | Performance in 2016 | Progress |
|--|--|----------|
|  To achieve 25 per cent relative emissions reduction scope 1, 2 and 3 by 2020. | BAM reduced CO ₂ emissions from 230 kilotonnes in 2015 to 203 kilotonnes in 2016, a reduction of 12 per cent. | ○○● |
|  To be included in the CDP Climate A List Leadership Index by achieving performance band A. | In 2016 BAM was included in the CDP Climate A List, and achieved a performance score of A. | ○○● |
|  Deliver at least one product or service contributing to wider emissions reduction (zero carbon product). | Develop a group wide reporting methodology to capture low carbon solutions for BAM's projects. Disseminate and encourage wider adoption across the Group. | ○●○ |
|  To aspire zero construction waste in 2025. | BAM reduced construction and office waste from 161 kilotonnes in 2015 to 148 kilotonnes in 2016, a significant reduction of 8 per cent. | ○●○ |
|  Deliver at least one BAM circular project, product or service in each operating company by 2020. | Develop a group wide reporting methodology to capture circular projects, products and services. Disseminate and encourage wider adoption across the Group. | ○●○ |
|  Source 100 per cent sustainable timber by 2020. | BAM verified 98 per cent sustainable certified timber in the Netherlands and 92 per cent in the United Kingdom. | ○●○ |

Where we can improve

In general, the nature of BAM's business means that greenhouse gasses are emitted, for instance in the production of asphalt. BAM can further reduce the emissions from its asphalt plants by producing more low-energy asphalt (LEAB). Furthermore, BAM should intensify its engagement with suppliers on responsible sourcing, for instance on the use and disclosure of sustainable timber and concrete.

In a circular economy, there is the potential for one hundred per cent of all construction materials to be re-purposed or reused throughout the value chain. In 2016 BAM managed to reuse 91 per cent of its waste as construction materials. By working with its supply chain, there is an opportunity for BAM to find more useful purposes than landfill or incineration for the remaining 9 per cent of BAM's waste.

Climate positive

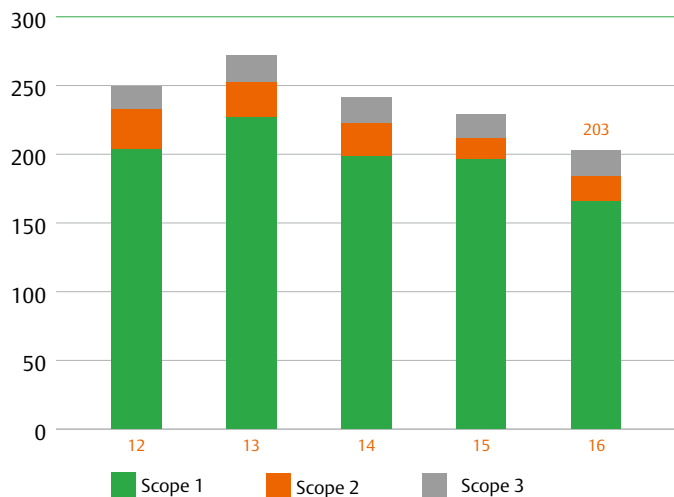
The construction industry has many fuel-intensive processes. To monitor its emissions, BAM measures its carbon footprint using the greenhouse gas (GHG) protocol. The Group's carbon footprint and its carbon intensity depend largely on the type, the phase and the location of projects in the reporting year. The largest impact on climate change of BAM's activities occurs in the operational phase of its products, after completion of construction.

In 2016 BAM developed a new sustainability strategy for the years 2020 and beyond. The vision of BAM is to have a positive impact on climate change. To measure progress, the Group's new 2020 reduction target on CO₂ emissions intensity is 25 per cent compared to 2015 levels (scope 1, 2 and 3). BAM's carbon footprint in 2016 was calculated based on energy consumption of all operating companies worldwide as a consequence of direct and indirect CO₂ emissions from business activities. In 2016 BAM emitted 203 kilotonnes CO₂ (2015: 230 kilotonnes). BAM's carbon footprint fell by 12 per cent compared to 2015. The CO₂ intensity, decreased by 6 per cent to 29.1 tonnes CO₂ per million euro (2015: 30.9 tonnes CO₂ per million euro). BAM's energy intensity was 0.43 TJ per million turnover (2015: 0.45 TJ/mio).

The vision of BAM is to have a net positive impact on the environment. To measure progress the Group's new 2020 reduction target on CO₂ emissions intensity is 25 per cent compared to 2015.

40 Total absolute CO₂ emissions

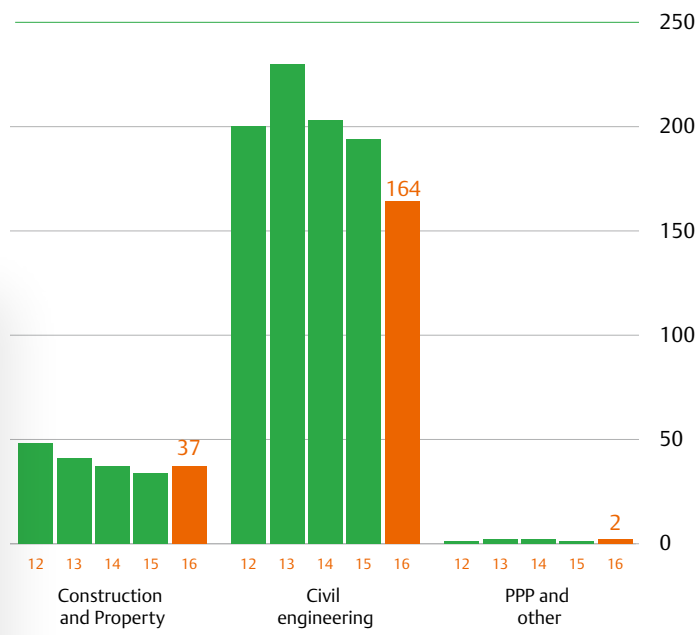
(in kilotonnes)



The GHG protocol differentiates between three scopes, namely emissions directly resulting from a company's own activities (scope 1), indirect emissions from purchased electricity, heating and cooling (scope 2) and indirect emissions in the value chain (scope 3). BAM measures all material scope 1 and 2 emissions, and just a few scope 3 travel related emissions. Scope 1 CO₂ emissions form the majority of BAM's total CO₂ emissions (82 per cent). BAM aims to start measuring a wider range of scope 3 emissions. In 2017 an assessment will be made to understand more fully BAM's wider CO₂ impacts (via supply chain) on projects and where the Group has the greatest opportunities to make reductions.

41 CO₂ emissions per business line

(in kilotonnes)



Silent power at the Kilimanjaro airport project

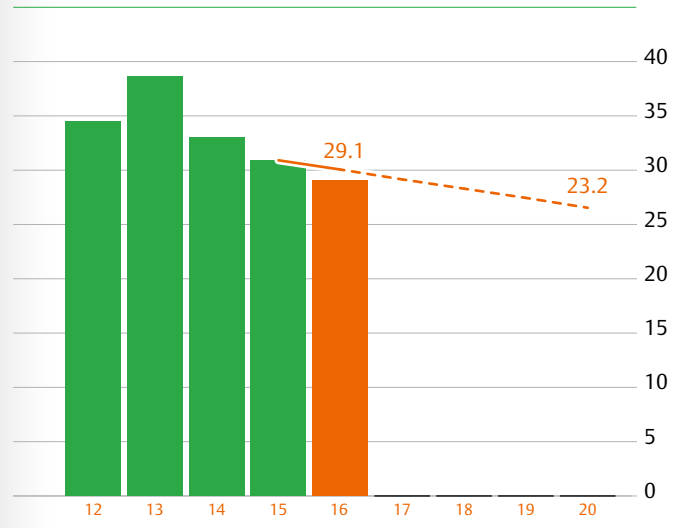
Diesel-guzzling power generators have been very quiet at the Kilimanjaro International Airport rehabilitation project: with the help of the local power supply company, BAM International has found a much more sustainable alternative. Some 80,000 tonnes of asphalt are going into the largest element of the project: paving the runway, aprons and taxiways. For this purpose, BAM has purchased a mobile asphalt plant, which was delivered in January 2016. For this plant to operate at its optimum, it requires at least a three-phase 800 kVA steady power supply, which is used to keep the machine running as well as to fire the burners that heat the aggregates and the heating elements to melt bitumen. The team invested in a grid connection and decided to use existing power facility rather than several large diesel generators. Since then, the stand-by diesel generators on site have lain idle and silent. The project is now 50 per cent complete and 40,000 tonnes of asphalt have been mixed. A very innovative approach resulting in a quieter construction site and a reduction in fuel consumption of 250,000 litres or 660 tonnes of CO₂ emissions over the lifetime of the project.

BAM Construct UK launches new business unit BAM Energy

A new trading company within BAM – BAM Energy Ltd – was launched in February to finance sustainable energy solutions. Investing in renewable energy can be daunting and expensive for clients. BAM Energy offers them a solution. Bringing together expertise from every business unit in designing, installing, running and maintaining energy-efficient systems, a company can now also finance the projects. BAM Energy funds the design and installation of sustainable energy systems (such as biomass heating systems, Combined Heat and Power (CHP), photovoltaics (PVs) or heat pumps) on behalf of a client during the construction phase of a new building. The cost is then recovered over an agreed period of time through a power purchase agreement, whereby the client buys its power from BAM Energy at a competitive rate.

43 — CO₂ emissions intensity

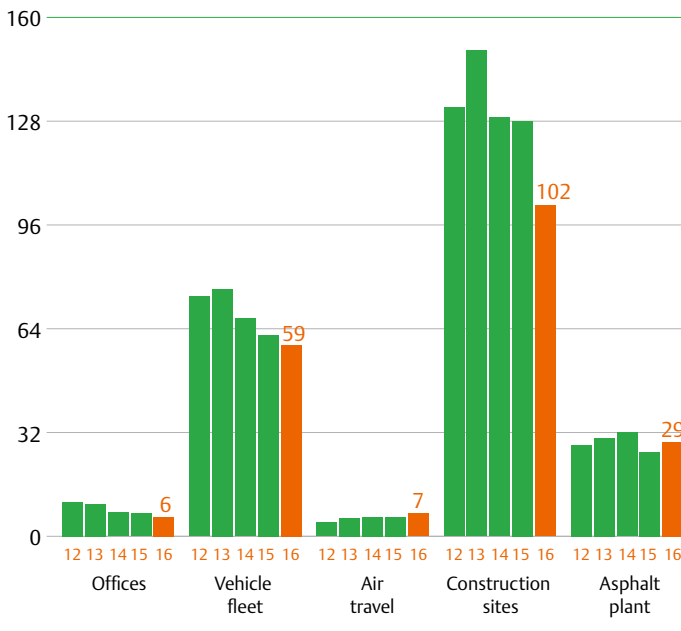
(in tonnes per €1 million revenue)



BAM initiates energy reduction measures to constantly reduce its footprint. This is also driven by the European energy efficiency directive (EED). This regulation establishes a set of binding measures to help the EU reach its 20 per cent energy efficiency target by 2020. Individual EU countries have set their own indicative national energy efficiency targets, which also impact BAM. In response, BAM made several studies of its energy consumption to identify ways to reduce it. In 2016, emissions from BAM's offices decreased by 8 per cent compared to 2015 as a result of an almost complete shift towards renewable electricity use in the United Kingdom and the Netherlands, the merging of offices throughout BAM and continued energy efficiency improvements. BAM has rebuilt the majority of its Dutch offices into open plan shared office spaces using the latest energy-saving measures. In 2016 BAM used 123 kWh per square metre in its buildings in the Netherlands (2015: 117 kWh*). The CO₂ emissions intensity of BAM's office buildings in the Netherlands was 15.1 kilograms CO₂ per square metre (2015: 12.6).

42 — CO₂ emissions per source

(in kilotonnes)



There has also been a decline of emissions at BAM's vehicle fleet, which attributed to 29 per cent of total emissions, and decreased by 5 per cent compared to 2015. This is the result of a reduction of leased vehicles, an increase of fuel-efficient cars and continued programmes for fuel-efficient driving. In 2016, BAM introduced a CO₂ limit of 120 grams per kilometer for all new cars in its leased vehicle fleet. In addition, employees are financially incentivised to choose smaller and more fuel-efficient cars below 90 grams per kilometer. In April BAM signed the pledge for Cleaner Car Contracts. By signing this pledge, BAM underpins the ambition for more sustainable mobility. The total current vehicle fleet of BAM in the Netherlands consists of 92.5 per cent A or B labels, compared to 94.2 per cent in 2015. BAM also deploys electric

* correction from 2015 Integrated Report

vehicles to reduce fuel consumption, CO₂ emissions and air pollution. In 2016 more than 5.4 million kilometres were driven with the Group's fully electric vehicles and plug-in hybrid cars.

Emissions from BAM's construction sites fluctuate heavily due to the phase and type of work. Emissions from BAM's construction sites fluctuate heavily due to the phase and type of work. Most CO₂ emissions are due to civil engineering projects. In 2016 emissions decreased due to completion of major projects and continued energy efficiency measures. An efficient designed construction site typically use energy less energy. Innovative solutions like smart meters, an early connection to the grid and more efficient equipment help to reduce the CO₂ output.

In 2016, 20 per cent of BAM's revenue, approximately €1.4 billion, came from projects that have been registered with third-party green building or sustainable construction rating organisations, such as the U.S. 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.

For its actions to reduce CO₂ emissions and mitigate the business risks of climate change, BAM has been awarded with a position on the CDP Climate A List 2016: The CDP Climate Performance Leadership Index 2016. The index has been produced at the request of 827 investors – who represent more than a third of the world's invested capital – by CDP, the international NGO that drives sustainable economies. Information provided by nearly 5,800 listed companies has been independently assessed against CDP's scoring methodology and ranked accordingly. BAM has been awarded an A grade for its climate performance, earning a position on this global ranking of corporate efforts to mitigate climate change. Since 2012, BAM has been one of the leaders regarding transparency on impact on climate change. Only some of these companies also show improved climate performance. BAM has been on the A list in the last three consecutive years, evidence to being among the best performing companies.

Resource positive

BAM is the only major construction member of the Ellen MacArthur Foundation's CE100 programme. The Group actively works with clients to develop business models for 'circular buildings', including the ABN Amro pavilion in Amsterdam, of which construction began in 2016.

BAM also has a strategic partnership with Autodesk and is actively involved in developing BIM applications to help manage the life-cycle of buildings.

BAM's activities in getting to grips with the circular economy in 2016 involved:

- Working with Horizon 2020's BAMB (Buildings as Material Banks) on the prevention of construction and demolition waste, the reduction of virgin resource consumption and the development towards a circular economy through industrial symbiosis.
- Circular Economy Supply Chain workshops - BAM Construct UK and BAM Nuttall held a series of workshops. BAM Construct UK has also been commissioned as part of a consortium to work up circular economic opportunities for the HS2 rail development in the UK.
- Circular Building - BAM was involved in designing and building a circular pavilion in London, the initiation of a 'Circular Building Platform' and the development of a portal to enable reuse in the built environment.
- Involvement in committees and programmes:
 - The development committee for a circular economy standard with the British Standards Institute (BS 8001);
 - The Ellen MacArthur Foundation CE100 programme.
 - London Waste and Recycling Board (LWARB) - Circular economy steering group engaged in setting a roadmap to 2036 for circular economy in London (for the London Mayor's office).
 - The Green Construction Board Circular Economy working group.

BAM Deutschland builds first Passivhaus hospital

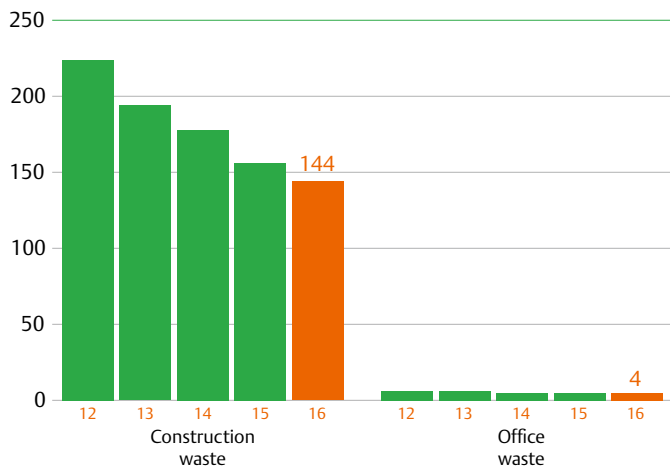
BAM Deutschland and Max Bögl have been awarded the contract to build a hospital in Frankfurt Höchst. It will be the first hospital built in accordance with the sustainability standards of the passive house concept. The guidelines for this pilot project have been developed by the Passivhaus Institut Darmstadt together with Zentrale Errichtungs Gesellschaft (ZEG) of Frankfurt. The six-storey building has a total gross floor area of 79,000 m². The hospital will have 664 beds and will treat of 33,500 patients each year. It will have 10 operating rooms and a 'hybrid' operating room, which will have special equipment for tasks such as CT and MRI scans.

Waste

BAM's waste typically consists of excavation, demolition, construction and office waste. 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. Excavation and demolition waste are initially present at sites before BAM takes on a project and therefore less relevant as indicators of operational performance or sustainability; it is merely a part of BAM's business model to efficiently remove these from sites.

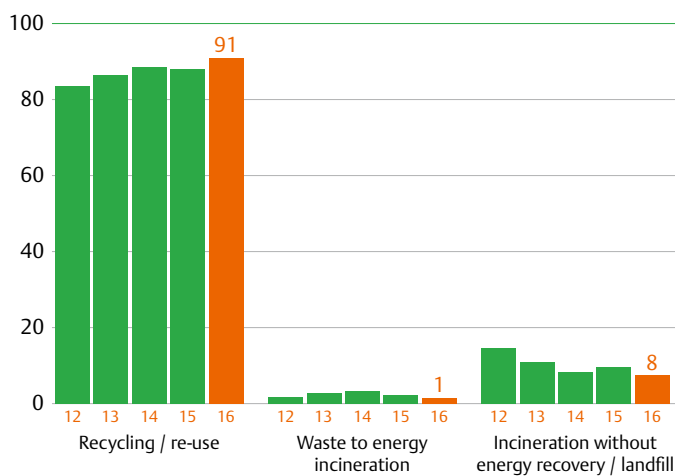
44 Waste production per source

(in kilotonnes)



45 Waste production per destination category

(in %)

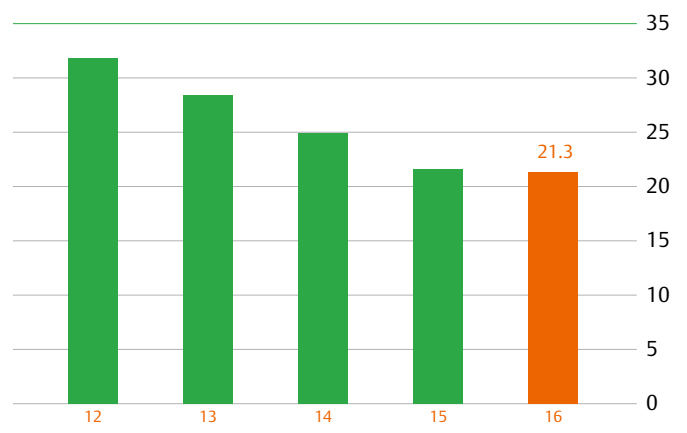


BAM Construct UK presents its progress on BAMB in Brussels - a circular way of building

The BAMB project - Building as material banks, is working to realize a new and standardized, circular way of building. Through design and circular industrial value chains is ensured the materials in buildings keep its value. In BAMB, sixteen partners from eight European countries are working together. BAMB will enable a systemic shift where dynamically and flexibly designed buildings can be incorporated into a circular economy. Through design and circular value chains, materials in buildings sustain their value – in a sector producing less waste and using less virgin resources. Instead of being to-be waste, buildings will function as banks of valuable materials – slowing down the usage of resources to a rate that meets the capacity of the planet.

46 Construction and office waste intensity

(in tonnes per €1 million revenue)



ABN Amro pavilion,
Amsterdam: an example
of circular building.
BAM Bouw en Techniek.



Much like CO₂ emissions, trends in removed waste depend heavily on the phase and type of a project. This can give rise to major differences among civil engineering companies in particular. It can therefore be a challenge to understand the relationship between BAM's turnover, the type of activities and the level of waste produced.

In 2016, BAM reduced its construction and office waste by 8 per cent compared to 2015, from 161 kilotonnes to 148 kilotonnes. A large contribution to this year's reduction of the volume of construction waste was due to termination of large construction projects. Efficiency in BAM's production process is further gained from prefabrication and the use of BIM, which reduces the amount of waste produced at construction sites.

To promote appropriate recycling, BAM has the objective to improve the separation of construction waste. In 2016, 25 per cent of the Group's construction waste in the Netherlands was separated, compared with 29 per cent in 2015. BAM's efforts to separate construction waste on site have resulted in improved performance. In 2016, large volumes of timber, metals and cardboard were separately diverted. A proactive approach of project managers to separate these materials has resulted in a significant increase of the separation rate.

BAM achieves highest score in Forest50 2016

Forest50 is an initiative by FSC® Netherlands. In the Forest50 the fifty largest construction companies in the Netherlands are assessed on their use of sustainable timber and their communication about that. Through Forest50 FSC Netherlands wants to give an impetus to increased transparency on the use of timber sourced from responsibly managed forests. These companies are progressing towards fully sustainable timber procurement. BAM and Heijmans share a number one ranking. Both companies achieved an almost completely sustainable procurement of timber with 98 per cent of timber sustainably sourced. Driven by their own motivation and in many cases independent of client demand these companies take their responsibility to increase their sustainability of timber procurement.

Sustainable timber

In 2007, BAM signed a covenant with FSC Netherlands committing to using only certified timber to support forest conservation and biodiversity. BAM's experience has been that it is difficult for some suppliers to provide information on the amount of certified timber in products which are composite materials, partly made from timber (e.g. doors and window frames). Working with FSC Netherlands, BAM's suppliers have been encouraged to improve the measurement and reporting of certified timber and BAM has developed a simple system to record supplier data.

BAM requests information on the application of sustainable timber twice a year. BAM asks its suppliers to report on categories of timber, which represented an estimated 85 per cent of all timber usage in the Netherlands for all construction works performed directly by BAM. The data used in this analysis therefore does not include any timber consumption for subcontracted projects. BAM approached 44 Dutch suppliers to report the amount of certified timber used in products. Based on their responses BAM estimates that 98 per cent was certified timber, 88 per cent was FSC- and 10 per cent was PEFC-certified.

In the United Kingdom, the source of certified sustainable timber from both FSC and PEFC sources is recorded in BAM's on-line data monitoring system BAM SMART. In 2016, 98.4 per cent of timber in the United Kingdom was from verified legal and sustainable sources, of which 92 per cent (2015: 90%) was delivered with full FSC or PEFC Chain of Custody certification or reused from other sites.

Dilemma:

The construction industry is traditionally slow to change. Innovations typically provide unique solutions for which no equivalent exists (these often have limited credibility in the market place). Added to this, publicly procured projects are conservative in adopting sustainability led solutions, to prevent competitive advantage.

Materials

Since 2011, BAM has identified the quantities of materials used in its construction projects in the Netherlands. The Group has identified the main categories of procured materials, as shown in > table 48 in the Netherlands. Depending on their nature, most used materials can be recycled. Based on this analysis and supplier data BAM believes that the recycled percentages correspond with the figures shown in this table. In cases where BAM applies recycled materials, nearly all materials are processed before they can be reused for construction. Therefore BAM chooses to report all materials to be recycled instead of partly reused.

Water

In 2016, BAM consumed 101,000 m³ potable water in the Netherlands (2015: 69,000 m³; 2014: 92,000 m³; 2013: 390,000 m³; 2012: 147,000 m³). In 2013, water consumption at construction sites was strongly influenced by tunnel drilling operations.

Asphalt

Asphalt production is typically high in natural resources and energy intensive. Already back in 1998, BAM started with the development of low-energy asphalt concrete (LEAB, after the Dutch name: laag energie asphalt beton), an innovative type of asphalt that uses less energy and less scarce natural resources and has lower CO₂ emissions than conventional asphalt.

47 — Sustainable certified timber (FSC and PEFC) in the Netherlands *



* As of 2016 these figures include both FSC and PEFC, BAM updated the figures accordingly.

48 — Material consumption in the Netherlands



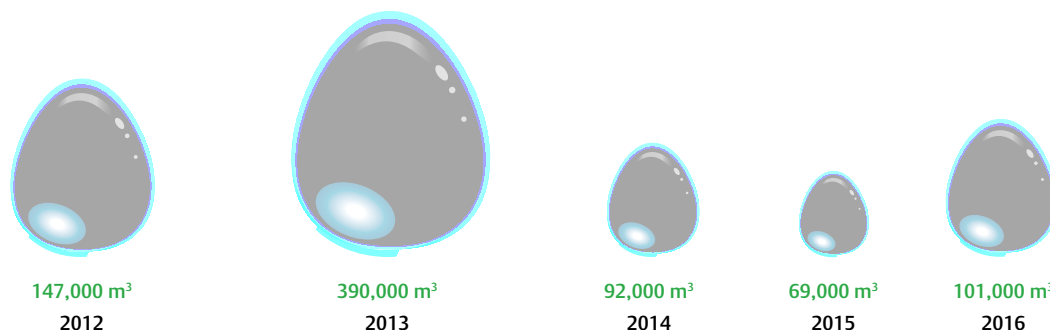
Consumption

| Resource | | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------|----------------|-----------|-----------|-----------|-----------|------------------|
| Insitu concrete | m ³ | 375,000 | 364,000 | 286,000 | 265,000 | 189,000 |
| Timber | m ³ | 28,000 | 23,000 | 28,000 | 32,000 | 23,500 |
| Asphalt | t | 1,300,000 | 1,400,000 | 1,500,000 | 1,400,000 | 1,450,000 |
| Steel | t | 61,000 | 67,000 | 79,000 | 73,000 | 54,000 |

Recycled content

| Resource | | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------|----------------|------|------|------|------|------------|
| Insitu concrete | m ³ | 11% | 11% | 10% | 12% | 18% |
| Timber | m ³ | 2% | 2% | 2% | 1% | 3% |
| Asphalt | t | 41% | 39% | 42% | 40% | 42% |
| Steel | t | 60% | 66% | 64% | 63% | 71% |

49 — Potable water usage in the Netherlands



In order to investigate the potential of this new type of asphalt to create value for society, BAM commissioned a study by True Price. The study shows the difference in environmental impact between applying LEAB and conventional stone mastic asphalt (STAB). It indicates an estimated environmental saving equal to €257,000 per kilometer of highway. This equals the monetised environmental externalities (often referred to as 'environmental cost') of energy use of about 120 Dutch households per year. To calculate the true price, the main environmental impacts of asphalt production were measured and translated into societal costs. The results show that the production, use and end-of-life treatment of LEAB asphalt is associated with 30 per cent lower environmental costs than conventional asphalt. Coincidentally, this equals the reduction in

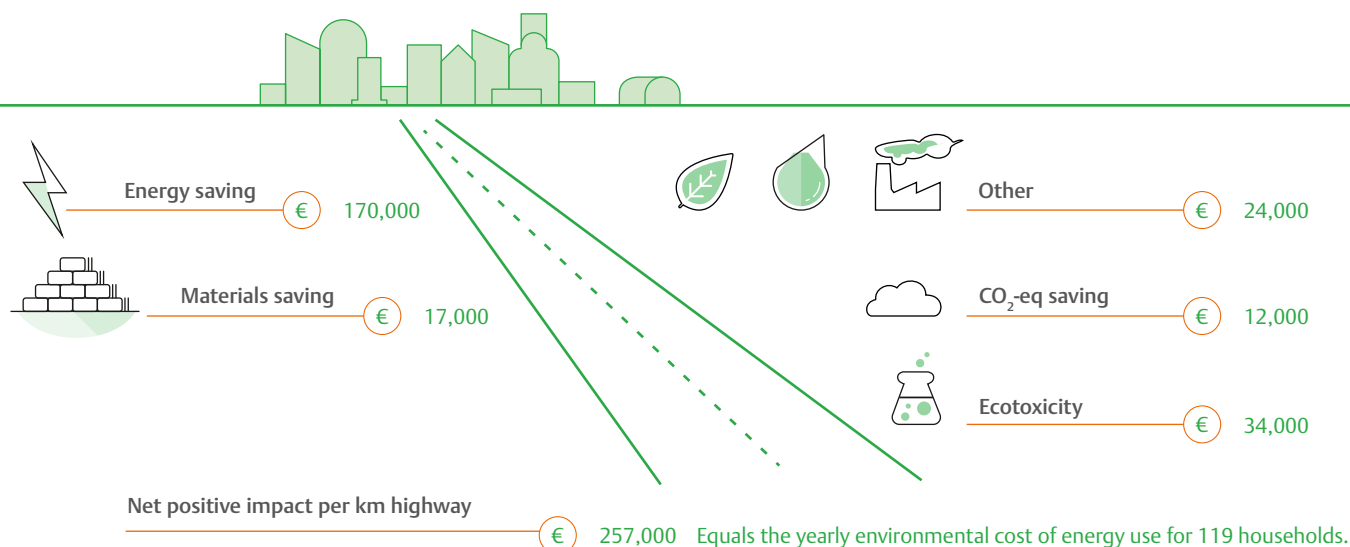
energy and CO₂ reduction, but is built up of other factors. This makes LEAB an undeniable proposition for, for instance, government procurers, since it is of a similar quality to conventional asphalt, but comes at a price equal to or lower than that of competing products and offers better environmental performance.

BAM continued its research on sustainable asphalt with LE2AP (Low Emission² Asphalt Pavement). This asphalt is produced using an innovative way of recycling porous asphalt. The goal of the project, sponsored by the European Commission's LIFE programme, is to use over 80 per cent recycled materials, mixed at 80°C and providing a 7dB noise reduction. Two pilot projects have been completed in 2016.



Head office Unilever Indonesia
in BSD City, Tangerang, Jakarta.
BAM International.

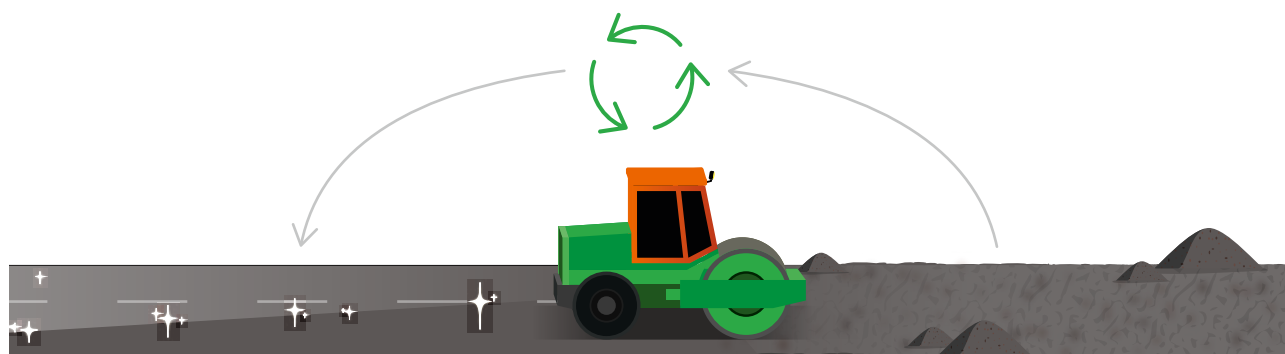
50 — Calculate the environmental impacts of producing LEAB compared to conventional asphalt



Notes:

- Only production, transport and end-of-life treatment is taken into account, not the placement and use phase.
- 7,500 ton asphalt per km highway (width: 30m, asphalt density: 2,500 kg/m³, thickness lower/middle layer: 40/60 mm).
- Average electricity and gas use of a Dutch household: resp. 3,340 kWh/yr and 1,525m³/yr (RVO, 2014).
- Compared LEAB 'bin base 30/45 60% PR limestone' to STAB '(50%) Natural Gas Average'.
- In 2016, 74,000 ton LEAB has been produced. This equals a total saving of approximately €2.52 million.

51 — Research and development focusing on recycling asphalt



BAM LE2AP tested on provincial roads

In collaboration with the provinces Noord-Brabant and Gelderland, a step towards the circular economy is taken: BAM started testing its LE2AP (Low Emission² Asphalt Pavement) asphalt. This mixture consists of up to 93 per cent recycled materials. Two test pavements have been made. LE2AP is a demonstration project that is part of the LIFE+ programme, an instrument of the European Commission for providing additional funding for environmental initiatives.

The innovative mixture is produced at a temperature of about 105°C. In addition to the high recycling value it provides an energy and CO₂ reduction of approximately 30 per cent and a 7dB noise reduction. The two test sections are the promising capstone of the LE2AP project, on which BAM worked for almost three years. BAM has presented LE2AP on numerous (inter-)national conferences, openly inviting competitors and foreign interested parties for cooperation possibilities.

4.4 Outlook

In general market circumstances are gradually improving in BAM's home countries, whereas GDP and construction output volume are growing. However, the upcoming elections in several home countries and the impact of the Brexit will influence further improvement. The prospects for Dutch non-residential construction remain challenging due to vacant offices and retail space. In Belgium the continuing political uncertainty will affect civil engineering markets. BAM's international activities for the oil and gas market remains at the low end. BAM continues to target profitability above revenue and follows the development of product market combination closely to adapt its businesses if needed.

The PPP markets continue to offer an attractive supply of bidding opportunities. Competition continues to be intense and is demonstrated by the increased number of competitors at the prequalification stage. The bidding opportunities are spread reasonably evenly across all of our markets with the exception of the UK. Interest in providing long term debt remains strong from both bank and institutional lenders for both primary and refinancing transactions. steady flow of new opportunities commencing throughout 2017. BAM will continue to benefit from the successful partnership with PGGM.

BAM started the financial year 2017 with an order book of €10.2 billion (2016: €11.5 billion), of which €5.4 billion will be carried out this year.

Due to economic growth, especially in the field of technology, BAM will face a tight labour market. The Group's challenge to find technical skilled people will increase. This will be addressed in BAM's employer branding strategy. By offering learning programmes and other opportunities to grow the Group keeps developing the employees.

BAM expects the 2015 Paris Agreement on climate change will have an effect on national and European regulations to reduce energy demand resulting in 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 will continue its efforts to implement its sustainability strategy to ultimately have a net positive impact innovate and work towards zero carbon and circular products and projects.

BAM expects that three external forces will shape the prospects for the construction industry in the coming years. Economic growth which is currently fragile is expected to have a low to modestly positive impact on construction volumes. We foresee the creation of areas of higher growth as a result of megatrends such as urbanisation and energy efficiency. And digitalisation is increasingly transforming the construction industry and the built environment.

Against this background the main focus of the updated strategy for 2016-2020, 'Building the present, creating the future', is to continue to restore profitability and improve capital efficiency.

For 2017, BAM expects the revenue to be slightly lower and the adjusted result before tax to be higher than the level of 2016. BAM anticipates a significantly lower restructuring charge compared to 2016.

Executive Board

Bunnik, the Netherlands, 20 February 2017



Student housing for ETH Zürich
(Swiss Federal Institute of
Technology). *BAM Swiss.*



5. Governance

5.1 Corporate governance

The Supervisory Board and the Executive Board are responsible for the company's corporate governance structure and for compliance with that structure. They are accountable for this to the Annual General Meeting and should provide sound reasons for any non-application of the principles and best practice provisions of the Dutch corporate governance code (hereafter: 'the Code'). Each substantial change in the corporate governance structure of the company and in the compliance of the company with this code will be submitted to the general meeting for discussion. The main aspects of this corporate governance structure are set out in the annual report each year and are published on the company's website. The Supervisory Board and the Executive Board subscribe to the Code. A more detailed explanation of how the company complies with the Code is given below. The full text of the Code can be found at www.commissiecorporategovernance.nl.

In December 2016 the Dutch Corporate Governance Code Monitoring Committee published a revised corporate governance code. Dutch listed companies are required to report in 2018 on compliance with the revised Code in the 2017 financial year. BAM took notice of the revised Code and will take inventory of the consequences in the course of 2017.

Executive Board

Apart from looking after the day-to-day management of the company, the Executive Board is guided by long term value creation. It is responsible for formulating and achieving corporate objectives, for corporate strategy with its associated risk profile and for corporate social responsibility. The Executive Board accounts for its activities to the Supervisory Board and to the Annual General Meeting. In performing its duties, the Executive Board is guided by the interests of the company and the related enterprise, weighing the justifiable interests of the various stakeholders against each other.

The company's Executive Board shall consist of at least two members. The members of the Executive Board jointly manage the company and are jointly and severally liable for that management. Subject to the approval of the Supervisory Board, the members of the Executive Board each have their personal responsibilities. The Chairman (CEO) presides the Executive Board and is responsible for BAM International and the PPP activities as well as the majority of the corporate functions. The Chief Financial Officer (CFO) is charged with financial tasks and is responsible for the corporate functions finance, GRC, ICT and – together with the Chairman – investor relations. The Chief Operational Officer (COO) manages the operating companies that are entrusted to his supervision, as well as a number of corporate functions.

The Executive Board ensures proper provision of information to the Supervisory Board. In the annual report, the Executive Board describes the principal risks related to the company's strategy,

the organisation and operation of internal risk management. It also describes control systems in relation to the principal risks during the financial year and any significant shortcomings in the internal risk management and control systems that were identified during the financial year, any significant changes that were made and any significant improvements that are planned.

The Group has implemented general risk management measures by means of standards and values that have been made explicit, internal procedures and instructions and a system of budgeting, reporting as well as internal (and external) control. Besides general risk management measures, the Group has also implemented specific measures in the main risk areas. These risks are discussed in greater detail on page 38 to 47 of this report, along with the risk management measures that the Group has taken. The risk section in this report contains a statement by the Executive Board on the risks of financial reporting, as referred to in best practice provision II.1.5 of the Code.

The Executive Board is subject to a set of rules approved by the Supervisory Board, laying down the details of how the Executive Board operates and its relationship with the Supervisory Board, the shareholders and the Central Works Council. The Executive Board rules have been published on the company's website.

The company also operates a code of conduct and a whistleblowers' scheme, both of which are published on the company's website.

A mitigated two-tier regime applies to the company. Members of the Executive Board are appointed by the Annual General Meeting. The Supervisory Board has the right to make a (binding) proposal as regards nominees for appointment. However, the Annual General Meeting can render a proposal non-binding, in line with the company's Articles of Association, in which case the Annual General Meeting is then free to fill the vacant seat on the Executive Board as it deems fit, in accordance with the formalities stated in the company's Articles of Association. Decisions by the Annual General Meeting regarding candidates proposed by the Supervisory Board for membership of the Executive Board require a simple majority of the votes cast.

Decisions by the Annual General Meeting about candidates for membership of the Executive Board who are not proposed by the Supervisory Board require an absolute majority of the votes cast, but that majority must represent at least one third of the issued capital.

The Supervisory Board has the power to suspend members of the Executive Board. The Annual General Meeting can suspend or dismiss members of the Executive Board. Decisions to suspend or dismiss a member can only be taken by an absolute majority of votes, providing that majority represents at least one third of the

issued capital, unless the proposal to suspend or dismiss is put forward by the Supervisory Board, in which case the decision can be taken by an absolute majority of the votes without the requirement for a quorum. The Supervisory Board appoints one of the members of the Executive Board as Chairman and can appoint one of the members of the Executive Board as Vice-Chairman.

Pursuant to the Code, members of the Executive Board are appointed for a period of no more than four years. They retire after the conclusion of the first Annual General Meeting, to be held in the fourth year after the year in which they were appointed. Members of the Executive Board can be re-appointed for a further period of four years. Information about the term of the agreements of members of the Executive Board is available in the remuneration report.

The main elements of the contracts with members of the Executive Board are published on the company's website in accordance with the Code. The company follows the Code's provisions relating to the amount of the remuneration payable to members of the Executive Board and the composition of the remuneration package as well as the disclosure of these details are respected. The Supervisory Board draws up a proposal – prepared by the Remuneration Committee – regarding the company's remuneration policy. This remuneration policy is submitted for adoption to the Annual General Meeting. The Supervisory Board also annually composes a remuneration report, prepared by the Remuneration Committee. The remuneration report confirms the manner in which the remuneration policy has been adhered to in practice during the financial year. It also contains details of the total remuneration of the members of the Executive Board, subdivided into the various elements, and a summary of the remuneration policy as adopted by the shareholders.

As part of the report by the Supervisory Board, the remuneration report is included in the annual report and is also published on the company's website. The Supervisory Board determines the remuneration of the members of the Executive Board, within the framework of the remuneration policy, based on a recommendation by the Remuneration Committee.

The variable part of the remuneration for members of the Executive Board is linked to predefined objectives that are assessable and that can be influenced, with a reasonable balance between short-term and long-term focus. The Supervisory Board analyses the possible results of the variable remuneration components and the consequences for the remuneration of the members of the Executive Board. The Supervisory Board determines the level and structure of this remuneration on the basis of scenario analyses, taking into account pay differentials within the Group, and in doing so considers the results, share price performance and non-financial indicators which are relevant to the Group's long-term objectives. The risks to which variable remuneration may expose the enterprise

are taken into account. In addition to the annual variable short-term component, the remuneration package of members of the Executive Board includes a remuneration plan that rewards long-term improvements.

In the information on variable remuneration to be stated in the remuneration report, the company strives for transparency. However, the company will not reveal information that it considers competitively sensitive. In cases where the variable remuneration is awarded on the basis of inaccurate (financial) data, the Supervisory Board can 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.

The Supervisory Board also has the power to amend the existing conditional awards of the variable remuneration by quantified performance criteria if, in its opinion, applying the award without amendment would have an unreasonable or unintended outcome. These matters have all been incorporated into the agreements with members of the Executive Board since the introduction of the Code.

The compensation to members of the Executive Board in case of dismissal does not exceed one year's base salary.

The company has a long-term benefit plan for members of the Executive Board and a group of maximum 15 senior executives in the form of a performance share plan. The Code's recommendations with regard to this plan are adhered to. More information on the plan is available in the remuneration report, page 104.

As a principle, the company does not provide any personal loans or guarantees to members of the Executive Board, managers or any other employees. The Group has the usual indemnity and insurance arrangements in relation to normal company business, and these arrangements cover members of the Supervisory Board, Executive Board, managers and other employees.

Any form or appearance of conflicting interests between the company and members of the Executive Board must be avoided. Decisions to enter into transactions that might lead to a conflict of interest on the part of a member of the Executive Board and that are of material importance to the company and/or the Executive Board member in question must be approved by the Supervisory Board. The Executive Board's rules set out in detail what action should be taken in the event of possible conflicts of interest. These rules govern such matters as what situations might constitute conflicts of interest, the manner in which members of the Executive Board are to report conflicts of interest, the withdrawal of the Executive Board member concerned during participation in discussions and in relevant decisions and the Supervisory Board's approval procedure.

Renovation runways
Eindhoven Airport.
BAM Infra.



Supervisory Board

The duty of the Supervisory Board is to supervise the Executive Board's policies and the general affairs of the company and its affiliated enterprise. The role of the Supervisory Board is also to assist the Executive Board by providing advice. As the Executive Board, the Supervisory Board is guided by the interests of the company and the related enterprise, weighing the justifiable interests of the various stakeholders against each other. The Supervisory Board also takes into account corporate social responsibility issues in its assessments. The principles and best practice provisions relating to the Supervisory Board are adhered to.

In its periodic meetings with the Executive Board, the Supervisory Board discusses a number of subjects, including the general state of affairs (e.g. safety, order book, major tenders, special projects, problem areas, major claims and legal proceedings) and financial reporting based on the operational plan for the year in question (half-yearly and annual reports and interim financial statements, balance sheets and income statements, cash flow statements, capital investments and warranties).

The agenda for Supervisory Board meetings also includes subjects such as major investments (both regarding acquisitions and disposals as well as fixed assets), management development, human resources, corporate social responsibility issues that are relevant for

the company, the relationship with shareholders, the dividend proposal, interim statements and half-yearly reports, the independent auditor's report, the independent auditor's management letter and follow-up actions to that management letter, setting the operational plan with the operational and financial goals for the next financial year (set once a year) and approval of the strategy and the related parameter conditions (every third year).

At least once a year, the Supervisory Board discusses the strategy and the principal risks connected to the business, the Executive Board's assessment of the organisation and operation of the internal risk management and control systems, as well as any significant changes to those systems. A statement that these discussions have taken place is included in the report by the Supervisory Board. The Supervisory Board is subject to a set of rules laying down the details of how it operates and its relationship with the Executive Board, the shareholders and the Central Works Council. The Supervisory Board's rules can be found on the company's website.

The Supervisory Board shall consist of at least five members. The Supervisory Board currently consists of six members, which is a number that the Supervisory Board considers appropriate in today's circumstances, especially given the size and international nature of the Group. The members of the Supervisory Board are appointed

by the Annual General Meeting on the recommendation of the Supervisory Board, which recommendation is being made on the basis of the profile. The Annual General Meeting and the Works Council are entitled to recommend candidates for inclusion in the proposal made by the Supervisory Board.

In case of vacancies in the Executive Board and Supervisory Board the Nomination Committee of the Supervisory Board will prepare a profile for the vacant position, taking into account the profile for the Supervisory Board (which can be found on the company website). The profile for the vacant position will be discussed with the Supervisory Board as well as the Executive Board after which the services of an external executive search company will be retained to create a longlist. It is common practice that fifty per cent of this longlist should consist of qualified female candidates. Based on this longlist the Nomination Committee will create a shortlist of at least three candidates, which will be interviewed by the Nomination Committee. In addition the candidates will also meet with other functionaries, including but not limited to the CEO. After this process a final proposal will be submitted to the full Supervisory Board for recommendation to the Annual General Meeting.

The Annual General Meeting can reject candidates put forward by the Supervisory Board, in which case the Supervisory Board must draw up a new proposal. The Central Works Council has an extended right of recommendation in respect of one third of the membership of the Supervisory Board. If the Supervisory Board rejects the recommended candidate or candidates, the Board and the Works Council consult with each other and the Works Council will make a new recommendation. If the Supervisory Board and the Works Council fail to reach agreement, then the matter is submitted to the Enterprise Chamber of the Amsterdam Court of Appeal for a ruling. If the Supervisory Board adopts the Works Council's recommendation, the Annual General Meeting may still

reject it. The General Meeting may dismiss the entire Supervisory Board once the Works Council has had the opportunity to give its opinion. The General Meeting determines the Supervisory Board members' remuneration. In relation to the independence of Supervisory Board members, as detailed in best practice provision III.2.1, all of the current members of the Supervisory Board qualify as being independent in accordance with the meaning of the Code.

The Supervisory Board has created a profile, which is published on the company's website. The composition of the Supervisory Board must be balanced and in line with this profile.

The members of the Supervisory Board must have the experience needed to perform well in a large multinational construction company. Each member must be capable of assessing the main aspects of the overall policy and of behaving in a critical and independent manner with regard to the other members of the Supervisory Board and the members of the Executive Board. The members of the Supervisory Board must carry out the tasks of the Supervisory Board as specified by law and by the company's Articles of Association and they must be capable of giving the Executive Board solicited and unsolicited advice.

Other, specific criteria applied by the Supervisory Board to its composition are a general, broad-based understanding of business, knowledge of the construction industry, experience in the management of large, preferably international companies and expertise relating to issues with a social dimension and concerning society at large.

The Supervisory Board appoints one of its members as Chairman and another to be Vice-Chairman. The Supervisory Board is assisted by the Company Secretary. Among the members of the Supervisory Board is a financial expert with experience in both the financial and accounting disciplines in a large corporation. The company will be

Villapark Eikelenburgh in Rijswijk consists of 84 villas, semi-attached houses and attached houses built in 30s architecture style.
AM and BAM Wonen.



responsible for an introduction programme for persons appointed to the Supervisory Board for the first time as referred to in best practice provision III.3.3. This provision is also fulfilled by arranging working visits to the Group's operating companies and through presentations by operating company managers to the Supervisory Board.

Principles and best practice provisions relating to conflicts of interest are adhered to. The rules with regard to such conflicts in connection with the Executive Board apply equally to the members of the Supervisory Board. The Supervisory Board rules set out in detail what action should be taken in the event of possible conflicts of interest.

The company has prepared rules regarding the ownership of and transactions in securities of other listed companies by members of the Supervisory Board and the Executive Board. These rules are included in BAM's insider dealing policy, which was updated in 2016 as a result of the EU Market Abuse Regulations. In addition a Disclosure Committee has been established, which advises the Executive Board on the qualification of information, delay of publication of inside information and the monitoring of such delay. Periodic meetings are convened in order to monitor internal and external developments with regard to inside information. The company does not issue any personal loans or guarantees to members of the Supervisory Board. The Group has taken out the usual professional indemnity insurance for, among others, members of the Supervisory Board.

Supervisory Board Committees

The Supervisory Board has three permanent committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee. The rules and the composition of these committees can be found on the company's website. The composition and role of these committees are in line with the

relevant provisions of the Code. It is the task of the committees to support and advise the Supervisory Board concerning the items that are 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 submit reports on all their meetings to the Supervisory Board.

The Audit Committee's regular assessments include:

- The internal risk management and control systems;
- The provision of financial information by the company, including the process through which this information is generated and published;
- Recommendations by the independent auditor and the actions taken as a result thereof;
- The audit process and the audit plan;
- The relationship with the independent auditor;
- Governance and compliance;
- Taxation;
- Impairment review;
- Valuation of real estate;
- The application of ICT;
- Group financing;
- Performance of the internal audit function;
- The financial and administrative organisation.

The tasks of the Remuneration Committee include making proposals to the Supervisory Board with regard to:

- The company remuneration policy;
- The remuneration structure;
- The level of remuneration;
- The terms and conditions of employment of members of the Executive Board;
- The remuneration of the members of the Supervisory Board.





Bike park at railway station
Hengelo, the Netherlands.
BAM Infra.



The Remuneration Committee also consults with the Chairman of the Executive Board about the policy on terms and conditions of employment for operating company managers and executives of equivalent rank and drafts a remuneration report on the way in which remuneration policy has been implemented in practice.

The Nomination Committee makes proposals to the Supervisory Board with regard to:

- Selection criteria and appointment procedures with regard to members of the Supervisory Board and members of the Executive Board;
- The size and composition of the Supervisory Board and the Executive Board and a profile of the Supervisory Board;
- Assessment of the performance of individual members of the Executive Board and process for the self-assessment of the Supervisory Board;
- (Re-)appointments of members of the Supervisory Board and members of the Executive Board;
- An Executive Board member's acceptance of membership of the Supervisory Board of another listed company;
- Possible conflicts of interest arising in connection with the acceptance of other positions by members of the Supervisory Board.



The Committee also monitors the Executive Board's policy on selection criteria and appointment procedures for senior management and discusses management development and succession planning, especially in relation to senior management positions.

Shareholders

The company adheres to the principles and best practice provisions in chapter IV of the Code with regard to the shareholders and the Annual General Meeting. No depositary receipts for shares in the company have been issued with the company's cooperation. Royal BAM Group does not have any provisions limiting voting rights.

One vote may be cast for every share held. The company's capital consists of ordinary shares and Class B and F preference shares (not issued at present). The ordinary shares are listed on Euronext in Amsterdam. Ordinary share options are also traded on the Amsterdam option exchange of Liffe.

The Supervisory Board and the Executive Board believe it to be important that as many shareholders as possible take part in the decision-making process in shareholders' meetings. Notices convening shareholders' meetings, agendas and documentation to be discussed are published no later than 42 days prior to the meeting and placed on the company's website. The website also

includes an anonymous list, broken down by agenda item, of the votes cast by proxy received by the company prior to the meeting. Remote voting and voting by proxy also play a role in increasing shareholder participation. The Act of Parliament to promote the use of electronic communication media enables shareholders to participate in meetings of shareholders and to cast their votes at such meetings without being physically present. The company has incorporated the facilities offered by law for using electronic communication media into the Articles of Association. The company considers that the manner in which shareholders take part in their meetings and cast votes at such meetings requires a meticulous procedure. The use of electronic means of communication therefore depends greatly on the degree of certainty that these means of communication will work properly.

In addition, voting by proxy continues to provide shareholders with a good mechanism for allowing their voice to be heard in meetings in which they are unable to attend, so that the company can take notice of their views. When shareholders' meetings are convened, the company invites shareholders to use their option to vote by proxy, and ensures that voting instruction forms can be obtained and that these forms are also available electronically.

Shareholders are also informed of their option to give a proxy electronically. The company offers its shareholders the opportunity to give a proxy, with voting instructions, to an independent third party before the meeting takes place. In addition the company offers shareholders the possibility of voting in advance of the meeting. As a rule, voting takes place electronically at the meeting itself.

The company invites shareholders to submit any questions to the company prior to the meeting, which will then be answered by the company at the meeting.

Prior approval from the Annual General Meeting is required for decisions concerning any important changes in the identity or nature of the company or the business, including the entire or near-entire transfer of ownership of the business, entry into long-term partnerships that have a significant effect on the company and acquiring or disposing of a participating interest worth at least a third of the amount of the assets recognised on the consolidated balance sheet. In the event that a serious private bid has been announced for part of the business or a participating interest, and that bid is worth at least a third of the amount of the assets recognised on the consolidated balance sheet, the Executive Board will publicly announce its point of view in respect of the bid, together with its reasons, as soon as possible.

Resolutions to amend the company's Articles of Association may be adopted by the Annual General Meeting by an absolute majority of the votes cast in response to a proposal by the Executive Board with

the approval of the Supervisory Board. Material amendments to the Articles of Association will each be submitted separately to the Annual General Meeting.

Shareholders are entitled to put items on the agenda of shareholders' meetings. Shareholders who on their own or jointly represent at least:

- (i) 1.0 per cent of the issued capital, or
- (ii) Shares worth €50 million

can place items on the agenda of the General Meeting if the company receives a written request to that effect ('written' can mean an electronic message), including reasons to substantiate the request, not later than sixty days before the day of the meeting. In addition, shareholders who represent at least ten per cent of the company's issued capital are entitled to call a shareholders' meeting.

Each year the Annual General Meeting is asked to authorise the Executive Board – subject to the approval of the Supervisory Board – to issue shares or share options. This authorisation is limited in time to a period of eighteen months. It is also limited in scope in respect of ordinary shares and Class F preference shares to ten per cent of the issued capital, plus an additional ten per cent, which additional ten per cent may be used exclusively for mergers, acquisitions or strategic partnerships by the company or its operating companies. In addition the General Meeting is requested – again subject to the approval of the Supervisory Board – to exclude or limit pre-emptive rights to issued shares and to exclude or limit the issuing of ordinary share options.

Also each year the General Meeting is asked to authorise the Executive Board for a period of 18 months to repurchase shares in the company, within the limitations imposed by the law and the Articles of Association. Every request for the granting of such an authorisation is put separately on the agenda. The company's policy on reserves and dividends and a proposal to pay a dividend are discussed as separate agenda items at the General Meeting.

A proposal for approval or authorisation by the General Meeting will be accompanied by a written explanation including all relevant information. The agenda for shareholders' meetings will state which of the agenda items are for discussion and which items will be put to a vote.

Reports on shareholders' meetings are provided to shareholders, as stipulated in the Code. Within 15 calendar days after each shareholders' meeting, the results of the votes per agenda item are published on the company's website. As regards the provision of information as stated in Principle IV.3 of the Code, the Supervisory Board and the Executive Board endorse the importance of providing transparent and equal information. The company endeavours to do so, subject to exceptions under the law.

Press and analysts

All press and analysts' meetings and conference calls in connection with the publication of the annual and half-year results and interim financial statements are open to everyone via the internet or by telephone. Shareholders' meetings are open to the press and via webcast. All dates and locations of roadshows, seminars and the like are published on the company's website.

Financial presentations given to third parties are published on the company's website in case there is a material difference between these and previously published presentations. For six weeks prior to the publication of each annual report and three weeks prior to the publication of each interim statement and half-yearly report, the company will be extremely reticent about conducting any conversations with investors, analysts or members of the press about the overall course of business at the company. The company does not review analysts' reports or valuations by analysts in advance, nor add comments or correct them, except for matters of fact.

The company does not pay any fees to parties for carrying out investigations for analysts' reports, nor for writing or publishing such reports, with the exception of credit rating firms. As a rule, the Chairman and/or the Chief Financial Officer, with the assistance of the Investor Relations Manager or the Public Relations Director, will speak to investors, analysts or the press. These directors and officers are fully up to date regarding all relevant information – whether or not it is already known on the market – and they ensure that the information is provided in a clear and unambiguous manner. Should any price-sensitive information be provided by mistake during any contact with shareholders, investors, analysts or the press, a press release will be issued immediately.

The company has a general policy on bilateral contacts with shareholders, investors, analysts and the press. This policy has been published on the company's website.

Anti-takeover measures

The Executive Board can invoke a response period as specified in best practice provision II.1.9 of the Code. The Supervisory Board will be involved closely and in good time in the process concerning any offer for shares in the company, and the Executive Board and the Supervisory Board will immediately discuss any request from a competing third-party bidder to examine company information.

As regards the protective provisions against undesirable developments that might affect the independence, continuity and/or identity of the Group, the company has the facility for issuing Class B preference shares.

A call option was issued to Stichting Aandelenbeheer BAM Groep (BAM Group Stock Management Foundation) in 1993 for Class B preference shares. The company gave this foundation the right of investigation in 2008. More information relating to protective measures is provided on pages 227 of the Integrated Report.

Financial reporting and the role of the auditor

The principles and best practice provisions relating to financial reporting are adhered to. The Executive Board is responsible for the quality and completeness of the financial reports that are published. The Supervisory Board ensures that the Executive Board carries out this responsibility.

The principles and best practice provisions regarding the role, appointment, remuneration and assessment of the performance of the independent auditor are also supported. The independent auditor will be present at the Annual General Meeting to answer questions from shareholders about his independent auditor's report on the financial statements.

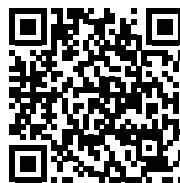
The Audit Committee assesses the functioning of the internal audit function each year. Within Royal BAM Group internal auditing has been established by means of an operational audit function. Operational audit performs audits and reviews on main risks that are related to the project business.

The independent auditor attends the meetings of the Supervisory Board at which the financial statements and the half-yearly figures are discussed. The independent auditor reports the same information from his findings with respect to the financial statements to both the Executive Board and the Supervisory Board. The independent auditor is also present when the Audit Committee discusses the financial statements, the half-yearly figures and the interim statements. The independent auditor may also attend other meetings of the Audit Committee, subject to asking the Chairman of the Audit Committee for permission to attend in advance.

The independent auditor receives the financial information on which the annual and half-yearly figures and interim statements are based and is given the opportunity to respond to that information. The partner in the independent audit company who performs the required audit is allowed to audit the Group's financial statements for a maximum of five consecutive years.

CSR responsibility and delegation

The Executive Board is responsible for defining the CSR policy, in consultation with the Director Strategy and Group 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



The sea lock at IJmuiden improves the accessibility of the port of Amsterdam. The lock will be 70 metres wide, 500 metres long and 18 metres deep. Client is Rijkswaterstaat. The OpenIJ consortium (BAM, PGGM, VolkerWessels and DIF) is responsible for the design, construct, finance, and maintenance. *BAM PPP, BAM Infra.*

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, and strict waste management, 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 Group 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.

The Supervisory Board and the Executive Board are convinced that Royal BAM Group's corporate governance is up to standards.

The corporate governance structure described above was discussed with the shareholders during the General Meeting on 21 April 2009. The company will submit any substantial changes in the main features of the corporate governance structure to the General Meeting for discussion purposes.

Stakeholder interview

Julie Hirigoyen became CEO of UK-GBC in April 2015 with ultimate responsibility for organisational strategy and execution. Previously she was UK Head of Sustainability and an International Director at Jones Lang LaSalle (JLL), a financial services firm that specialises in commercial real estate services and investment management. JLL acquired Upstream, a leading sustainability consultancy which was co-founded by Hirigoyen.



Julie Hirigoyen, Chief Executive at UK Green Building Council

What is the most important catalyst for further sustainable development in construction?

'There was a time when I might have suggested that legislation could provide one of the most important catalysts for more sustainable construction practices. Indeed the clarity of escalator policies such as the landfill tax have had remarkable success in reducing construction waste to landfill. But the truth is that genuinely sustainable construction practices are hard to achieve commercially and require much more holistic thinking. For instance, reducing waste to landfill doesn't necessarily address the quantum of materials specified in the first place.

In my view the most important catalyst for sustainable construction has to be the measurement, management and disclosure of environmental and social impacts throughout the entire supply chain. This should encourage more innovative procurement and contractual models that encourage circular design practices, and a whole life cost approach to design and building practices.'

How do we ensure sustainability will continue to be a theme – and what role do digitalisation and innovation play?

'Sustainable development is inherently a very long-term theme – encompassing issues that are multi-generational and cross-disciplinary. The seventeen sustainable development goals (SDGs - officially referred to as 'Transforming our

the trajectory that is required to achieve these goals unless all industry sectors embrace innovation and new ways of working. Digitalisation and technology offer one lens through which innovation can be viewed, yet a very important one due to their potential for improving productivity and efficiency in the construction process.'

'The role of innovation could not be more significant'

World: the 2030 Agenda for Sustainable Development') are extremely ambitious and have a 15 year timescale. The targets set by 195 nation states underpinning the Paris Agreement themselves span until 2050 and beyond.

The role of innovation could not be more significant. Indeed, SDG9 is called 'Industry, Innovation, and Infrastructure' and relates directly to construction and the built environment. We will not achieve

5.2 Report of the Supervisory Board

The Supervisory Board's activities

The transformation of the company, which started in the second half of 2014 with the implementation of the Back in Shape programme, has continued successfully in 2016. Gradually the results of these efforts are becoming visible. The focus remains on making the organisation structurally stronger, by continuous disciplined execution of the tender stage gate process, by analysing risks and by improved process management in executing projects. In this chapter the Supervisory Board reports on its supervision activities during the year under review.

Strategy and operational plan

The BAM strategy for 2016-2020 Building the present, creating the future was developed in 2015 and announced in February of the year under review. The strategy is built on three pillars (focusing the project portfolio, shaping the business portfolio and creating the future portfolio) and is aimed at preparing the company for the future while improving current performance. This strategy is supported by a new target-operating model that creates clarity and uniformity in the way the company operates.

In order to ensure that the strategic direction set in the new strategy is followed by the entire Group, the operating companies and corporate functions developed their own strategic agendas which derive from and are aligned with the Group strategy. The process was supported by external experts. Last but not least, the company's governance structure was evaluated and subsequently amended in order to provide an internal control framework suited to supporting the strategic goals.

The Supervisory Board was closely involved in the development of the new Group strategy but also provided input on the strategic agendas of the operating companies and a number of corporate functions. To this effect a three-day event was organised at which representatives of these companies and functions presented their strategic agendas, giving the members of the Supervisory Board the opportunity to provide comments and input.

Order intake

Again in 2016 the need to avoid major loss-making projects and their potential financial consequences was high on the agenda of discussions between the Supervisory Board and the Executive Board. Order intake reduced slightly on the back of a more stringent selection process of projects.

While the tender stage gate process is aimed at identifying risks and opportunities with regard to projects upfront, the operational audit function offers a chance to learn from the past by auditing high exposure projects and applying the lessons learned to improve risk control measures.

Based on an updated authorisation schedule, a number of very large projects in the tender stage were presented to the Supervisory Board in extraordinary and regular meetings, allowing critical input and approval. The Supervisory Board reviewed in detail the projects presented in these meetings.

Risk profile

The Supervisory Board's regular meetings included a discussion on the course of business as well as risks and opportunities for both the Group as a whole and for the respective segments and individual operating companies. The implications of the issues addressed in these meetings are discussed elsewhere in this report, including on page 38 and onwards.

The Supervisory Board concluded that the Group has in place internal risk management and internal control systems, financial reporting manuals and procedures for drawing up financial reports, as well as an established monitoring and reporting system. The ability of the Executive Board to monitor the operational activities of the Group improved further as a consequence of improved internal reporting requirements, the tender stage gate process and monthly meetings with the Management Board, all of which contributed to increased transparency and awareness.

The Operational Audit team was strengthened with the appointment of several audit professionals. The audit plan for 2016 was presented to and discussed with the Audit Committee and subsequently the full Supervisory Board which approved the plan. Although risk management in the Group was strengthened, continuous attention and improvement is necessary in order to protect the company against the operational risks it faces. The Supervisory Board reviewed the strategic direction of the company and the risks related to the achievement of the strategic objectives with the Executive Board and staff from the risk management corporate functions. Information about its activities and the progress made was obtained and discussed.

The financial audit process is conducted by an independent audit firm. In 2016 Ernst & Young Accountants LLP took over the role of external auditor from PricewaterhouseCoopers. The transition process as well as the collaboration with BAM management and the employees involved in the audit was constructive and satisfactory.

Sustainability

The Supervisory Board discussed the importance of and approach towards sustainability with the Executive Board and Management Board. The sustainability strategy 2020 and beyond is aligned with the corporate strategy and forms the basis for KPIs on people and planet. The content of the Integrated Report is based on themes identified in the

materiality assessment as being most relevant for BAM and its stakeholders. The Supervisory Board supports and stimulates the proactive consultation of partners, clients and suppliers in stakeholder dialogues.

Safety

Safety continued to be a focus area for the Supervisory Board and the company. BAM's safety performance slightly deteriorated in the year under review (from 4.5 (IF BAM) in 2015 to 4.8 (IF BAM) in 2016). BAM regrettably had to record three fatal incidents on the Group's projects (one third party, one employee and one subcontractor of a joint venture). These were extensively evaluated in the meetings with the Executive Board. The Supervisory Board also took notice of the two additional fatalities that took place in the early weeks of 2017. Together with the Executive Board, the Supervisory Board is of the opinion that the achievement of a higher safety level is one of the most important challenges for the Group. The Supervisory Board fully supports and encourages the Executive Board's approach to further increase management's dedication to safety.

Other activities

Each of the Supervisory Board's meetings featured a report on what had been discussed in meetings of the Board's three permanent committees. In addition, in each meeting the Executive Board reported on the state of affairs, the financial situation and market developments for the operating companies and the risks they face, each report being based on the operational plan for the relevant financial year. Other matters discussed in 2016 included the Annual Report and financial statement for 2015, the half-yearly report and interim statement for 2016, the reserve and dividend policy and the dividend proposal for 2015, corporate governance, the various effects of International Financial Reporting Standards (IFRS) on the Group's financial reports, management development and the quality of management, and the most important claims as well as legal proceedings involving parts of the Group.

In 2016 a delegation of the Supervisory Board met with the Central Works Council on several occasions in order to discuss the position of the employees in general and more specifically the consequences of the Back in Shape programme. The annual meeting of the Supervisory Board and the Executive Board with the Central Works Council was held on 19 August 2016.

Performance of the Supervisory Board and Executive Board

In 2016 the Supervisory Board assessed performance of the Supervisory and Executive Board, its committees and the individual members internally. The Chairman of the Supervisory Board held extensive meetings with each individual Supervisory Board member as well as the members of the Executive Board. Based on this thorough process the Supervisory Board concluded

that the individual members of the Board, as well as the Board as a whole and its committees are functioning constructively and professionally.

The observations and recommendations, among other things, related to the division of tasks between the full board and the Audit Committee. The temporary absence of a responsible HR executive was noted in the Remuneration Committee and Appointment Committee. The relationship with the Executive Board was felt to be open and transparent. The Supervisory Board members expressed a broad wish for more direct contact with the members of the Management Board. The Supervisory Board identified the following priorities for the next period: the implementation of the strategy, large projects, ICT (vision, strategy and priorities) and succession planning of senior management. The importance of compliance was also noted as an issue to be placed on the agenda of the Supervisory Board at least once per year.

Remuneration

The Supervisory Board approved the remuneration report prepared by the Remuneration Committee. The remuneration report is included on pages 104-111 of the Integrated Report as part of the report by the Supervisory Board. The remuneration policy was not amended in 2016.

Meetings

In the year under review, the Supervisory Board met on seven occasions in the presence of the Executive Board. The general attendance at the meetings in 2016 was 93 per cent.

The Supervisory Board also met without the Executive Board being present. These meetings were primarily devoted to the functioning of the Executive Board and the Supervisory Board. Internally the Supervisory Board also discussed its position and view on a number of strategic and organisational matters, as well as the remuneration of the Executive Board, including the determination of the variable portion of that remuneration.

The Supervisory Board's committees

The Supervisory Board actively engages with the Executive Board as well as other senior management levels in order to ensure it has the right information, both quantitatively and qualitatively. Besides the regular board meetings, members of the Supervisory Board regularly meet with specific functionaries within the company in order to be briefed on general developments as well as specific topics, like HR, Corporate Governance, Finance and Operational Audit. In addition functionaries are invited in meetings in order to provide information on material matters and developments. In the year under review a joint meeting of the Supervisory Board and the Management Board was organised to



Campus of the Technical
University of Denmark (DTU),
Kongens Lyngby near
Copenhagen. *BAM Denmark.*



discuss the strategic agendas of the individual operating companies.

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

In the year under review the Audit Committee was composed of Messrs. Scheffers (Chairman), Hansen and Wester. The composition of the Audit Committee is in line with the provisions of the Dutch corporate governance code. The Audit Committee supports the Supervisory Board in the performance of its tasks, especially with regard to financial and accounting matters. The Committee met four times over the past financial year. The independent auditor was present at all of these meetings, with exception of the part of the meeting where the relationship with the independent auditor was reviewed as described below. The Chairman of the Executive Board, the Chief Financial Officer and the Operational Audit Director also attended all the Audit Committee's meetings.

In addition to its regular tasks and responsibilities, the Audit Committee addressed the following specific matters in 2016: the successful placement of €125 million subordinated unsecured convertible bonds due 2021 in June 2016 and subsequent renewal of its revolving credit facility until 31 March 2022, the audit plan 2016 of the new independent auditor Ernst & Young Accountants LLP, internal audit plan for 2017, material legal proceedings, development of working capital, key projects, financing of the company, possible impact of Brexit and developments relating to taxes, pensions, insurance and IT.

The Audit Committee was briefed by the independent auditor on relevant developments in the audit profession, especially those related to the EU audit reform and the proposed revision of the Dutch corporate governance code. The transition of audit responsibilities to Ernst & Young Accountants LLP as of this year was monitored closely. The committee met with the independent auditor on one occasion without the Executive Board being present and reported to the Supervisory Board on the relationship with the independent auditor subsequently. The Audit Committee believes that the relationship with the independent auditor is sound.

Remuneration Committee

In the year under review, the Remuneration Committee was composed of Mrs Mahieu (Chairwoman), Mr Elverding 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 remuneration policy, the terms of employment of members of the Executive Board and the remuneration of the members of the Supervisory Board and Executive Board.

The Committee submitted a proposal to the Supervisory Board relating to the remuneration of members of the Executive Board and the criteria for variable remuneration. In addition, the Remuneration Committee prepared a remuneration report on the way the remuneration policy has been implemented in practice. The developments with regard to the different pension schemes in the company were also reviewed. In the financial year, the committee consulted the Chairman of the Executive Board about the policy on terms and conditions of employment for directors of operating companies and executive officers of equivalent rank.

The Remuneration Committee met two times during the year under review. The Chairman of the Executive Board was present during parts of these meetings. The committee members consulted with each other a number of times outside the context of a formal meeting. In addition a number of teleconferences were held.

Nomination Committee

During the year under review, the Nomination Committee was composed of Mr Elverding (Chairman), Mrs Mahieu and Mr Noy. One of the tasks of the Nomination Committee is to make proposals to the Supervisory Board regarding selection criteria and appointment procedures, and regarding the size, composition, appointments and reappointments to the Supervisory Board and the Executive Board as well as 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 two times in the past financial year. One item discussed was the ending of the terms of Mr Van Wingerden and Mrs Menssen (as members of the Executive Board) and Mr Noy (as a member of the Supervisory Board) at the Annual General Meeting in 2016. A proposal for reappointment was submitted to the Supervisory Board. In 2016 the Nomination Committee also initiated a search for the new members of the Supervisory Board to be appointed by the Annual General Meeting in 2017.

Composition of the Supervisory Board

During the year under review, the Supervisory Board was composed of six members. In accordance with the retirement schedule, there was one reappointment (Mr Noy).

Diversity

BAM strives for a diverse composition of its corporate bodies and senior management. Diversity in this respect is not limited to gender; it also involves age, nationality and other criteria. However, gender diversity is recognised as an important contributor to successful management. The Supervisory Board has five male members and one female member (16.7 per cent). One member of the Supervisory Board is a Belgian national. The Executive Board, whose members are all Dutch nationals, has two male members and one female member (33.3 per cent). As such the Group complies with the diversity targets as far as the Executive Board is concerned but has not yet reached the desired target in the Supervisory Board.

Both the Supervisory Board and the Executive Board endorse the importance of diversity in the Group's managerial bodies. In order to further emphasise this, the profile of the Supervisory Board was updated in 2015 to include a 30 per cent target for female board members. For future vacancies the Supervisory Board will ensure that specific efforts will be made to identify one or more suitable female candidates and strives to comply with the diversity target by 2018.

Independence

In the opinion of the Supervisory Board, the requirements of the Dutch corporate governance code with regard to independence have been met. In 2016 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.

Composition of the Executive Board

During the financial year, the Executive Board was composed of three members. There were two scheduled reappointments (Mr Van Wingerden and Mrs Menssen).

The Supervisory Board concluded that none of the members of the Executive Board holds more than two Supervisory Board positions of large corporations and no position of Chairman of a

supervisory body was held. This is in line with the Management and Supervision (Public and Private Companies) Act and the Code.

The Supervisory Board has no evidence of any conflicts of interest between the company and members of the Executive Board.

Shareholders and investor relations

The Supervisory Board prepared the Annual General Meeting and evaluated it afterwards. The Supervisory Board was very pleased with the constructive dialogue with shareholders at the meeting. The Supervisory Board reviews the Group's investor relations activities and shareholder base on a regular basis.

Independent auditor

During its review of the 2015 full year results and the 2016 half year results, the Supervisory Board met with PriceWaterhouseCoopers respectively Ernst & Young Accountants LLP to discuss their respective reports. The Board established that the transition from PriceWaterhouseCoopers to Ernst & Young Accountants LLP went smoothly and that the new independent auditor had received the financial information on which the financial reports were based. The independent auditors have also been given the opportunity to discuss the information provided with BAM officers and the Executive Board. The Supervisory Board took note of the reports and management letters as prepared by the independent auditors. These documents were discussed with the respective independent auditor and the Executive Board. The Supervisory Board also discussed the follow-up to the independent auditors' findings with the Executive Board.

PricewaterhouseCoopers attended the Annual General Meeting of 20 April 2016 and was available to answer any questions. As part of its consideration of this report and the 2016 financial statements, the Supervisory Board assessed the relationship with Ernst & Young Accountants LLP, based on reports from the Executive Board and the Audit Committee. The Supervisory Board concluded that the relation with the independent auditor is sound and constructive.

In the Annual General Meeting on 22 April 2015 Ernst & Young Accountants LLP was appointed as independent auditor for the financial years 2016, 2017 and 2018.

Corporate governance

The company's corporate governance structure and its compliance with the Code were discussed with the shareholders in the Annual General Meeting on 21 April 2009. The Supervisory

Board and the Executive Board reviewed the corporate governance structure during the financial year and decided that there were no reasons to change it.

The Supervisory Board and the Executive Board are convinced that Royal BAM Group's corporate governance is up to standard. Please refer to the corporate governance statement from page 87 of the Integrated Report concerning the company's compliance with the Code.

The 2016 financial statements, duly prepared by the Executive Board, will be submitted to the Annual General Meeting for adoption. The financial statements have been audited by the independent auditor, Ernst & Young Accountants LLP; the unqualified independent auditor's report is included on page 217 of the Integrated Report. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the independent auditor and agrees with them. The Supervisory Board agrees with the proposal of the Executive Board to distribute a dividend of €0.09 per share in accordance with the Group's dividend policy. The Supervisory Board is of the opinion that the financial statements, the report by the Supervisory Board and the report by the Executive 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 of the management policies pursued. 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. The Supervisory Board believes that this report is presented in accordance with the International Integrated Reporting Framework.

Final comments

2016 was a year of accelerated change. The development and implementation of the new 2016-2020 Group strategy Building the present, creating the future, the translation of this strategy into dedicated strategic agendas for the operating companies and corporate functions, and the introduction of the new target operating model all stretched the organisation as well as its employees. The Supervisory Board expresses its appreciation for the contribution of management and all employees to the major efforts that have been made and the results achieved so far.



Zaans Medical Center (ZMC) in
Zaandam, the Netherlands.
*Vitaal Zorgvast and BAM Bouw en
Techniek.*



5.3 Remuneration report

The following remuneration report from the Supervisory Board describes how the remuneration policy was put into practice during the past financial year. The report includes summaries of information concerning remuneration received in 2016 and also contains a summary of the remuneration policy for the coming financial year and subsequent years.

Remuneration

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), Mr Elverding and Mr Noy. The composition of the Remuneration Committee is in line with the provisions of the Code. The Remuneration Committee met two times during the past financial year. The committee members consulted with each other a number of times outside the context of a formal meeting.

Beginning 2016 the salaries were benchmarked against the labour market reference group by external remuneration advisers (Hay Group). Based on the results the Supervisory Board, based on a proposal by the Remuneration Committee, decided to adjust the salaries of the Executive Board per 1 January 2016. The salary of the CEO has been increased from €620,000 to €680,000 in order to bring him closer to the median of the reference group. The salaries of the other members of the Executive Board were adjusted from €470,000 to €480,000 in line with general salary increases.

A summary of the remuneration of the individual members of the Executive Board can be found in > tables 55 and 60. No other compensation was awarded to members of the Executive Board in the financial year other than the compensation indicated in > tables 55 and 60.

Annual variable remuneration and long-term remuneration for the members of the Executive Board

The members of the Executive Board were awarded 60 per cent annual variable remuneration in relation to the financial and non-financial targets from the short-term incentive plan. The targets related to performance on the Group's financial priorities, measured by adjusted profit before tax, working capital and cash flow, to performance on safety, measured by IF, and strategy implementation.

The conditional performance shares granted to the members of the Executive Board under the long-term incentive performance share plan in 2016 are stated in > table 60.

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 had already been awarded.

Remuneration of the Supervisory Board members

The annual remuneration for the members of the Supervisory Board, in accordance with the policy adopted at the General Meeting on 7 May 2008, is €50,000 for the Chairman, €45,000 for the Vice-Chairman and €40,000 for the other members of the Board, with an additional remuneration of €5,000 for each member who is on one or more committees set up by the Supervisory Board. The Chairman and the other members of the Supervisory Board receive an annual fixed expenses allowance of €3,280 and €1,640 respectively. The remuneration and fixed expenses allowance are paid on a quarterly basis.

As a policy the Company does not award any options or shares to members of the Supervisory Board. This was also the case in 2016. 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.

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 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 after a review of the remuneration policy for the Executive Board in light of the Back in Shape programme and by taking into account developments in market best practices since the previous update.

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 the several remuneration elements 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 is also aimed at stimulating 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 as an employer. The remuneration level and structure are partly 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 sixteen companies as listed in > table 52. The reference group was selected based on industry, ownership structure, geographical business scope and size parameters.

52 — Reference group

| | |
|----------------|---------------|
| Arcadis | Heijmans |
| Balfour Beatty | Hochtief |
| Bauer | NCC |
| Besix | Post NL |
| Boskalis | Skanska |
| Carillion | Strabag |
| Eiffage | TNT Express |
| Fugro | VolkerWessels |

The incentive levels are presented in the > table below:

53 — Remuneration level

STI (% of fixed remuneration)

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

LTI (% of fixed remuneration)*

| | |
|---------|-----|
| CEO | 70% |
| Members | 60% |

Share ownership guidelines

| | |
|---------|-------------------------------|
| CEO | 1 times fixed remuneration |
| Members | 0.75 times fixed remuneration |

* Award value.

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 other secondary conditions of employment.

Ad a. Fixed remuneration

The Supervisory Board determines the development of the annual fixed remuneration of the individual member 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 between the short-term incentive and BAM's strategy, flexibility with respect to the STI metrics is important to enable adequate responses to the challenges the Group is facing. The Remuneration Committee annually 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:

- (Adjusted) profit before tax
- Operational result (EBIT)
- Working capital
- Cash flow
- Cash conversion
- Cost reduction
- Divestments

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

Seventy per cent of the STI is based on financial criteria (as outlined above), the remaining thirty per cent is linked to non-financial performance targets. Performance incentive zones are defined for each of the targets. Pay-out gradually increases with performance, starting with a pay-out of 35 per cent of the target opportunity at threshold performance and potentially going up to 75 per cent pay-out at maximum performance per individual target. Below threshold there will be zero pay-out. The Supervisory Board sets the performance ranges (i.e. threshold, at target and maximum performance levels) and corresponding payout levels, with the constraint that the STI payout will not exceed 75 per cent of fixed remuneration.

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.

In the case of new awards of variable remuneration to members of the Executive Board, based on quantified performance criteria, the Supervisory Board has the right to amend the awards in relation to the level of previous years if it considers that this would otherwise lead to an unreasonable outcome.

The Supervisory Board also has the power to amend the existing conditional awards of variable remuneration based on quantifiable performance criteria if, in its opinion, applying the criteria without amendment would have an unreasonable and unintended outcome. These matters have been incorporated into the management agreements of the Executive Board.

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 Group shares on Euronext Amsterdam based on the five-day average closing price after AGM. The maximum value at the moment of vesting of the

LTI is capped at 2.5 times the award value in order to avoid inappropriate payouts.

There are two financial performance measures, being total shareholder return and ROCE and one non-financial measure, being CDP ranking. 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. When BAM Group ranks at the bottom two places of the TSR peer group, the other parts will not pay out regardless of the performance in this area.

Minimum share ownership requirements: for the CEO this amounts to hundred per cent of fixed remuneration and for the other members of the Executive Board this amounts 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 this performance share plan.

54 — Long-term incentive plan

| | |
|---|--|
| Financial vs. non-financial (personal) measures | Financial: 66.7 per cent Non-financial: 33.3 per cent |
| Weight (% of total value at grant) and type of measures | TSR: 33.3 per cent ROCE: 33.3 per cent CDP ranking: 33.3 per cent |
| Payment mechanism | Conditional performance shares |
| Stimulating share ownership | Two-year additional holding period 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 a three-month average period before award and vesting date. The relative position within the peer group determines the vesting percentage. The TSR peer group comprises of Balfour Beatty, Boskalis, Carillion, Heijmans, Hochtief, Eiffage, Skanska, Strabag, Vinci, YIT (and BAM). The composition of the TSR peer group is being evaluated on a periodic basis, among other things, in light of corporate events.

Stakeholder interview



Maxime Verhagen, Chairman of Bouwend Nederland, the association of Dutch building and infrastructure companies, since 2013. Verhagen is a retired Dutch politician of the Christian Democratic Appeal (CDA).

Maxime Verhagen, Chairman of Bouwend Nederland

What is the most important catalyst for further sustainable development in construction?

‘The phase we’re entering now is ‘development by doing’. We must leave the drawing board behind, leave the endless discussions behind and get to work! Execution of those lofty sustainable goals, that’s what matters now. Translate them into projects proper, in close cooperation with your clients. Of course these need to be smart projects, in which multiple sustainable innovations are joined together. They will amplify and enhance each other. Out of this fusion I fully expect new concepts to emerge, which in turn should be scaled up swiftly. Let’s not waste time while building a significant future. And let’s not look outside, but inside as well, for catalysts. If sustainability is at your company’s core, you are well prepared to meet the challenge of new, sharp requests by your clients. Are you really passionate about distinguishing yourself in sustainable construction?’

How do we ensure sustainability will continue to be a theme – and what role does digitalisation and innovation play?

‘Sustainability is much more than just a theme. Over the last two years I witnessed inherent sustainability in each and every innovation, especially those developed by startups. Governments increasingly wake up to it and encourage their citizens. ‘Going green’ is rapidly becoming policy as usual. This has important repercussions. When buying a newly built house, people expect no less than an almost zero-energy

home. In the near future, they also expect to charge their - soon affordable – electric car using the solar energy captured by their roof. Also, they won’t be exasperated if new buildings are wholly connected to very diverse systems. The Internet of Things is the next big thing and it has everything to do with sustainability. In short, we don’t have to cheer on sustainability. Instead, we have to stay ahead of the curve and be the catalyst.’

‘We have to stay ahead and be the catalyst’

Realised performance against those 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 the tables below.

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.

The authority to implement the long-term incentive plan is vested in 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.

In case of announcement of a public offer for shares in the company as referred to in Article 5 of the Takeover Decree (Besluit

openbare biedingen Wft), the provisions of Article 2:135 (7) of the Civil Code shall apply. In accordance with this article, the company (based upon a resolution of the Supervisory Board, following a proposal of the Remuneration Committee) will reclaim from a member of the Executive Board payment in kind or in cash of any increase in value referred to therein.

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 other secondary conditions of employment

With respect to pensions, sector regulations are adopted 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 within the Group from 1 January 2006 for all comparable employees following the introduction of the Act of Parliament concerning early retirement, pre-pension and life-course savings schemes (Wet VPL). 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. Due to the nature of the management services agreement no pension arrangements were made with regard to Mr Bax, who instead will receive a contribution for his personal pension arrangements.

As for all the other employees, the Group has a competitive package of secondary conditions of employment for the members of the Executive Board. This package includes such matters as healthcare and disability insurance, personal accident insurance,

55 — The performance incentive zones

| Relative TSR | | ROCE | | CDP ranking | |
|--------------|---------|--|---------|-----------------|---------|
| 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. | | | |

a car scheme and reimbursement of personal expenses. The Group does not give loans, warrants and the like to members of the Executive Board or to other employees, except for the arrangements set out below.

Current and former members of the Supervisory Board and current and former members of the 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 conduct 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.

Period of appointment and management services agreements

Members of the Executive Board are appointed for a period of four years. The members of the Executive Board have a notice period of six months for the company and three months for the members. The company regards a notice period of three months suitable for a member of the Executive Board.

The relationship between the members of the Executive Board and the company changed as of 1 January 2013 with the introduction of the Management and Supervision (Public and Private Companies) Act (Wet bestuur en toezicht). As such, the employment relationship between new members of the Executive Board and the company will not be classified as a contract of

employment. As of the above-mentioned date, new Executive Board members are appointed by means of a management services agreement. This is the case for Mr Bax with whom a management services agreement has been negotiated. In the course of 2016, the employment contracts of the other members of the Executive Board were changed into management services agreements as well.

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.

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

Remuneration policy for 2017 and subsequent years

The remuneration policy described above will remain in effect in the financial year 2017 and subsequent years. No material changes in the remuneration policy are planned in the coming period.

Supervisory Board

Bunnik, the Netherlands, 20 February 2017

Executive Board remuneration

56 — Fixed remuneration, short-term incentive, post-employment benefits, other benefits and long-term incentive

(x €1,000)

| | Fixed remuneration ¹ | | Short-term incentive | | Post-employment benefits | | Other benefits | | Long-term incentive | |
|--------------------|---------------------------------|------|----------------------|------|--------------------------|------|----------------|------|---------------------|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| R.P. van Wingerden | 680 | 620 | 408 | 350 | 126 | 46 | 8 | 8 | 119 | 371 |
| T. Menssen | 480 | 470 | 288 | 265 | 39 | 38 | 8 | 8 | 95 | 266 |
| E.J. Bax | 480 | 470 | 288 | 265 | 66 | 52 | 5 | - | 99 | 111 |

¹ As of 20 April 2016, the Executive Board members have a management services agreement and receive a fixed remuneration instead of gross salary.

Long-term incentive plan

57 — Unconditional Phantom Share Plan 2012-2015 ¹

(value in €)

| | At the award date | | At the vesting date | | | | |
|--------------------|-------------------|---------|---------------------|-----------------|-----------------|---------------|--------------------|
| | Number | Value | Number | TSR-performance | Graduated scale | Vested shares | Value ² |
| R.P. van Wingerden | 84,559 | 230,000 | 88,479 | 0.3% | 35% | 30,968 | 135,948 |
| T. Menssen | - | - | - | - | - | - | - |
| E.J. Bax | - | - | - | - | - | - | - |

¹ Award has become unconditional on 4 May 2015; lock-up period up to and including 4 May 2017.

² Potential value based on the closing share price of BAM at year-end 2016 (€4.390) and on the number of vested shares three years after the award. The ultimate TSR performance is based on the quarterly average for the year 2012, 2013 and 2014.

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.

58 — Unconditional Phantom Share Plan 2013-2016 ¹

(value in €)

| | At the award date | | At the vesting date | | | | |
|--------------------|-------------------|---------|---------------------|-----------------|-----------------|---------------|--------------------|
| | Number | Value | Number | TSR-performance | Graduated scale | Vested shares | Value ² |
| R.P. van Wingerden | 69,272 | 235,000 | 70,617 | 7.6% | 45% | 31,778 | 139,504 |
| T. Menssen | 69,272 | 235,000 | 70,617 | 7.6% | 45% | 31,778 | 139,504 |
| E.J. Bax | - | - | - | - | - | - | - |

¹ Award has become unconditional on 3 May 2016; lock-up period up to and including 3 May 2018.

² Potential value based on the closing share price of BAM at year-end 2016 (€4.390) and on the number of vested shares three years after the award. The ultimate TSR performance is based on the quarterly average for the year 2013, 2014 and 2015.

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 — Conditional Phantom Share Plan 2014-2017 ¹

(value in €)

| | At the award date | | Year-end 2016 | | TSR-performance | Graduated scale |
|--------------------|-------------------|---------|---------------|--------------------|-----------------|-----------------|
| | Number | Value | Number | Value ² | | |
| R.P. van Wingerden | 60,072 | 235,000 | 60,378 | 265,059 | 7.1% | 45% |
| T. Menssen | 60,072 | 235,000 | 60,378 | 265,059 | 7.1% | 45% |
| E.J. Bax | 60,072 | 235,000 | 54,340 | 238,553 | 7.1% | 45% |

¹ Award on 1 May 2014; award becomes unconditional on 1 May 2017; lock-up period up to and including 1 May 2019.

² Potential value based on the closing share price of BAM at year-end 2016 (€4.390) and on the number of conditional phantom shares that become unconditional three years after the award.

The TSR performance is based on the quarterly average for 2016. The ultimate TSR performance is based on the quarterly average for the year 2014, 2015 and 2016.

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 — Conditional Performance Share Plan 2015-2017¹

(value in €)

| | At the award date | | Year-end 2016 | |
|--------------------|-------------------|---------|---------------|--------------------|
| | number | value | number | value ² |
| R.P. van Wingerden | 114,319 | 434,000 | 114,319 | 501,860 |
| T. Menssen | 74,281 | 282,000 | 74,281 | 326,093 |
| E.J. Bax | 74,281 | 282,000 | 74,281 | 326,093 |

¹ Award on 30 April 2015; award becomes unconditional if the specified 3-year performance targets are met.

² Potential value based on the closing share price of BAM at year-end 2016 (€4.390) 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 (2.5) times the award value.

61 — Conditional Performance Share Plan 2016-2018¹

(value in €)

| | At the award date | | Year-end 2016 | |
|--------------------|-------------------|---------|---------------|--------------------|
| | Number | Value | Number | Value ² |
| R.P. van Wingerden | 112,711 | 476,000 | 112,711 | 494,801 |
| T. Menssen | 68,195 | 288,000 | 68,195 | 299,376 |
| E.J. Bax | 68,195 | 288,000 | 68,195 | 299,376 |

¹ Awarded on 28 April 2016; award becomes unconditional if the specified 3-year performance targets are met.

² Potential value based on the closing share price of BAM at year-end 2016 (€4.390) 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.

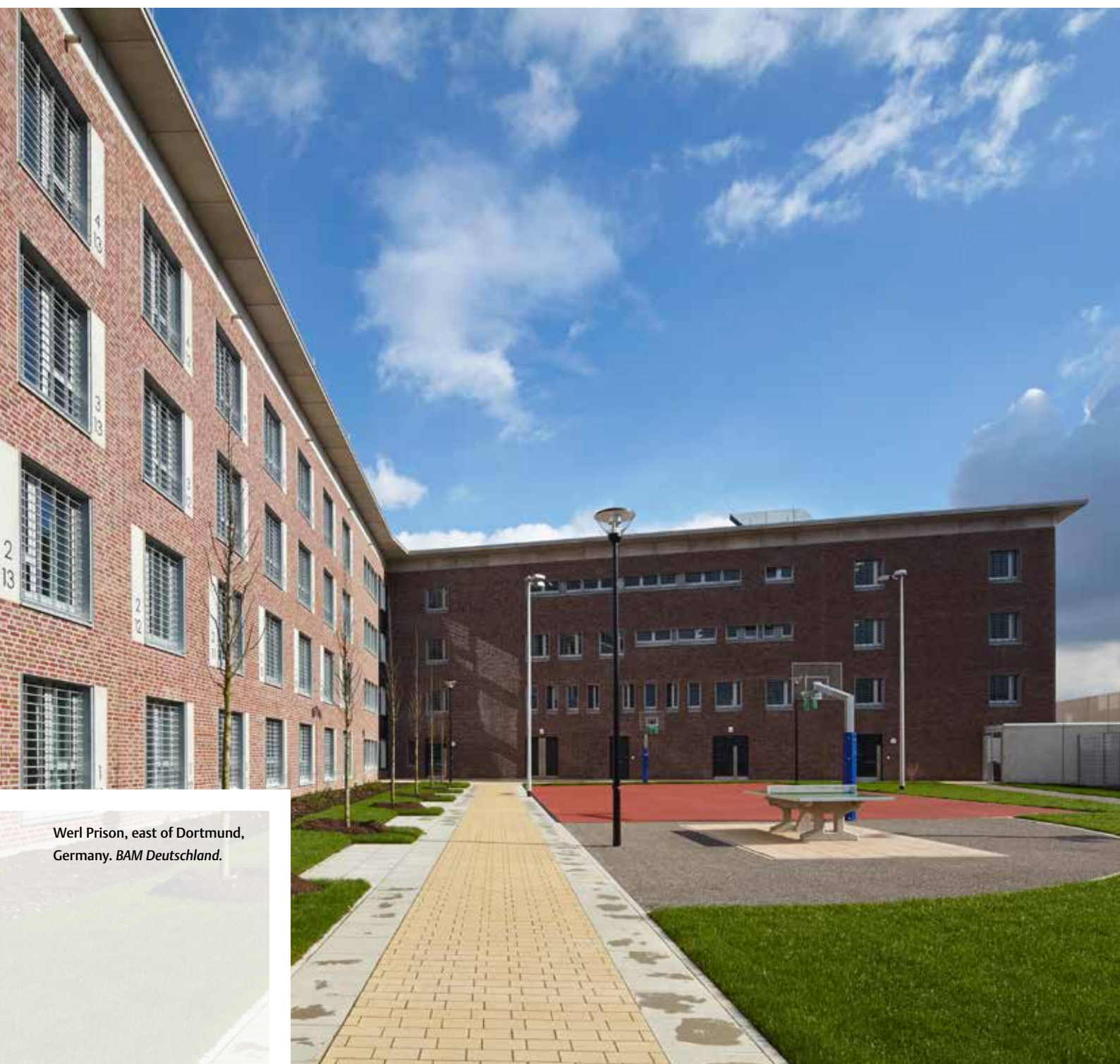
62 — Appointment and contractual arrangements

| | Year of employment | 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 | 1988 | 7 May 2008 | 20 April 2016 | 4 years | 6 months | 3 months | 1 year's fixed remuneration |
| T. Menssen | 2012 | 1 October 2012 | 20 April 2016 | 4 years | 6 months | 3 months | 1 year's fixed remuneration |
| E.J. Bax | 2014 | 1 May 2014 | 1 May 2014 | 4 years | 6 months | 3 months | 1 year's fixed remuneration |

5.4 Declaration in accordance with the Dutch Financial Supervision Act

The members of the Executive Board as required by section 5:25c, paragraph 2, under c of the Dutch Act on Financial Supervision (Wet op het financieel toezicht) confirm that to the best of their knowledge:

- The 2016 financial statements included in this report give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- The report by the Executive Board included in this report gives a true and fair view of the position of the company and the undertakings included in the consolidation taken as a whole as at 31 December 2016, and of the development and performance of the business for the financial year then ended;
- The report by the Executive Board includes a description of the substantial risks and uncertainties that the company faces.



Werl Prison, east of Dortmund, Germany. BAM Deutschland.

5.5 Decision 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.

Capital structure

Note 15 of the financial statements may be used as a reference for the company's capital structure. No rights apart from those arising under statute are attached to the shares into which the company's capital is divided, apart from the scheme specified in Article 31 of the Articles of Association concerning the application of the profit in relation to Class B and Class F preference shares.

A brief summary of Article 31 of the Articles of Association is provided below. 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, 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 12 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.

Please note that, as at the balance sheet date, neither preference shares B nor preference shares F have been issued.

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 (BAM Group Stock Management Foundation) 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 227 onward of the 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 69.

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 15 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. The section headed Corporate governance on page 87 onwards of the report by the Executive Board provides a more detailed explanation of the appointment and dismissal of members of the Supervisory Board and members of the Executive Board. 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 on page 87 onwards of the Executive Board's report, in the section headed Corporate governance. The Executive Board was authorised by the General Meeting held on 20 April 2016 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. The General Meeting held on 20 April 2016 granted authority to the Executive Board for a period of 18 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

The Group's most important financial rules state that in the event of a change of control (including in the event that more than 50 per cent of the shares in BAM are deemed to be held by one party), the banks may terminate further financing and the Group can be obliged to repay outstanding loans under these arrangements and to extend the capital base provided for outstanding bank guarantees. A change of control clause is not unusual in important collaboration agreements over a longer period, where the parties include parts of the Group. Partly because of the total size of the Group, these clauses are not considered significant within the meaning of the Decree on Article 10 of the Takeover Directive.

Change of control clauses in contracts of employment

No agreement has been concluded with directors or employees of the company providing for a severance payment on termination of employment resulting from a public bid for the company.



Office building Onealbertquay in Cork City Centre is designed to Gold LEED standards (Leadership in Energy and Environmental Design).
BAM Ireland.



5.6 Supervisory Board and Executive Board

Biographies of the Supervisory Board members

P.A.F.W. Elverding (1948), *Chairman*

Mr Elverding graduated from the University of Amsterdam. After completing his law degree in 1972, Mr Elverding began his career in the healthcare sector. He then went on to work at Akzo Chemie Nederland and De Bijenkorf in various human resources positions. In 1981, he joined the management team of De Bijenkorf, assuming responsibility for human resources. In 1985, Mr Elverding joined DSM, serving in various management positions in different parts of the DSM Group with responsibility for human resources and general affairs. He was appointed to the DSM Executive Board in 1995 and became Chairman of the Executive Board in 1999. Mr Elverding retired in 2007. Mr Elverding is a Dutch national. He does not own any shares in the company's capital.

Other offices: Vice-Chairman of the Supervisory Board of SHV Holdings; member of the Supervisory Board of Royal FrieslandCampina; member of the Board of Stichting Instituut GAK. Mr Elverding was appointed to the Supervisory Board in 2011 and was appointed as Chairman of the Supervisory Board in November 2011. He was re-appointed in 2015.

H. Scheffers (1948), *Vice-Chairman*

Mr Scheffers trained as a chartered accountant. He worked from 1974 until 1993 at Koninklijke Bunge, where he successively held the positions of internal auditor, European controller and President Northern Europe. He was a member of the Executive Board of LeasePlan Corporation from 1993 until 1999. He joined SHV Holdings in 1999, where he was CFO on the Executive Board until he retired in 2007. Mr Scheffers is a Dutch national. He does not own any shares in the company's capital.

Other offices: Chairman of the Supervisory Board of Aalberts Industries; Vice-Chairman of the Supervisory Board of Flint Holding; member of the Supervisory Board of Heineken; member of the Board of Directors of Stichting Administratiekantoor Aandelen KAS BANK; member of the Monitoring Commission Accountancy (MCA).

Mr Scheffers was appointed to the Supervisory Board in 2009 and reappointed in 2013. He was appointed as Vice-Chairman of the Supervisory Board in November 2011.

J.-P. Hansen (1948)

Baron Hansen graduated from Luik University, Belgium, as an electromechanical engineer. After two years working for the Belgian government, he continued his career in the electricity and gas sector. Mr Hansen was CEO of Electrabel during two periods, from 1992 to 1999 and again from 2005 to 2010.

From 1999 to 2004 he was Chairman of the Executive Board of Electrabel. He was a member of the Executive Board of ENGIE until February 2013. Currently Mr Hansen is Honorary Chairman of Electrabel. Mr Hansen is a Belgian national and does not own any

shares in the company's capital.

Other offices: member of the Board of Directors of CMB (Compagnie Maritime Belge). He is a professor of economics at the University of Louvain.

Mr Hansen was appointed to the Supervisory Board in 2013.

C.M.C. 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. She does not own any shares in the company's capital.

Mrs Mahieu holds no other offices.

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

H.L.J. Noy (1951)

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 NV. 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 re-appointed in 2016.

K.S. Wester (1946)

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



From the left (top): K.S. Wester, H.L.J. Noy, H. Scheffers and J.-P. Hansen.
(Bottom:) P.A.F.W. Elverding and C.M.C. Mahieu.

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 re-appointed in 2015.

63 Retirement schedule for the Supervisory Board

| As of January 2016 | Year of appointment | Year of next re-appointment | Year of retirement | Current term ¹ |
|--------------------|---------------------|-----------------------------|--------------------|---------------------------|
| P.A.F.W. Elverding | 2011 | 2019 | 2023 | 2 |
| H.S. Scheffers | 2009 | 2017 | 2021 | 2 |
| J.-P. Hansen | 2013 | 2017 | 2025 | 1 |
| C.M.C. Mahieu | 2011 | 2019 | 2023 | 2 |
| H.L.J. Noy | 2012 | 2020 | 2024 | 2 |
| K.S. Wester | 2011 | 2019 | 2023 | 2 |

¹ Members of the Supervisory Board are appointed/reappointed for a maximum of four years.

Biographies of the Executive Board

*From the left: Rob van Wingerden,
Thessa Menssen and Erik Bax.*



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 Wingerden's shareholding position is on pages 110 and 111.

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 Board of De Bouwcampus; member of the Taskforce Bouw; member of the Advisory Board of DIMI (Delft Infrastructures & Mobility Initiative).

T. (Thessa) Menssen (1967), CFO
Mrs Menssen graduated from the University of Technology Eindhoven in 1990 with a degree in mechanical engineering. She then received a master's degree in business administration from the Technical University of Twente. In 1992 Mrs Menssen joined Unilever, where she held various management positions. In 2006 Mrs Menssen was appointed to the Executive Board of Havenbedrijf Rotterdam (Rotterdam Port Authority), first as CFO and from 2010 as COO. Mrs Menssen has been a member of the Executive Board of Royal BAM since October 2012 and CFO since January 2013. She is a Dutch national. Information about Mrs Menssen's shareholding position is on pages 110 and 111.

Other offices: member of the Supervisory Board of PostNL; member of the Supervisory Board of FMO; member of the Supervisory Board of the Rotterdam Philharmonic Orchestra; member of the Monitoring Committee of the Talent naar de Top programme; member of the Supervisory Board of the Foundation Topvrouw van het Jaar (a platform for the promotion of gender diversity at board level in the Netherlands).

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 plc 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 is a Dutch national. Information about Mr Bax' shareholding position is on pages 110 and 111.

Stakeholder interview



Sofie Narinx is Associate Partner at IBM in the Industrial Sector and Engineering, Construction and Operations Industry. She is an expert in digital transformation, design thinking, Internet of Things and cognitive solutions to enable business transformation.

Sofie Narinx, Associate Partner at IBM

What is the most important catalyst for further digitalisation in construction?

'The Internet of Things (IoT) and emerging technologies like Cognitive Computing (CC) will be the primary drivers of the digital transformation which the construction industry will undergo in the coming years, creating a self-learning environment which will drive digital disruption in the physical world. This digital transformation will allow new business models to emerge and enables

using predictable data and their rigidity can limit their usefulness when addressing the ambiguity and uncertainty of IoT data. Cognitive systems, however, are not explicitly programmed. Rather, they learn from interactions with people and from experiences with their environment. In doing so, they become able to keep pace with the complexity of the IoT, identifying data correlations that would otherwise go unnoticed.'

How do we ensure digitalisation will continue to be a theme – and what role does digitalisation and innovation play?

'The number of IoT devices in the built environment is rapidly increasing along with new requirements for flexible and sustainable operations. Cognitive buildings will be able to autonomously integrate IoT devices and learn system and user behaviour to optimise performance, thereby unleashing new levels of productivity, increasing environmental efficiency and sustainability, enabling new business models and improving end user well-being.

The emerging challenge for organisations is how to take advantage of these new possibilities. I believe the IoT and cognitive platforms, with artificial intelligence and cognitive learning, will create the possibility to develop innovative new services for engaging with building users, radically reduce costs through automation and optimisation of operations and improve end user satisfaction from personalised, cognitive client service.'

*'The digital transformation
will allow new business models'*

changes in work processes, productivity improvements, cost containment and enhanced client experiences.

The exploding amount of IoT data requires a new approach to gather, analyze and make sense out of all that data. Cognitive IoT is such an approach. Programmable systems thrive on prescribed scenarios

5.7 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 as part of the 'Back in Shape' programme in 2014 in order 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 in > table 6 at page 17) and a number of selected Corporate Function Directors.

Executive Board

Bunnik, the Netherlands, 20 February 2017



From the left: G. Cash (BAM Construct UK), T.M. Cullinane (BAM Contractors), S.C. Fox (BAM Nuttall), M. Koch (BAM Deutschland) G.K. Mazloumian (BAM International), K. Meade (BAM PPP), M. Peeters (BAM Belgium), M.H. Schimmel (BAM Infra Nederland), R. Vollebregt (BAM Bouw en Vastgoed), B.J. Wierenga (Wayss & Freytag Ingenieurbau), R.P. van Wingerden (CEO Royal BAM Group), T. Menssen (CFO Royal BAM Group), E.J. Bax (COO Royal BAM Group), S. Beckers (General Counsel / Company Secretary Royal BAM Group), T.W. Muntinga (Director of Finance Royal BAM Group), A. Sundermeijer (Group IT Director Royal BAM Group) and R. Zuidema (Director of Human Resources Royal BAM Group).



Wageningen City Hall,
the Netherlands.
BAM Bouw en Techniek.



6. Financial statements

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Consolidated income statement

(x €1,000)

| | Notes | 2016 | 2015 |
|--|-------|--------------------|--------------------|
| Continuing operations | | | |
| Revenue | 5 | 6,976,090 | 7,422,942 |
| Raw materials and consumables used | | (1,295,185) | (1,502,663) |
| Subcontracted work and other external charges | | (4,013,649) | (4,200,698) |
| Employee benefit expenses | 24 | (1,276,214) | (1,358,434) |
| Depreciation and amortisation charges | 7,8 | (64,449) | (70,527) |
| Impairment charges | 25 | (50,659) | (41,126) |
| Other operating expenses | | (245,131) | (265,003) |
| Exchange rate differences | | 2,137 | 4,817 |
| | | <u>(6,943,150)</u> | <u>(7,433,634)</u> |
| Operating result | | 32,940 | (10,692) |
| Finance income | 28 | 31,805 | 34,495 |
| Finance expense | 28 | <u>24,485</u> | <u>23,490</u> |
| | | 7,320 | 11,005 |
| Share of result of investments | 10 | 19,827 | 10,988 |
| Share of impairment charges in investments | 10,25 | - | 2,040 |
| | | <u>19,827</u> | <u>13,028</u> |
| Result before tax | | 60,087 | 13,341 |
| Income tax | 29 | <u>(10,883)</u> | <u>(2,309)</u> |
| Result for the year from continuing operations | | <u>49,204</u> | <u>11,032</u> |
| Discontinued operations | | | |
| Result for the year from discontinued operations | 35 | - | - |
| Net result | | <u>49,204</u> | <u>11,032</u> |
| Attributable to: | | | |
| Shareholders of the Company | | 46,831 | 10,180 |
| Non-controlling interests | | <u>2,373</u> | <u>852</u> |
| | | <u>49,204</u> | <u>11,032</u> |

Earnings per share

(x €1)

| | | | |
|-------------------------|----|-------------|-------------|
| Basic | 30 | | |
| Continuing operations | | 0.17 | 0.04 |
| Discontinued operations | | - | - |
| Total | | <u>0.17</u> | <u>0.04</u> |
| Diluted | 30 | | |
| Continuing operations | | 0.17 | 0.04 |
| Discontinued operations | | - | - |
| Total | | <u>0.17</u> | <u>0.04</u> |

The notes on pages 129 to 205 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(x €1,000)

| | Notes | 2016 | 2015 |
|--|-------|------------------------|----------------------|
| Net result | | 49,204 | 11,032 |
| <i>Items that may be subsequently reclassified to the income statement</i> | | | |
| Fair value of cash flow hedge | | 24,605 | 6,673 |
| Tax on fair value of cashflow hedge | | <u>(7,344)</u> | <u>(1,899)</u> |
| Cash flow hedges | 19 | 17,261 | 4,774 |
| Fair value movement hedges in joint ventures | | (24,308) | (1,489) |
| Tax on fair value movement hedges in joint ventures | | <u>6,979</u> | <u>846</u> |
| Cash flow hedges of investment in joint ventures | 19 | (17,329) | (643) |
| Exchange rate differences | | (65,862) | 26,344 |
| <i>Items that will not be subsequently reclassified to the income statement, net of tax</i> | | | |
| Movement in remeasurements | | (62,559) | 47,672 |
| Tax on movement in remeasurements | | <u>9,262</u> | <u>(10,576)</u> |
| Remeasurements of post-employment benefit obligations | 20 | (53,297) | 37,096 |
| Other comprehensive income | | (119,227) | 67,571 |
| Total comprehensive income | | <u>(70,023)</u> | <u>78,603</u> |
| Attributable to: | | | |
| Shareholders of the Company | | (72,111) | 77,543 |
| Non-controlling interests | | <u>2,088</u> | <u>1,060</u> |
| | | <u>(70,023)</u> | <u>78,603</u> |
| Total comprehensive income attributable to the shareholders of the Company arises from: | | | |
| Continuing operations | | (72,111) | 77,543 |
| Discontinued operations | | <u>-</u> | <u>-</u> |
| | | <u>(72,111)</u> | <u>77,543</u> |

Consolidated statement of financial position as at 31 December

(x €1,000)

| | Notes | 2016 | 2015 |
|---|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 270,173 | 292,159 |
| Intangible assets | 8 | 389,992 | 416,052 |
| PPP receivables | 9 | 296,395 | 279,074 |
| Investments | 10 | 85,866 | 94,052 |
| Other financial assets | 11 | 92,044 | 98,488 |
| Derivative financial instruments | 19 | - | 979 |
| Employee benefits | 20 | 62,773 | 74,684 |
| Deferred tax assets | 22 | 248,845 | 251,715 |
| | | <u>1,446,088</u> | <u>1,507,203</u> |
| Current assets | | | |
| Inventories | 12 | 645,433 | 758,738 |
| Trade and other receivables | 13 | 1,934,542 | 1,891,776 |
| Income tax receivable | | 6,226 | 9,306 |
| Derivative financial instruments | 19 | 983 | 6,200 |
| Cash and cash equivalents | 14 | 738,577 | 637,212 |
| | | <u>3,325,761</u> | <u>3,303,232</u> |
| Assets held for sale | 35 | 40,245 | 41,814 |
| | | <u>3,366,006</u> | <u>3,345,046</u> |
| Total assets | | <u>4,812,094</u> | <u>4,852,249</u> |
| Equity attributable to the shareholders of Company | | | |
| Share capital | 15 | 839,311 | 839,311 |
| Reserves | 16 | (170,252) | (104,536) |
| Retained earnings | | 165,191 | 167,372 |
| | | <u>834,250</u> | <u>902,147</u> |
| Non-controlling interests | | 5,061 | 3,638 |
| Total Equity | | <u>839,311</u> | <u>905,785</u> |
| Non-current liabilities | | | |
| Borrowings | 18 | 463,515 | 511,863 |
| Derivative financial instruments | 19 | 20,347 | 33,939 |
| Employee benefits | 20 | 144,708 | 151,731 |
| Provisions | 21 | 86,058 | 84,933 |
| Deferred tax liabilities | 22 | 26,287 | 30,959 |
| | | <u>740,915</u> | <u>813,425</u> |
| Current liabilities | | | |
| Borrowings | 18 | 148,131 | 85,459 |
| Trade and other payables | 23 | 3,004,428 | 2,895,821 |
| Derivative financial instruments | 19 | 4,354 | 16,749 |
| Provisions | 21 | 55,805 | 65,258 |
| Income tax payable | | 14,817 | 23,290 |
| | | <u>3,227,535</u> | <u>3,086,577</u> |
| Liabilities held for sale | 35 | 4,333 | 46,462 |
| | | <u>3,231,868</u> | <u>3,133,039</u> |
| Total equity and liabilities | | <u>4,812,094</u> | <u>4,852,249</u> |
| Capital base | 17 | 946,741 | 1,026,482 |

The notes on pages 129 to 205 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(x € 1,000)

| | Notes | Attributable to the shareholders of the Company | | | | Non-controlling interests | Total equity |
|---|-------|---|------------------|-------------------|----------------|---------------------------|----------------|
| | | Share capital and premium | Reserves | Retained earnings | Total | | |
| As at 1 January 2015 | | 839,311 | (134,873) | 122,956 | 827,394 | 3,322 | 830,716 |
| Cash flow hedges | 19 | - | 4,094 | - | 4,094 | 37 | 4,131 |
| Remeasurements of post-employment benefit obligations | 20 | - | - | 37,026 | 37,026 | 70 | 37,096 |
| Exchange rate differences | | - | 26,243 | - | 26,243 | 101 | 26,344 |
| Other comprehensive income, net of tax | | - | 30,337 | 37,026 | 67,363 | 208 | 67,571 |
| Net result | | - | - | 10,180 | 10,180 | 852 | 11,032 |
| Total comprehensive income | | - | 30,337 | 47,206 | 77,543 | 1,060 | 78,603 |
| Dividends | 31 | - | - | - | - | (743) | (743) |
| Repurchase of ordinary shares | | - | - | (3,092) | (3,092) | - | (3,092) |
| Share based payments | | - | - | 302 | 302 | - | 302 |
| Other movements | | - | - | - | - | (1) | (1) |
| | | - | - | (2,790) | (2,790) | (744) | (3,534) |
| As at 31 December 2015 | | <u>839,311</u> | <u>(104,536)</u> | <u>167,372</u> | <u>902,147</u> | <u>3,638</u> | <u>905,785</u> |
| Cash flow hedges | 19 | - | (45) | - | (45) | (23) | (68) |
| Remeasurements of post-employment obligations | 20 | - | - | (53,226) | (53,226) | (71) | (53,297) |
| Exchange rate differences | | - | (65,671) | - | (65,671) | (191) | (65,862) |
| Other comprehensive income, net of tax | | - | (65,716) | (53,226) | (118,942) | (285) | (119,227) |
| Net result | | - | - | 46,831 | 46,831 | 2,373 | 49,204 |
| Total comprehensive income | | - | (65,716) | (6,395) | (72,111) | 2,088 | (70,023) |
| Issue of convertible bonds | | - | - | 7,852 | 7,852 | - | 7,852 |
| Dividends | 31 | - | - | (1,978) | (1,978) | (540) | (2,518) |
| Repurchase of ordinary shares | | - | - | (2,529) | (2,529) | - | (2,529) |
| Share based payments | | - | - | 606 | 606 | - | 606 |
| Other movements | | - | - | 263 | 263 | (125) | 138 |
| | | - | - | 4,214 | 4,214 | (665) | 3,549 |
| As at 31 December 2016 | | <u>839,311</u> | <u>(170,252)</u> | <u>165,191</u> | <u>834,250</u> | <u>5,061</u> | <u>839,311</u> |

Due to a change in accounting policy, the remeasurements of post-employment benefits are no longer included in the reserves, but have been restated to the retained earnings. The comparative figures have been adjusted accordingly.

Consolidated statement of cash flows

(x € 1,000)

| | Notes | 2016 | 2015 |
|---|-------|-----------------|-----------------|
| Net result | | 49,204 | 11,032 |
| Adjustments for: | | | |
| - Income tax | 29 | 10,883 | 2,309 |
| - Depreciation of property, plant and equipment | 7 | 60,305 | 66,470 |
| - Amortisation of intangible assets | 8 | 4,144 | 4,057 |
| - Impairment of property, plant and equipment | 7,25 | 2,213 | 1,452 |
| - Impairment of investments and non-current receivables | 11,25 | (196) | (949) |
| - Impairment of intangible assets | 8,25 | 833 | 3,298 |
| - Impairment of inventories | 12,25 | 47,809 | 37,325 |
| - Share of impairment charges in investments | 10,25 | - | (2,040) |
| - Result on sale of subsidiaries | | (270) | - |
| - Result on sale of PPP projects | 35 | (4,400) | (5,207) |
| - Result on sale of property, plant and equipment | | (6,291) | (4,594) |
| - Share based payments | 37 | 606 | 302 |
| - Share of result of investments | 10 | (19,826) | (10,988) |
| - Finance income | 28 | (31,805) | (34,495) |
| - Finance expense | 28 | 24,485 | 23,490 |
| Interest received | | 10,866 | 11,828 |
| Dividends received from investments | 10 | 13,033 | 13,321 |
| Changes in provisions and pensions | 20,21 | (62,423) | (69,606) |
| Changes in working capital (excluding cash and cash equivalents) | | 176,425 | 91,083 |
| Cash flow from operations | | 275,595 | 138,088 |
| Interest paid | | (38,468) | (38,274) |
| Income tax paid | | (14,473) | (10,023) |
| Net cash flow from ordinary operations | | 222,654 | 89,791 |
| Investments in PPP receivables | 9 | (189,785) | (195,437) |
| Repayments of PPP receivables | 9 | 35,048 | 63,820 |
| Net cash flow from operating activities | | 67,917 | (41,826) |
| Acquisition of subsidiaries, net of cash acquired | | (904) | - |
| Purchases of property, plant and equipment | 7 | (61,927) | (64,644) |
| Proceeds from sale of property, plant and equipment | 7 | 16,004 | 27,567 |
| Purchases of intangible assets | 8 | (4,993) | (6,391) |
| Proceeds from disposal of intangible assets | 8 | - | 918 |
| Investments in non-current receivables | 11 | (11,892) | (14,899) |
| Repayments of non-current receivables | 11 | 11,799 | 3,759 |
| Investments in other financial assets | 10,11 | (15,690) | (17,433) |
| Proceeds from disposal of other financial assets | 10,11 | 3,357 | 837 |
| Proceeds from sale of PPP projects | 35 | 16,600 | 35,000 |
| Proceeds from sale of subsidiaries | | (2,318) | - |
| Net cash flow from investing activities | | (49,964) | (35,286) |
| Proceeds from borrowings | 18 | 312,216 | 214,239 |
| Repayments of borrowings | 18 | (189,976) | (130,131) |
| Dividends paid to shareholders of the Company | 31 | (1,978) | - |
| Dividends paid to non-controlling interests | | (540) | (743) |
| Repurchase of ordinary shares with respect to Performance Share Plan | | (2,529) | (3,092) |
| Net cash flow from financing activities | | 117,193 | 80,273 |
| Change in cash and cash equivalents | | 135,146 | 3,161 |
| Cash and cash equivalents at beginning of year | 14 | 637,209 | 624,330 |
| Change in cash and cash equivalents in assets and liabilities held for sale | 35 | (614) | (421) |
| Exchange rate differences on cash and cash equivalents | | (33,166) | 10,139 |
| Net cash position at end of year | 14 | 738,575 | 637,209 |

The notes on pages 129 to 205 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

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

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

On 20 February 2017 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 19 April 2017.

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 Netherlands 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) Changes in accounting policies

The Group has amended the accounting policy for remeasurements of post-employment benefits, which is no longer presented within the reserves and instead is included in the retained earnings. Presentation within the retained earnings is more in line with IAS 19 Employee Benefits (where however a free choice was given). The Group will continue to recognise remeasurement gains and losses arising on defined benefit pension plans in OCI in accordance with IAS 19 Employee Benefits.

(b) Application of new and revised standards

The Group has applied the amendments for the first time for their annual reporting period commencing 1 January 2016 in connection with the 'Annual Improvements to IFRSs – 2012-2014 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 2016 that have a material impact on the Group.

(c) 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 2016 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 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. IFRS 9 is effective for financial years beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.

The Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses, resulting in a negative impact on equity. The Group will perform a detailed assessment in 2017 to determine the final extent.

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 and earlier application is permitted. The Group will implement this standard on the required date.

The Group has performed a detailed impact analysis in 2016 to identify the areas for which the Group expects this standard will have impact upon. The Group has identified the areas within the different entities and will proceed in 2017 to perform a full contract by contract analysis to complete the preparations for the implementation as per 1 January 2018. The Group expects to use the retrospective method for implementation. As a result of the impact analysis, the Group does not expect major changes in the method of revenue recognition as Percentage of Completion over time generally still applies. The Group expects some impact on the timing of revenue recognition, for example due to claim recognition, the separation of performance obligations within one contract and the treatment of site mobilisation costs. Guidelines, processes and forms will be adjusted to comply with the new IFRS 15 standard, as expanded information will be needed for disclosure purposes.

IFRS 16, 'Leases' was issued by the IASB on 13 January 2016. 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 lessor's accounting model largely remains unchanged. The standard is effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15, 'Revenue from Contracts with Customers' also has been applied. As disclosed in note 33.2, the

Group has several operating lease contracts for buildings, equipment and company cars for which the accounting will in principle change from off balance to on balance. The Group will start with a detailed impact analysis in 2017 to identify the effect of this standard on its financial statements and plans to implement this standard on the required date.

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 IAS 39 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 as from 2016 Construction and Property, Civil engineering and PPP as operating segments. In previous years Property was considered as a separate sector, but since these activities are highly interrelated with our construction activities, this is no longer considered to be a separate sector.

Furthermore, construction activities of several operating companies that were fully reported in the Civil engineering segment in previous years, are now reported in the Construction and property segment. All changes mentioned follow changes in internal organisation and reporting.

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:

| | 2016 | 2015 |
|------------------------------|---------|---------|
| Closing exchange rate | | |
| Pound sterling | 0.85940 | 0.73681 |
| Average exchange rate | | |
| Pound sterling | 0.81301 | 0.72653 |

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 and the management of acquired subsidiaries and are stated at cost less accumulated amortisation and impairment losses. 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.

The Group classifies its financial assets in the category 'loans and receivables' and 'derivative financial instruments' (note 2.12). Loans and receivables 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. These are classified as non-current assets. The Group's loans and receivables comprise 'PPP receivables', 'other financial assets', 'trade receivables – net', 'retentions' and 'cash and cash equivalents' in the balance sheet.

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. 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ('loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, 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. 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.

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').

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.

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

A construction contract is defined as a contract specifically negotiated for the construction of an asset.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written off are deferred and amortised over the life of the contract.

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 are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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.

Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years. 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 and associates and joint ventures 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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. The net contract position as per period end is included on the balance sheet. See paragraph 2.14.

The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total forecasted costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

A variation order is an instruction by the customer for a change in the scope of a project to be performed under the contract. Regarding variation orders the following basis for valuation is applied:

- it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
- the amount of revenue can be reliably measured.

In the normal course of business the Group recognises amounts receivable in connection with claims for (un)completed work due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Project related claims on the principal are recognised when:

- negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- the amount that is probable will be accepted by the customer can be measured reliably.

In some markets, given local circumstances and practices with our principals, historic data on receiving comparable claims is also taken into account when assessing the probability of receiving a claim.

Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed.

(b) Property development

The Group develops property, which it sells in the ordinary course of business and has entered into contracts to sell certain of these properties on completion of construction. The Group has concluded that these pre-completion contracts were not, in substance, construction contracts.

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. Construction and other expenditure attributable to such property are included in inventory property development until disposal. Rental income from incidental operations in connection with property development is recognised in the income statement on an accruals basis.

Known and expected losses are recognised as an expense immediately on completing a development once such losses are foreseen. The profit on disposal of property developments is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the reporting period including additions in the period and any residual commitments.

When the buyer is able to specify the major structural elements of the design of property development before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not), revenue is recognised in accordance with construction contracts.

When the Group transfers control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses to the buyer, revenue is recognised in accordance with 'construction contracts'. This may be the case in house-building projects as from the moment that the land and buildings, if any, have been legally transferred to the buyer.

(c) Service concession arrangements

Under the terms of IFRIC 12 'Service concession arrangements' comprise construction and/or upgrade activities, as well as operating and maintenance activities. The consideration (concession payments) received is allocated between construction/upgrade activities and operating/maintenance services according to the relative fair values of the respective activities.

Revenue from construction and/or upgrade activities is recognised in conformity with the revenue recognition principles of construction contracts (IAS 11). Revenue from operating and maintenance activities is recognised in conformity with revenue from services (IAS 18).

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'.

(d) Services and other

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales of goods are recognised upon delivery to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

When the outcome of a transaction cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

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 useful 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 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 are charged to the income statement as incurred.

2.29 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. These are material items of income and expense that have been shown separately due to the significance of their nature or amount.

2.30 Statement of cash flows

The statement of cash flows is prepared using the indirect method. The net cash position in the statement of cash flows consists of cash and cash equivalents, net of bank overdrafts.

Cash flows in foreign exchange currencies are converted using the average exchange rate. Exchange rate differences on the net cash position are separately presented in the statement of cash flows. Payments in connection with interest and income tax are included in the cash flow from operations. Cash flows in connection with PPP receivables are included in the cash flow from operating activities. Paid dividend is included in cash flows from financing activities. The purchase price of acquisitions of subsidiaries are included in the cash flow from investing activities as far as payments have taken place. Cash and cash equivalents in the subsidiaries are deducted from the purchase price.

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 minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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 2016 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 2016 of the Group's UK subsidiaries, an increase or decrease of 10% of the exchange rate of the pound sterling, will have an effect on the Group's equity of approximately €32 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.

With regard to financial instruments, the Group predominantly faces an exchange rate risk for current account balances in pound sterling. This risk is covered by forward exchange contracts. The residual effect of the exchange rate risk with regard to financial instruments in pound sterling and other currencies on the Group's result and equity, is limited.

(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 2016, 82 per cent (2015: 83 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 2016, the Group's net result after tax (assuming that all other variables remained equal) would have been approximately €0.1 million higher or approximately €1.0 million higher (2015: approximately €0.3 million lower or approximately €2.1 million higher). If the interest rates (Euribor and Libor) had been 100 basis points higher or lower during 2016, the Group's cash flow hedge reserves in Group equity (assuming that all other variables remained equal) would have been approximately €12 million higher or approximately €12 million lower (2015: approximately €24 million higher or approximately €24 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', 'retentions' and 'cash and cash equivalents'.

'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' and 'trade receivables – net' 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 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 minimise 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 | 2016 | 2015 |
|----------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| PPP receivables | 9 | 296,395 | 279,074 |
| Non-current receivables | 11 | 90,138 | 96,108 |
| Derivative financial instruments | 19 | - | 979 |
| Current assets | | | |
| Trade receivables – net | 13 | 915,067 | 806,492 |
| Retentions | 13 | 112,607 | 126,142 |
| PPP receivables | 13 | 62,338 | 5,263 |
| Other financial assets | 11 | 720 | 6,726 |
| Derivative financial instruments | 19 | 983 | 6,200 |
| Cash and cash equivalents | 14 | <u>738,577</u> | <u>637,212</u> |
| | | <u>2,216,825</u> | <u>1,964,196</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 2016 or subject to impairment. 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 |
|--|--------------------|---------------------------|------------------|----------------|----------------|
| 2016 | | | | | |
| Subordinated convertible bonds | 112,491 | 144,688 | 4,375 | 140,313 | - |
| Non-recourse PPP loans | 274,348 | 332,434 | 67,990 | 50,167 | 214,277 |
| Non-recourse property financing | 85,678 | 89,025 | 36,757 | 52,268 | - |
| Other non-recourse financing | 7,922 | 8,543 | 2,227 | 5,686 | 630 |
| Recourse PPP loans | 50,103 | 51,176 | 37,368 | 13,808 | - |
| Recourse property financing | 68,745 | 72,342 | 11,473 | 60,869 | - |
| Other recourse financing | 5,550 | 6,090 | 170 | 5,920 | - |
| Finance lease liabilities | 6,807 | 7,357 | 2,729 | 4,260 | 368 |
| Derivatives (forward exchange contracts) | 4,030 | 5,137 | 3,484 | 1,653 | - |
| Derivatives (interest rate swaps) | 19,688 | 23,570 | 4,304 | 11,218 | 8,048 |
| Bank overdrafts | 2 | 2 | 2 | - | - |
| Other current liabilities | 932,818 | 932,818 | 932,818 | - | - |
| | <u>1,568,182</u> | <u>1,673,182</u> | <u>1,103,697</u> | <u>346,162</u> | <u>223,323</u> |
| 2015 | | | | | |
| Subordinated loan | 124,335 | 142,242 | 7,138 | 135,104 | - |
| Non-recourse PPP loans | 194,787 | 250,975 | 13,368 | 56,836 | 180,771 |
| Non-recourse property financing | 116,034 | 128,974 | 25,232 | 103,742 | - |
| Other non-recourse financing | 7,921 | 8,223 | 1,577 | 6,611 | 35 |
| Recourse PPP loans | 52,771 | 54,865 | 8,634 | 46,231 | - |
| Recourse property financing | 80,083 | 83,894 | 36,948 | 46,866 | 80 |
| Other recourse financing | 6,937 | 8,227 | 225 | 4,397 | 3,605 |
| Finance lease liabilities | 14,451 | 14,387 | 4,585 | 9,802 | - |
| Derivatives (forward exchange contracts) | 12,988 | 5,853 | (7,669) | 13,522 | - |
| Derivatives (interest rate swaps) | 30,521 | 44,590 | 9,256 | 22,881 | 12,453 |
| Bank overdrafts | 3 | 3 | 3 | - | - |
| Other current liabilities | 907,012 | 907,012 | 907,012 | - | - |
| | <u>1,547,843</u> | <u>1,649,245</u> | <u>1,006,309</u> | <u>445,992</u> | <u>196,944</u> |

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 (2015: €500 million) respectively €163 million (2015: €153 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 2016, the capital ratio was 19.7 per cent (2015: 21.2 per cent). For the strategic objectives regarding the capital ratio, see chapter 4.1 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 |
|----------------------------------|-------|-----------------------|-----------------------|---------------|---------------------------|------------------|
| | | Loans and receivables | Financial liabilities | Hedging | Non-financial instruments | |
| 2016 | | | | | | |
| PPP receivables | 9 | 296,395 | - | - | - | 296,395 |
| Other financial assets | 11 | 92,044 | - | - | - | 92,044 |
| Derivative financial instruments | 19 | - | - | 983 | - | 983 |
| Trade and other receivables | 13 | 1,091,497 | - | - | 843,045 | 1,934,542 |
| Cash and cash equivalents | 14 | 738,577 | - | - | - | 738,577 |
| Borrowings | 18 | - | 611,646 | - | - | 611,646 |
| Derivative financial instruments | 19 | - | - | 24,701 | - | 24,701 |
| Trade and other payables | 23 | - | 932,818 | - | 2,071,610 | 3,004,428 |
| | | <u>2,218,513</u> | <u>1,544,464</u> | <u>25,684</u> | <u>2,914,655</u> | <u>6,703,316</u> |
| 2015 | | | | | | |
| PPP receivables | 9 | 279,074 | - | - | - | 279,074 |
| Other financial assets | 11 | 98,488 | - | - | - | 98,488 |
| Derivative financial instruments | 19 | - | - | 7,179 | - | 7,179 |
| Trade and other receivables | 13 | 945,891 | - | - | 945,885 | 1,891,776 |
| Cash and cash equivalents | 14 | 637,212 | - | - | - | 637,212 |
| Borrowings | 18 | - | 597,322 | - | - | 597,322 |
| Derivative financial instruments | 19 | - | - | 50,688 | - | 50,688 |
| Trade and other payables | 23 | - | 907,012 | - | 1,988,809 | 2,895,821 |
| | | <u>1,960,665</u> | <u>1,504,334</u> | <u>57,867</u> | <u>2,934,694</u> | <u>6,457,560</u> |

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 2016 a positive balance of €344 million has been offset against a negative balance of €0.5 million (2015: positive balance of €437 million offset against a negative balance of €111 million).

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 and it is probable that the contract will be profitable, contract revenue and costs are recognised over the period of the contract 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 expected loss is recognised as an expense immediately.

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 valuation of construction contracts.

(b) Claims receivable

In the normal course of business the Group recognises amounts receivable in connection with claims for completed work due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Project related claims on principals are recognised when it is probable that the claim amount will be received. Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed. See paragraph 2.24.

(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.

(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 ²

| | Construction and Property | Civil engineering | PPP | Other including eliminations ¹ | Total |
|-----------------------------------|---------------------------------|----------------------|----------------|---|------------------|
| 2016 | | | | | |
| Construction contracts | 3,520,728 | 2,752,838 | 175,230 | - | 6,448,796 |
| Property development | 355,922 | - | - | - | 355,922 |
| Service concession arrangements | 94,828 | - | 21,442 | - | 116,270 |
| Services and other | 15,085 | 36,922 | - | 3,095 | 55,102 |
| Revenue from external customers | 3,986,563 | 2,789,760 | 196,672 | 3,095 | 6,976,090 |
| Sector revenue | 137,809 | 109,358 | - | (247,167) | - |
| Revenue | 4,124,372 | 2,899,118 | 196,672 | (244,072) | 6,976,090 |
| Operating result | (46,027) | 88,418 | 35 | (9,487) | 32,940 |
| Finance result | (3,716) | 611 | 12,220 | (1,795) | 7,320 |
| Share of result of investments | 3,046 | 1,797 | 4,849 | 10,135 | 19,827 |
| Result before tax | (46,697) | 90,826 | 17,104 | (1,147) | 60,087 |
| Exceptional items | (50,187) | 7,439 | - | 164 | (42,584) |
| Adjusted result before tax | 3,490 | 83,387 | 17,104 | (1,311) | 102,670 |
| 2015 | | | | | |
| Construction contracts | 3,541,329 | 3,104,162 | 163,200 | - | 6,808,691 |
| Property development | 463,493 | - | - | - | 463,493 |
| Service concession arrangements | 74,802 | - | 22,178 | - | 96,981 |
| Services and other | 34,336 | 16,375 | - | 3,066 | 53,777 |
| Revenue from external customers | 4,113,961 | 3,120,537 | 185,378 | 3,066 | 7,422,942 |
| Sector revenue | 88,276 | 139,723 | - | (227,999) | - |
| Revenue | 4,202,237 | 3,260,260 | 185,378 | (224,933) | 7,422,942 |
| Operating result | (34,255) | 38,626 | 3,275 | (18,338) | (10,692) |
| Finance result | (1,624) | 3,167 | 12,067 | (2,605) | 11,005 |
| Share of result of investments | 8,198 | 1,800 | 3,030 | - | 13,028 |
| Result before tax | (27,681) | 43,593 | 18,372 | (20,943) | 13,341 |
| Exceptional items | (42,814) | (22,983) | (298) | (8,744) | (74,839) |
| Adjusted result before tax | 15,133 | 66,576 | 18,670 | (12,199) | 88,180 |

¹ Including non-operating segments.

² The comparative figures have been adjusted to the new identified segments.

Besides combining the Construction and Property sectors, construction activities in Ireland, BAM Belgium and BAM International have been reclassified from Civil Engineering to Construction and Property. In 2015 these reclassifications amounted to €665 million revenue and €6.9 million result before tax. Revenue from property development includes both revenue from development of residential and commercial property. In earlier years only revenue from commercial property was reported here. Revenue from residential property was shown under revenue from Construction contracts. Comparative figures 2015 have been adjusted accordingly.

Balance sheet disclosures²

| | Construction and Property | Civil engineering | PPP | Other including eliminations ¹ | Total |
|-------------------------------------|---------------------------------|----------------------|----------------|---|------------------|
| 2016 | | | | | |
| Assets | 2,973,794 | 1,945,160 | 488,956 | (681,682) | 4,726,228 |
| Investments | 67,519 | 6,978 | 9,144 | 2,225 | 85,866 |
| Total assets | 3,041,313 | 1,952,138 | 498,100 | (679,457) | 4,812,094 |
| Liabilities | 2,853,054 | 1,435,740 | 395,599 | (711,609) | 3,972,784 |
| Group equity | 188,261 | 516,398 | 102,500 | 32,151 | 839,310 |
| Total equity and liabilities | 3,041,315 | 1,952,138 | 498,099 | (679,458) | 4,812,094 |
| 2015 | | | | | |
| Assets | 2,817,753 | 2,023,813 | 503,632 | (587,001) | 4,758,197 |
| Investments | 76,327 | 6,892 | 8,796 | 2,037 | 94,052 |
| Total assets | 2,894,080 | 2,030,705 | 512,428 | (584,964) | 4,852,249 |
| Liabilities | 2,695,471 | 1,503,833 | 358,162 | (611,004) | 3,946,464 |
| Group equity | 198,609 | 526,872 | 154,266 | 26,038 | 905,785 |
| Total equity and liabilities | 2,894,080 | 2,030,705 | 512,428 | (584,964) | 4,852,249 |

¹ Including non-operating segments.² The comparative figures have been adjusted to the new identified sectors.Other disclosures²

| | Construction and Property | Civil engineering | PPP | Other including eliminations ¹ | Total |
|---|---------------------------------|----------------------|-----|---|--------|
| 2016 | | | | | |
| Additions to property, plant and equipment and intangible assets | 14,367 | 43,917 | 10 | 8,603 | 66,897 |
| Depreciation and amortisation charges | 18,214 | 39,868 | 12 | 6,354 | 64,449 |
| Average number of FTE | 9,031 | 11,010 | 89 | 240 | 20,370 |
| Number of FTE at year-end | 8,944 | 10,213 | 86 | 243 | 19,486 |
| 2015 | | | | | |
| Additions to property, plant and equipment and intangible assets | 17,277 | 44,854 | 3 | 8,901 | 71,035 |
| Depreciation and amortisation charges | 18,144 | 47,875 | 9 | 4,499 | 70,527 |
| Average number of FTE ³ | 9,715 | 11,861 | 95 | 245 | 21,916 |
| Number of FTE at year-end | 9,700 | 11,246 | 90 | 212 | 21,248 |

¹ Including non-operating segments.² The comparative figures have been adjusted to the new identified sectors.³ Fulltime equivalent.

Revenues from external customers by country, based on the location of the projects²

| | Construction and Property | Civil engineering | PPP | Other including eliminations ¹ | Total |
|-----------------|---------------------------------|----------------------|----------------|---|------------------|
| 2016 | | | | | |
| Netherlands | 1,405,372 | 1,173,733 | 106,739 | (154,410) | 2,531,434 |
| United Kingdom | 1,319,918 | 856,780 | 17,040 | (8,605) | 2,185,133 |
| Belgium | 496,006 | 262,960 | 584 | (16,434) | 743,116 |
| Germany | 424,413 | 304,718 | 2,426 | 351 | 731,908 |
| Ireland | 257,993 | 17,697 | 69,883 | (64,561) | 281,012 |
| Other countries | 220,670 | 283,230 | - | (413) | 503,487 |
| | <u>4,124,372</u> | <u>2,899,118</u> | <u>196,672</u> | <u>(244,072)</u> | <u>6,976,090</u> |
| 2015 | | | | | |
| Netherlands | 1,400,519 | 1,094,690 | 89,304 | (109,260) | 2,475,253 |
| United Kingdom | 1,234,235 | 1,138,889 | 16,709 | (6,557) | 2,383,276 |
| Belgium | 562,205 | 282,698 | 691 | (10,589) | 835,005 |
| Germany | 512,119 | 285,425 | 4,291 | (3,584) | 798,251 |
| Ireland | 236,154 | 43,554 | 74,383 | (94,163) | 259,928 |
| Other countries | 257,004 | 415,004 | - | (779) | 671,229 |
| | <u>4,202,236</u> | <u>3,260,260</u> | <u>185,378</u> | <u>(224,932)</u> | <u>7,422,942</u> |

¹ Including non-operating segments.² The comparative figures have been adjusted to the new identified sectors.

Revenues from the individual countries included in 'other countries' are not material.

Total assets and capital expenditures in connection with property, plant and equipment and intangible assets by country are stated below:

| Total assets¹ | 2016 | 2015 |
|---------------------------------|------------------|------------------|
| Netherlands | 2,126,703 | 2,171,428 |
| United Kingdom | 967,485 | 1,051,901 |
| Belgium | 640,398 | 557,575 |
| Germany | 575,318 | 536,912 |
| Ireland | 267,826 | 234,612 |
| Other countries | 786,150 | 829,279 |
| Other including eliminations | <u>(551,786)</u> | <u>(529,458)</u> |
| | <u>4,812,094</u> | <u>4,852,249</u> |
| Investments² | 2016 | 2015 |
| Netherlands | 29,374 | 37,633 |
| United Kingdom | 5,834 | 8,103 |
| Belgium | 6,083 | 4,408 |
| Germany | 12,336 | 11,012 |
| Ireland | 2,323 | 736 |
| Other countries | <u>10,947</u> | <u>9,143</u> |
| Total assets | <u>66,897</u> | <u>71,035</u> |

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 |
|---------------------------------|---------------------------|-------------------------|-----------------------|
| 2016 | | | |
| Land and building rights | - | 386,795 | 386,795 |
| Property development | - | 242,727 | 242,727 |
| Amounts due from customers | <u>389,131</u> | <u>7,533</u> | <u>396,664</u> |
| Assets | 389,131 | 637,055 | 1,026,186 |
| Non-recourse property financing | - | (85,678) | (85,678) |
| Recourse property financing | - | (68,745) | (68,745) |
| Amounts due to customers | <u>(770,470)</u> | <u>(33,456)</u> | <u>(803,926)</u> |
| Liabilities | (770,470) | (187,879) | (958,349) |
| As at 31 December | <u>(381,339)</u> | <u>449,176</u> | <u>67,837</u> |
| 2015 | | | |
| Land and building rights | - | 429,299 | 429,299 |
| Property development | - | 310,912 | 310,912 |
| Amounts due from customers | <u>417,859</u> | <u>7,831</u> | <u>425,690</u> |
| Assets | 417,859 | 748,042 | 1,165,901 |
| Non-recourse property financing | - | (116,034) | (116,034) |
| Recourse property financing | - | (80,083) | (80,083) |
| Amounts due to customers | <u>(669,297)</u> | <u>(45,131)</u> | <u>(714,428)</u> |
| Liabilities | (669,297) | (241,248) | (910,545) |
| As at 31 December | <u>(251,438)</u> | <u>506,794</u> | <u>255,356</u> |

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

| | Construction contracts | Property development | Total |
|--|---------------------------|-------------------------|------------------|
| 2016 | | | |
| Costs incurred plus recognised results | 11,759,866 | 60,856 | 11,820,722 |
| Progress billings | (11,370,735) | (53,323) | (11,424,058) |
| Amounts due from customers | <u>389,131</u> | <u>7,533</u> | <u>396,664</u> |
| Costs incurred plus recognised results | 9,707,580 | 545,941 | 10,253,521 |
| Progress billings | (10,478,050) | (579,397) | (11,057,447) |
| Amounts due to customers | <u>(770,470)</u> | <u>(33,456)</u> | <u>(803,926)</u> |
| 2015 | | | |
| Costs incurred plus recognised results | 12,734,666 | 143,952 | 12,878,618 |
| Progress billings | (12,316,807) | (136,121) | (12,452,928) |
| Amounts due from customers | <u>417,859</u> | <u>7,831</u> | <u>425,690</u> |
| Costs incurred plus recognised results | 7,856,248 | 561,038 | 8,417,286 |
| Progress billings | (8,525,545) | (606,169) | (9,131,714) |
| Amounts due to customers | <u>(669,297)</u> | <u>(45,131)</u> | <u>(714,428)</u> |

As at 31 December 2016 advance payments (as included in amounts due to customers) in connection with construction contracts and property development amount to €267 million (2015: €245 million) respectively €7 million (2015: €4 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 |
|----------------------------|---------------|-----------------|----------------|
| 2016 | | | |
| PPP receivables | 296,395 | 62,338 | 358,733 |
| (Non-)recourse PPP loans | (224,866) | (99,585) | (324,451) |
| Amounts due from customers | 71,529 | (37,247) | 34,282 |
| Net assets and liabilities | (7,904) | (32,429) | (40,333) |
| As at 31 December | <u>63,625</u> | <u>(69,676)</u> | <u>(6,051)</u> |
| 2015 | | | |
| PPP receivables | 279,074 | 5,263 | 284,337 |
| (Non-)recourse PPP loans | (233,035) | (14,523) | (247,558) |
| Amounts due from customers | 46,039 | (9,260) | 36,779 |
| Net assets and liabilities | (9,269) | 3,976 | (5,293) |
| As at 31 December | <u>36,770</u> | <u>(5,284)</u> | <u>31,486</u> |

7. Property, plant and equipment

| | Land and buildings | Plant and equipment | Construction in progress | Other assets | Total |
|--|-----------------------|------------------------|-----------------------------|-----------------|------------------|
| As at 1 January 2015 | | | | | |
| Cost | 207,469 | 581,748 | 1,969 | 131,622 | 922,808 |
| Accumulated depreciation and impairments | <u>(94,367)</u> | <u>(414,423)</u> | <u>-</u> | <u>(98,238)</u> | <u>(607,028)</u> |
| | <u>113,102</u> | <u>167,325</u> | <u>1,969</u> | <u>33,384</u> | <u>315,780</u> |
| Additions | 12,663 | 30,387 | 6,721 | 14,873 | 64,644 |
| Disposals | (8,304) | (10,886) | (1) | (3,782) | (22,973) |
| Reclassifications | (784) | 1,536 | (446) | 406 | 712 |
| Impairment charges | (1,263) | (189) | - | - | (1,452) |
| Depreciation charges | (6,765) | (45,724) | - | (13,981) | (66,470) |
| Exchange rate differences | <u>319</u> | <u>1,253</u> | <u>4</u> | <u>342</u> | <u>1,918</u> |
| | 108,968 | 143,702 | 8,247 | 31,242 | 292,159 |
| As at 31 December 2015 | | | | | |
| Cost | 201,710 | 540,834 | 8,247 | 115,172 | 865,963 |
| Accumulated depreciation and impairments | <u>(92,742)</u> | <u>(397,132)</u> | <u>-</u> | <u>(83,930)</u> | <u>(573,804)</u> |
| | <u>108,968</u> | <u>143,702</u> | <u>8,247</u> | <u>31,242</u> | <u>292,159</u> |
| Additions | 3,808 | 40,579 | 5,083 | 12,457 | 61,927 |
| Acquisition of subsidiaries | 280 | 491 | - | 133 | 904 |
| Disposals | (10,751) | (6,274) | (14) | 255 | (16,784) |
| Reclassifications | (2,052) | 2,722 | (3,370) | (473) | (3,173) |
| Impairment charges | (2,213) | - | - | - | (2,213) |
| Depreciation charges | (6,726) | (40,920) | - | (12,659) | (60,305) |
| Exchange rate differences | <u>(699)</u> | <u>(1,228)</u> | <u>(8)</u> | <u>(407)</u> | <u>(2,342)</u> |
| | 90,615 | 139,072 | 9,938 | 30,548 | 270,173 |
| As at 31 December 2016 | | | | | |
| Cost | 193,604 | 573,197 | 9,938 | 124,610 | 901,349 |
| Accumulated depreciation and impairments | <u>(102,989)</u> | <u>(434,125)</u> | <u>-</u> | <u>(94,062)</u> | <u>(631,176)</u> |
| | <u>90,615</u> | <u>139,072</u> | <u>9,938</u> | <u>30,548</u> | <u>270,173</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:

| | 2016 | 2015 |
|-------------------------------|---------------|---------------|
| Land and buildings | - | 6,000 |
| Property, plant and equipment | 11,112 | 11,536 |
| Other assets | <u>13</u> | <u>23</u> |
| | <u>11,125</u> | <u>17,559</u> |

8. Intangible assets

| | Goodwill | Non-integrated software | Other | Total |
|--|------------------|-------------------------|-----------------|------------------|
| As at 1 January 2015 | | | | |
| Cost | 697,435 | 15,526 | 25,285 | 738,246 |
| Accumulated amortisation and impairments | <u>(297,403)</u> | <u>(10,675)</u> | <u>(20,918)</u> | <u>(328,996)</u> |
| | <u>400,032</u> | <u>4,851</u> | <u>4,367</u> | <u>409,250</u> |
| Additions | - | 6,376 | 15 | 6,391 |
| Disposals | - | - | (918) | (918) |
| Reclassifications | - | (714) | - | (714) |
| Impairment charges | (3,298) | - | - | (3,298) |
| Amortisation charges | - | (3,328) | (729) | (4,057) |
| Exchange rate differences | <u>9,399</u> | <u>(55)</u> | <u>54</u> | <u>9,398</u> |
| | <u>406,133</u> | <u>7,130</u> | <u>2,789</u> | <u>416,052</u> |
| As at 31 December 2015 | | | | |
| Cost | 707,340 | 19,816 | 23,325 | 750,481 |
| Accumulated amortisation and impairments | <u>(301,207)</u> | <u>(12,686)</u> | <u>(20,536)</u> | <u>(334,429)</u> |
| | <u>406,133</u> | <u>7,130</u> | <u>2,789</u> | <u>416,052</u> |
| Additions | - | 3,922 | 1,071 | 4,993 |
| Disposals | (3,639) | (62) | (2) | (3,703) |
| Reclassifications | - | 1,031 | - | 1,031 |
| Impairment charges | (176) | - | (657) | (833) |
| Amortisation charges | - | (3,398) | (746) | (4,144) |
| Exchange rate differences | <u>(22,933)</u> | <u>(474)</u> | <u>3</u> | <u>(23,404)</u> |
| | <u>379,385</u> | <u>8,149</u> | <u>2,458</u> | <u>389,992</u> |
| As at 31 December 2016 | | | | |
| Cost | 678,186 | 24,114 | 7,301 | 709,601 |
| Accumulated amortisation and impairments | <u>(298,801)</u> | <u>(15,965)</u> | <u>(4,843)</u> | <u>(319,609)</u> |
| | <u>379,385</u> | <u>8,149</u> | <u>2,458</u> | <u>389,992</u> |

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. In 2015, the organisational restructuring that the Group was implementing through its Back in Shape programme has resulted in the merger of a number of CGUs in the Netherlands and Belgium, all within the segment Civil engineering. This has effectively reduced the associated number of CGUs with two CGUs. In 2016 a part of one of the CGU's in Belgium has been integrated in to another CGU in Belgium, because of a change in the management and organisational structure of the activities.

The carrying amount of total goodwill is €379 million (2015: €406 million).

The decrease of goodwill relates to the sale of one of our CGU's and an exchange rate effect. The change in exchange rate of the pound sterling compared to the prior year had an downward effect of approximately €23 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 16 CGUs, of which BAM Construct UK (€62 million) and BAM Nuttall (€75 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 | |
|--------------------------------|------------------|------|-------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate (post-tax) | 7.8% | 8.3% | 7.8% | 8.3% |
| Growth rate: | | | | |
| - In forecast period (average) | 1.9% | 3.8% | 2.3% | (1.1%) |
| - Beyond forecast period | 1.5% | 2.0% | 1.5% | 2.0% |
| Profit before tax margin | | | | |
| - In forecast period (average) | 2.6% | 2.0% | 2.8% | 2.2% |
| - Beyond forecast period | 3.1% | 2.2% | 3.5% | 2.5% |

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 €432 million (2015: €314 million). The sensitivity analyses indicated that if the growth rate of BAM Construct UK 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 carrying amount of this CGU would still exceed the recoverable amount with sufficient and reasonable headroom.

For BAM Nuttall, the recoverable amount calculated based on value in use exceeded the carrying amount by approximately €257 million (2015: €197 million). The sensitivity analyses indicated that if the growth rate of BAM Nuttall 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 carrying amount of this CGU would still exceed the recoverable amount with sufficient and reasonable headroom.

The sensitivity analyses 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 in Germany, representing a goodwill amount of €12 million, with a limited headroom.

9. PPP receivables

| | 2016 | 2015 |
|-----------------------------------|-----------------------|----------------|
| As at 1 January | 284,337 | 307,926 |
| Receivables issued | 189,785 | 195,437 |
| Finance income | 20,679 | 23,077 |
| Disposals | (87,313) | (144,941) |
| Progress billings | (35,048) | (63,820) |
| Transfers to assets held for sale | - | (39,391) |
| Exchange rate differences | (13,707) | 6,049 |
| As 31 December | <u>358,733</u> | <u>284,337</u> |

| | Note | 2016 | 2015 |
|-------------|------|-----------------------|----------------|
| Non-current | | 296,395 | 279,074 |
| Current | 13 | <u>62,338</u> | <u>5,263</u> |
| | | <u>358,733</u> | <u>284,337</u> |

The increase in receivables issued is related to progress on the construction of the PPP projects partly compensated by divestment of two projects to the joint venture BAM PPP/PGGM s.

The average duration of PPP receivables is 23 years (2015: 22 years). Approximately €263 million of the non-current part has a duration of more than five years (2015: €272 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 5.9 per cent (2015: 6.8 per cent). At year-end 2016, the fair value of the non-current part is approximately €315 million (2015: approximately €322 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:

| | 2016 | 2015 |
|--------------------------|----------------------|---------------|
| Associates | 22,339 | 24,914 |
| Joint ventures | <u>63,527</u> | <u>69,138</u> |
| As at 31 December | <u>85,866</u> | <u>94,052</u> |

10.1 Investment in associates

Set out below are the associates of the Group as at 31 December 2016 that are individually material to the Group.

Nature of investment in associates in 2016 and 2015:

| | Principal activity | Country of incorporation | % Interest | |
|--------------------------|-------------------------------------|--------------------------|------------|--------|
| | | | 2016 | 2015 |
| Infraspeed (Holdings) bv | Exploitation of rail infrastructure | Netherlands | 10.54% | 10.54% |
| Justinvest bv | Lease and exploitation real estate | Belgium | 33.33% | 33.33% |
| Rabot Invest nv | Lease and exploitation real estate | Belgium | 25.00% | 25.00% |

Set out below are the summarised financial information for the associates that are material to the Group, including reconciliation to the carrying amount of the Group's share in the associates, as recognised in the consolidated financial statements. This information reflects the amounts presented in the financial statements of these associates adjusted for differences in the Group's accounting policies and the associates.

| | Infraspeed (Holdings) bv | | Justinvest nv | | Rabot Invest nv | |
|-------------------------|--------------------------|---------------|---------------|------------|-----------------|------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current assets | 101,675 | 108,558 | 13,746 | 13,355 | 8,508 | 8,376 |
| Non-current assets | 830,001 | 861,161 | 161,340 | 170,617 | 86,573 | 91,528 |
| Current liabilities | (22,909) | (21,727) | (12,639) | (12,368) | (7,266) | (7,305) |
| Non-current liabilities | (856,112) | (893,153) | (161,943) | (171,142) | (87,167) | (91,987) |
| Net assets | 52,655 | 54,839 | 504 | 462 | 648 | 612 |
| Revenue | 56,509 | 50,923 | 840 | 578 | 922 | 920 |
| Net result | 9,772 | 10,347 | 44 | 51 | 36 | 20 |
| Net assets | 52,655 | 54,839 | 504 | 462 | 648 | 612 |
| Share in equity | 10.54% | 10.54% | 33.33% | 33.33% | 25.00% | 25.00% |
| Carrying amount | 5,550 | 5,780 | 168 | 154 | 162 | 153 |

Infraspeed (Holdings) bv is classified as an associate based on significant influence by the Group through board membership.

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

These associates mainly comprise the Group's share in structured entities for property development projects.

| | 2016 | 2015 |
|---------------------|--------|-------|
| Share in net result | 13,839 | 1,846 |
| Share in equity | 2,832 | 5,196 |

In 2015 the Group's share in the net result of associates included a reversal of impairment amounting to €1 million.

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

| | 2016 | 2015 |
|--|---------------|---------------|
| Share in equity associates that are material to the Group | 5,880 | 6,087 |
| Share in equity associates that are not individually material to the Group | <u>2,832</u> | <u>5,196</u> |
| | 8,712 | 11,283 |
| Recognised as provision for associates | 411 | 122 |
| Recognised as impairment of non-current receivables | <u>13,216</u> | <u>13,509</u> |
| | <u>22,339</u> | <u>24,914</u> |

Dividend received from associates amounts to €5.8 million in 2016 (2015: €5.8 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 2016 that is individually material to the Group.

Nature of investment in the joint venture in 2016 and 2015:

| | Principal activity | Country of incorporation | % Share | |
|---|--------------------|--------------------------|---------|--------|
| | | | 2016 | 2015 |
| 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. | |
|-----------------------------------|---|--------------------|
| | 2016 | 2015 |
| Current assets | 130,286 | 89,712 |
| Non-current assets | 1,841,165 | 1,028,237 |
| Current liabilities | (306,107) | (242,707) |
| Non-current liabilities | <u>(1,962,276)</u> | <u>(1,034,736)</u> |
| Net assets | (296,932) | (159,494) |
| Of which: | | |
| Cash and cash equivalents | 97,106 | 75,003 |
| Current financial liabilities | (41,426) | (25,298) |
| Non-current financial liabilities | <u>(1,949,552)</u> | <u>(1,028,129)</u> |
| Revenue | 44,082 | 41,093 |
| Net result | 9,673 | 5,105 |
| Other comprehensive income | 123,982 | 17,912 |

Of which:

| | | |
|---|-----------------|-----------------|
| Finance income | 102,561 | 62,073 |
| Finance expense | (94,025) | (57,576) |
| Income tax | (2,511) | (4,222) |
| Net assets | (296,932) | (159,494) |
| Share in profit rights | 10% / 20% | 20% |
| Carrying amount | (42,828) | (31,899) |
| Negative cash flow hedge reserve not recognised | 20,032 | 9,126 |
| | (22,796) | (22,773) |

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 €18 million. 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 2016 €11 million (2015: €1 million reversal) of losses was not recognised. At year-end 2016 unrecognised losses amounted to €20 million (2015: €9 million).

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

| | 2016 | 2015 |
|---|----------|----------|
| Share in net result property development joint ventures | 1,352 | 7,417 |
| Share in net result other joint ventures | 1,777 | 1,629 |
| Share in equity property development joint ventures | 34,726 | 21,912 |
| Share in equity other joint ventures | (64,886) | (47,605) |

Revenue of property development joint ventures amounts to €58 million (2015: €94 million) and property development recognised in the balance sheet amounts to €127 million (2015: €134 million) of which an amount of €65 million (2015: €72 million) externally financed (share of the Group).

In 2015 the Group's share in the net result of joint ventures included a reversal of impairment amounting to €1 million.

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

| | 2016 | 2015 |
|--|---------------|---------------|
| Share in equity joint venture BAM/PGGM | (22,796) | (22,773) |
| Share in equity property development joint ventures that are not material to the Group | 34,726 | 21,912 |
| Share in equity other joint ventures that are not individually material to the Group | (64,886) | (47,605) |
| | (52,956) | (48,466) |
| Recognised as provision for joint ventures | 26,782 | 21,151 |
| Recognised as impairment of non-current receivables | 89,701 | 96,453 |
| | 63,527 | 69,138 |

Dividend received from joint ventures amounts to €7.2 million in 2016 (2015: €7.5 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

| | Notes | Non-current receivables | Other | Total |
|--------------------------------|-------|----------------------------|--------------|---------------|
| As at 1 January 2015 | | 88,359 | 2,565 | 90,924 |
| Loans granted | | 14,899 | - | 14,899 |
| Loan repayments | | (3,759) | - | (3,759) |
| Disposals | | - | (75) | (75) |
| Reversal of impairment charges | 25 | 949 | - | 949 |
| Reclassifications | | 2,292 | (110) | 2,182 |
| Exchange rate differences | | 94 | - | 94 |
| | | 102,834 | 2,380 | 105,214 |
| Of which current: | | (6,726) | - | (6,726) |
| As at 31 December 2015 | | 96,108 | 2,380 | 98,488 |
| Loans granted | | 11,892 | - | 11,892 |
| Loan repayments | | (11,799) | - | (11,799) |
| Disposals | | (362) | (123) | (485) |
| Impairment charges | 25 | (1,152) | (338) | (1,490) |
| Reversal of impairment charges | 25 | 1,775 | - | 1,775 |
| Reclassifications | | (12,141) | (13) | (12,154) |
| Exchange rate differences | | (189) | - | (189) |
| | | 90,858 | 1,906 | 92,764 |
| Of which current: | | (720) | - | (720) |
| As at 31 December 2016 | | 90,138 | 1,906 | 92,044 |

The fair value of non-current receivables at year-end 2016 amounts to €96 million (2015: €124 million).

The effective interest rate is 2.1 per cent (2015: 1.9 per cent).

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

12. Inventories

| | 2016 | 2015 |
|--------------------------|---------|---------|
| Land and building rights | 386,795 | 429,299 |
| Property development | 242,727 | 310,912 |
| | 629,522 | 740,211 |
| Raw materials | 14,031 | 16,169 |
| Finished products | 1,880 | 2,358 |
| | 645,433 | 758,738 |

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 2016 relating to the property portfolio are as follows:

| | Note | 2016 | 2015 |
|--------------------------------|------|----------------|---------------|
| Impairment charges | | 54,974 | 37,325 |
| Reversal of impairment charges | | <u>(7,165)</u> | <u>-</u> |
| | 25 | <u>47,809</u> | <u>37,325</u> |

Of the net amount of impairments and reversals, €44 million relates to property developments in the Netherlands. Of this, €13.7 million results from the strategic divestment of 47 positions in North East of the Netherlands. The rest is attributable to municipality changes in zoning and lowering rental prices for retail property.

Property development includes the following completed and unsold property:

| | 2016 | | 2015 | |
|-------------------------------------|-----------------------|-----------------|-----------------------|-----------------|
| | Number/m ² | Carrying amount | Number/m ² | Carrying amount |
| Unsold and finished property | | | | |
| Houses ¹ | 33 | 11,613 | 84 | 19,236 |
| Commercial property - rented | 45,031 | 54,832 | 52,845 | 88,080 |
| Commercial property - unrented | 26,980 | <u>25,876</u> | 26,712 | <u>21,954</u> |
| | | <u>92,321</u> | | <u>129,270</u> |

¹ Of which 31 houses (2015: 64 houses) rented in anticipation of sale.

Other inventories were not subject to write-down in 2016 nor 2015.

13. Trade and other receivables

| | Notes | 2016 | 2015 |
|---|-------|------------------|------------------|
| Trade receivables | | 943,630 | 831,728 |
| Less: Provision for impairment of receivables | | <u>(28,563)</u> | <u>(25,236)</u> |
| Trade receivables - net | | 915,067 | 806,492 |
| Amounts due from customers | 6 | 396,664 | 425,690 |
| Amounts due from related parties | 36 | 13,173 | 5,353 |
| Retentions | | 112,607 | 126,142 |
| Amounts to be invoiced work completed | | 78,407 | 71,651 |
| Amounts to be invoiced work in progress | | 222,489 | 245,789 |
| PPP receivables | 9 | 62,338 | 5,263 |
| Other financial assets | | 1,485 | 7,994 |
| Other receivables | | 53,797 | 73,856 |
| Prepayments | | <u>78,515</u> | <u>123,546</u> |
| | | <u>1,934,542</u> | <u>1,891,776</u> |

Trade and other receivables are due within one year, except for approximately €33 million (2015: €19 million). The fair value of this non-current part is approximately €33 million (2015: approximately €18 million) using an effective interest rate of -0.2 per cent (2015: 0.4 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 2016 a part of the trade receivables amounting to €193 million

(2015: €173 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. Simultaneously, the duration to reach final agreement, including legal proceedings, on invoiced variation orders and claims with these customers has further increased in the year. Management assessed that the provision for impairment, taking all facts and circumstances into account, is sufficient. None of the other assets were subject to impairment.

The ageing analysis of these trade receivables is as follows:

| | 2016 | | 2015 | |
|---|-----------------------|--------------------------|-----------------------|--------------------------|
| | Trade receivables | Provision for impairment | Trade receivables | Provision for impairment |
| Not past due | 561,006 | (491) | 431,587 | (104) |
| Up to 3 months | 118,395 | (917) | 165,836 | (1,484) |
| 3 to 6 months | 21,926 | (392) | 36,478 | (957) |
| 6 to 12 months | 49,569 | (3,960) | 24,438 | (1,136) |
| 1 to 2 years | 41,174 | (575) | 21,455 | (1,152) |
| Over 2 years | <u>151,560</u> | <u>(22,228)</u> | <u>151,934</u> | <u>(20,404)</u> |
| | 943,630 | (28,563) | 831,728 | (25,236) |
| Less: Provision for impairment of receivables | <u>(28,563)</u> | | <u>(25,236)</u> | |
| Trade receivables - net | <u>915,067</u> | | <u>806,492</u> | |

Movements in the provision for impairment of trade receivables are as follows:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| As at 1 January | 25,236 | 25,445 |
| Provision for impairment | 14,850 | 16,691 |
| Unused amounts reversed | (4,213) | (6,601) |
| Receivables written off during the year as uncollectible | (5,394) | (10,466) |
| Disposals | (1,073) | - |
| Reclassifications | (716) | 155 |
| Exchange rate differences | <u>(127)</u> | <u>12</u> |
| As at 31 December | <u>28,563</u> | <u>25,236</u> |

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

Retentions relate to amounts retained by customers on progress billings. In the United Kingdom and Germany in particular, it is common practice to retain a previously agreed percentage until completion of the project.

14. Cash and cash equivalents

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Cash at bank and in hand | 737,545 | 618,381 |
| Short-term bank deposits | <u>1,032</u> | <u>18,831</u> |
| Cash and cash equivalents (excluding bank overdrafts) | <u>738,577</u> | <u>637,212</u> |

Cash and cash equivalents are at the free disposal of the Group. 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 €223 million (2015: €181 million) respectively €15 million (2015: €8 million).

The average effective interest on short-term bank deposits is 2.9 per cent (2015: 1.3 per cent). The deposits have an average remaining term to maturity of approximately 11 days (2015: approximately 43 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:

| | 2016 | 2015 |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 738,577 | 637,212 |
| Bank overdrafts | (2) | (3) |
| Net cash position | <u>738,575</u> | <u>637,209</u> |

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 2015 | 270,998,957 | - | 270,998,957 | 27,099 | 812,212 | 839,311 |
| Repurchased shares | - | 604,975 | (604,975) | - | - | - |
| As at 31 December 2015 | <u>270,998,957</u> | <u>604,975</u> | <u>270,393,982</u> | <u>27,099</u> | <u>812,212</u> | <u>839,311</u> |
| Repurchase of ordinary shares | - | 588,170 | (588,170) | - | - | - |
| Dividends | 815,771 | - | 815,771 | 82 | (82) | - |
| As at 31 December 2016 | <u>271,814,728</u> | <u>1,193,145</u> | <u>270,621,583</u> | <u>27,181</u> | <u>812,130</u> | <u>839,311</u> |

15.1 General

At year-end 2016, the authorised capital of the Group was 400 million ordinary shares (2015: 400 million) and 600 million preference shares (2015: €600 million), all with a nominal value of €0.10 per share (2015: €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, 604,975 of the Company's own shares were repurchased on 10 December 2015 for a total consideration of €3.1 million, at a price of €5.11. At 28 April 2016 another 588,170 of the Company's own shares were repurchased for a total consideration of €2.5 million, at a price of €4.27.

In 2016, the number of issued ordinary shares increased by 815,771 due to dividend payment in shares.

16. Reserves

| | Hedging | Translation | Total |
|--|-----------------|-----------------|------------------|
| As at 1 January 2015 | (81,202) | (53,671) | (134,873) |
| Reclassification to the income statement due to divestment | | | |
| - Fair value of cash flow hedge | 3,809 | - | 3,809 |
| - Tax on fair value of cash flow hedge | (952) | - | (952) |
| Cash flow hedges | | | |
| - Fair value movement | 1,303 | - | 1,303 |
| - Tax on fair value movement | (66) | - | (66) |
| Exchange rate differences | - | 26,243 | 26,243 |
| | 4,094 | 26,243 | 30,337 |
| As at 31 December 2015 | <u>(77,108)</u> | <u>(27,428)</u> | <u>(104,536)</u> |
| Reclassification to the income statement due to divestment | | | |
| - Fair value of cash flow hedge | 12,667 | - | 12,667 |
| - Tax on fair value of cash flow hedge | (3,538) | - | (3,538) |
| Cash flow hedges | | | |
| - Fair value movement | (12,354) | - | (12,354) |
| - Tax on fair value movement | 3,180 | - | 3,180 |
| Exchange rate differences | - | (65,671) | (65,671) |
| | (45) | (65,671) | (65,716) |
| As at 31 December 2016 | <u>(77,153)</u> | <u>(93,099)</u> | <u>(170,252)</u> |

Due to a change in accounting policy, the remeasurements of post-employment benefits are no longer included in the reserves, but have been restated to the retained earnings. The comparative figures have been adjusted accordingly.

The positive movement in the hedge reserve in 2016, €9.1 million as a consequence of disposals and settlements of existing contracts was fully offset by the negative effect of €9.2 million due to the fact that the long-term interest in 2016 is lower than in 2015.

The hedging reserve may 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 €57 million (2015: €39 million) in the hedging reserve relates to joint ventures.

The negative movement in the translation reserve in 2016 is linked to the decrease in the value of the pound sterling, in contrast to 2015 whereas an increase in the value of the pound sterling was realised.

17. Capital base

| | 2016 | 2015 |
|--|----------------|------------------|
| Equity attributable to the shareholders of the Company | 834,250 | 902,147 |
| Subordinated convertible bonds | 112,491 | - |
| Subordinated loan | - | 124,335 |
| | <u>946,741</u> | <u>1,026,482</u> |

18. Borrowings

| 2016 | Non-current | Current | Total |
|---|----------------|----------------|----------------|
| Subordinated convertible bonds ¹ | 112,491 | - | 112,491 |
| Non-recourse PPP loans | 211,571 | 62,777 | 274,348 |
| Non-recourse property financing | 50,959 | 34,719 | 85,678 |
| Other non-recourse financing | 5,917 | 2,005 | 7,922 |
| Recourse PPP loans | 13,295 | 36,808 | 50,103 |
| Recourse property financing | 59,403 | 9,342 | 68,745 |
| Finance lease liabilities | 4,329 | 2,478 | 6,807 |
| Other recourse financing | 5,550 | - | 5,550 |
| Bank overdrafts | - | 2 | 2 |
| | <u>463,515</u> | <u>148,131</u> | <u>611,646</u> |
| Up to 1 year | | | 148,131 |
| 1 to 5 years | | | 279,540 |
| Over 5 years | | | <u>183,975</u> |
| | | | <u>611,646</u> |
| 2015 | Non-current | Current | Total |
| Subordinated loan ¹ | 125,000 | (665) | 124,335 |
| Non-recourse PPP loans | 187,673 | 7,114 | 194,787 |
| Non-recourse property financing | 85,694 | 30,340 | 116,034 |
| Other non-recourse financing | 6,621 | 1,300 | 7,921 |
| Recourse PPP loans | 45,362 | 7,409 | 52,771 |
| Recourse property financing | 44,847 | 35,236 | 80,083 |
| Finance lease liabilities | 9,973 | 4,478 | 14,451 |
| Other recourse financing | 6,693 | 244 | 6,937 |
| Bank overdrafts | - | 3 | 3 |
| | <u>511,863</u> | <u>85,459</u> | <u>597,322</u> |
| Up to 1 year | | | 85,459 |
| 1 to 5 years | | | 398,448 |
| Over 5 years | | | <u>113,415</u> |
| | | | <u>597,322</u> |

¹ After deduction of finance costs to be amortised.

18.1 Subordinated convertible bonds

In June 2016, the Group placed €125 million subordinated unsecured convertible bonds to repay the existing subordinated loan of the same amount.

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 2016 the conversion price is €5.2245. 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 2016 the fair value of the liability component of the subordinated convertible bonds amounts to €116 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 |

¹ Transaction costs include fees and commissions paid to advisors, bankers and lawyers.

18.2 Subordinated loan

The principal sum of the subordinated loan amounted to €125 million and was repaid in June 2016 with the proceeds of the subordinated convertible bonds. The subordinated loan had an interest rate that was based on the Group's recourse leverage ratio and was equal to Euribor plus a margin, with a minimum of 400 and a maximum of 675 basis points until 30 July 2017, after which date the margin would increase by 150 basis points. At the date of repayment, the margin was 400 basis points (year-end 2015: 400 basis points).

The interest risk on the subordinated loan was hedged by interest rate swaps, that fixed Euribor at 1.7 per cent. Including the margin and the amortised borrowing costs, the interest for the subordinated loan amounted to 7.1 per cent (2015: 6.3 per cent).

18.3 Committed syndicated credit facility

In November 2016 the Group renewed its committed revolving credit facility agreement for an amount of €400 million. The new facility agreement has a term to maturity of 5.3 years and runs until 31 March 2022. The credit margin and commitment fee have been improved.

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 2016, the Group did not use the facility (year-end 2015: not used).

As at 30 June 2016 the Group did not use the facility (30 June 2015: 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 2016 the margin was 150 basis points (2015: 175 basis points).

18.4 Non-recourse PPP loans

These relate to PPP projects in the Netherlands, the United Kingdom, Belgium and Ireland. Of the non-current part, approximately €180 million has a term to maturity of more than five years (2015: approximately €110 million). The average term to maturity of the PPP loans is 17 years (2015: 18 years).

The interest rate risk on the non-recourse PPP loans is hedged by interest rate swaps. The average interest rate on PPP loans is 5.5 per cent (2015: 6.4 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 €338 million in total (2015: €256 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.

18.5 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 1.5 years (2015: approximately 2.1 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 €40 million (2015: €60 million).

The carrying amount of the related assets is approximately €225 million at year-end 2016 (2015: approximately €175 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.

18.6 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 1.1 years (2015: approximately 1.8 years).

18.7 Recourse property financing

Recourse property financing is contracted to finance land and building rights and property development.

The average term of recourse property financing is approximately 1.7 years (2015: approximately 1.8 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 €14 million (2015: €42 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 €125 million at year-end 2016 (2015: approximately €115 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.

18.8 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:

| | 2016 | 2015 |
|--|--------------|---------------|
| Up to 1 year | 2,643 | 4,684 |
| 1 to 5 years | 4,311 | 10,433 |
| Over 5 years | <u>403</u> | <u>-</u> |
| | 7,357 | 15,117 |
| Future finance charges on financial leases | <u>(550)</u> | <u>(666)</u> |
| Present value of finance lease liabilities | <u>6,807</u> | <u>14,451</u> |

The present value of the finance lease liabilities is as follows:

| | 2016 | 2015 |
|--------------|--------------|---------------|
| 1 to 5 years | 3,971 | 9,973 |
| Over 5 years | <u>358</u> | <u>-</u> |
| | 4,329 | 9,973 |
| Up to 1 year | <u>2,478</u> | <u>4,478</u> |
| | <u>6,807</u> | <u>14,451</u> |

18.9 Other financing

Other loans relate to financing of property, plant and equipment.

18.10 Bank overdrafts

In addition to the non-current committed syndicated credit facility (note 18.3), the Group holds €163 million in bilateral credit facilities (2015: €153 million). At year-end 2016 as well as 2015 these facilities were not utilised.

18.11 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.

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 2016 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 2016.

The set requirements and realisation of the recourse ratios described above, can be explained as follows:

| | Calculation | Requirement | 2016 | 2015 |
|------------------|-----------------------------|-------------|---------------|--------|
| Leverage ratio | Net borrowings/EBITDA | ≤ 2.50 | (3.84) | (2.55) |
| Interest cover | EBITDA/net interest expense | ≥ 4.00 | 8.62 | 8.88 |
| Solvency ratio | Capital base/total assets | $\geq 15\%$ | 29.0% | 29.3% |
| Guarantor covers | EBITDA share of guarantors | $\geq 60\%$ | 106% | 72% |
| | Assets share of guarantors | $\geq 70\%$ | 99% | 96% |

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.

18.12 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:

| | 2016 | | 2015 | |
|--------------------------------------|------|----------------|------|----------------|
| | Euro | Pound sterling | Euro | Pound sterling |
| Subordinated convertible bonds | 6.1% | - | - | - |
| Subordinated loan | 7.1% | - | 6.3% | - |
| Committed syndicated credit facility | 1.8% | - | 1.9% | - |
| Non-recourse PPP loans | 5.0% | 6.9% | 6.2% | 6.9% |
| Non-recourse property financing | 3.4% | - | 2.9% | 4.8% |
| Recourse PPP loans | 2.5% | - | 3.6% | - |
| Recourse property financing | 2.2% | - | 2.7% | - |
| Finance lease liabilities | 4.6% | - | 3.6% | - |
| Other non-recourse financing | 3.1% | - | 3.1% | - |
| Other recourse financing | 3.1% | - | 3.2% | - |

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 | 148,131 | 279,540 | 183,975 | 611,646 |
| Fixed interest rates | (8,238) | (169,054) | (127,883) | (305,175) |
| Hedged with interest rate swaps | (100,708) | (39,546) | (54,552) | (194,806) |
| As at 31 December 2016 | 39,185 | 70,940 | 1,540 | 111,665 |
| Total borrowings | 85,459 | 398,448 | 113,415 | 597,322 |
| Fixed interest rates | (23,248) | (53,378) | (56,479) | (133,105) |
| Hedged with interest rate swaps | (25,336) | (283,325) | (55,438) | (364,099) |
| As at 31 December 2015 | 36,875 | 61,745 | 1,498 | 100,118 |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2016 | 2015 |
|----------------|----------------|----------------|
| Euro | 557,211 | 516,923 |
| Pound sterling | 54,435 | 80,399 |
| | 611,646 | 597,322 |

19. Derivative financial instruments

| | 2016 | | | 2015 | | |
|----------------------------|------------|---------------|-----------------|--------------|---------------|-----------------|
| | Assets | Liabilities | Fair value | Assets | Liabilities | Fair value |
| Interest rate swaps | - | 19,688 | (19,688) | - | 30,521 | (30,521) |
| Forward exchange contracts | 983 | 5,013 | (4,030) | 7,179 | 20,167 | (12,988) |
| | 983 | 24,701 | (23,718) | 7,179 | 50,688 | (43,509) |
| Of which current: | 983 | 4,354 | (3,371) | 6,200 | 16,749 | (10,549) |

19.1 Interest rate swaps

At year-end 2016, interest rate swaps are outstanding to hedge the interest rate risk on the (non-) recourse PPP loans and some property financing loans with a variable interest rate. Total borrowings amount to €612 million (2015: €597 million), of which an amount of €306 million (2015: €464 million) carries a variable interest rate. Of the borrowings with a variable interest rate an amount of €195 million (2015: €364 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 €20 million negative (2015: €31 million negative). Except for four interest rate swaps (2015: one) with a total fair value of €0.2 million negative, the duration exceeds one year. The maximum duration of the derivative financial instruments is 26 years.

The fixed interest rates of these swaps vary from 0.6 per cent to 6.3 per cent at year-end 2016 (2015: between 0.6 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 2016, all recognised derivative financial instruments provide an effective compensation for movements in cash flows from the hedged positions. Therefore, the movements in 2016 are accounted for in other comprehensive income. The 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 2016 were €205 million (2015: €251 million). The fair value amounts to €4 million negative (2015: €13 million negative).

The terms to maturity of these contracts are up to a maximum of 1 year for the amount of €190 million (2015: €234 million), between 1 and 2 years for the amount of €8 million (2015: €17 million) and between 2 to 4 years €7 million (2015: nil).

20. Employee benefits

| | 2016 | 2015 |
|-------------------------------------|----------------|----------------|
| Defined benefit asset | <u>62,773</u> | <u>74,684</u> |
| Defined benefit liability | 114,254 | 121,335 |
| Other employee benefits obligations | <u>30,454</u> | <u>30,396</u> |
| | <u>144,708</u> | <u>151,731</u> |

The Group operates defined benefit pension plans in the Netherlands, United Kingdom, Belgium, Germany and Ireland under broadly similar regulatory frameworks.

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 2016, the (twelve-month average) coverage rate of the industry pension fund for construction is 105 per cent (2015: 111 per cent). The industry pension fund for metal & technology has a coverage rate of 93 per cent at year-end 2016 (2015: 99 per cent). The coverage rate of the industry pension fund for railways is 103 per cent (2015: 109 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 a subsidiary of a Dutch operating company pension plan amendments were made, limiting the defined benefit obligation above a certain salary level. Above this salary level a defined contribution plan is now applicable. Future indexation will be paid from the interest income on a depot placed by an insurer. These amendments led to a reduction of the defined benefit obligation and a net one-off gain of €5.2 million.

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.

Three defined benefit pension schemes are executed by separate trusts. They were closed to new participants in 2004. Entitlements in these pension schemes have been changed in 2016 by means of delinkage of pension benefits from salaries. These amendments led to a reduction of the defined benefit obligation and a net one-off gain of €13.9 million. The Group is still 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 2016 to the amount of approximately €10 million (2015: €36 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, however. 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 2015 nor 2016.

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. Due to new legislation a reservation is made for a certain revenue guarantee.

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.

Employees who entered the company before 2006 remained in the defined benefit scheme. Entitlements to the scheme have been adjusted in 2016 by means of a cap on pensionable salary. These amendments led to a reduction of the defined benefit obligation and a net one-off gain of €22.5 million.

The Group is still 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 2016 and led to supplementary contributions in 2016 to the amount of approximately €2 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 2016 | | | | | | |
| Defined benefit liability | 23,282 | 4,092 | 3,398 | 59,163 | 24,319 | 114,254 |
| Defined benefit asset | - | 62,773 | - | - | - | 62,773 |
| | <u>23,282</u> | <u>(58,681)</u> | <u>3,398</u> | <u>59,163</u> | <u>24,319</u> | <u>51,481</u> |
| <i>Present value of obligation</i> | | | | | | |
| As at 1 January 2016 | 426,552 | 938,083 | 2,968 | 73,600 | 111,703 | 1,552,906 |
| Service cost | 1,288 | - | 40 | 265 | 1,129 | 2,722 |
| Interest expense | 9,668 | 32,209 | 47 | 1,503 | 2,917 | 46,344 |
| Remeasurements | 31,795 | 242,384 | 17,445 | 7,365 | 20,937 | 319,926 |
| Plan participants contributions | 187 | - | 7 | - | 505 | 699 |
| Benefit payments | (12,101) | (36,740) | (144) | (4,157) | (1,289) | (54,431) |
| Changes and plan amendments | (5,248) | (14,776) | - | - | (21,523) | (41,547) |
| Settlements | (17,384) | - | - | - | (6,136) | (23,520) |
| Disposals | (244) | - | - | - | - | (244) |
| Exchange rate differences | - | (145,857) | - | - | - | (145,857) |
| As at 31 December 2016 | <u>434,513</u> | <u>1,015,303</u> | <u>20,363</u> | <u>78,576</u> | <u>108,243</u> | <u>1,656,998</u> |
| <i>Fair value of plan assets</i> | | | | | | |
| As at 1 January 2016 | 390,214 | 1,012,767 | 1,654 | 18,297 | 83,323 | 1,506,255 |
| Interest income | 8,930 | 35,312 | 26 | 377 | 2,226 | 46,871 |
| Remeasurements | 32,988 | 208,507 | 15,329 | 378 | 165 | 257,367 |
| Employer contributions | 8,992 | 12,235 | 99 | 4,518 | 4,145 | 29,989 |
| Plan participants contributions | 187 | - | 7 | - | 505 | 699 |
| Benefit payments | (12,101) | (36,740) | (144) | (4,157) | (1,289) | (54,431) |
| Administration cost | (595) | (968) | (6) | - | - | (1,569) |
| Settlements | (17,384) | (925) | - | - | (5,151) | (23,460) |
| Exchange rate differences | - | (156,204) | - | - | - | (156,204) |
| As at 31 December 2016 | <u>411,231</u> | <u>1,073,984</u> | <u>16,965</u> | <u>19,413</u> | <u>83,924</u> | <u>1,605,517</u> |
| Present value of obligation | 434,513 | 1,015,303 | 20,363 | 78,576 | 108,243 | 1,656,998 |
| Fair value of plan assets | <u>411,231</u> | <u>1,073,984</u> | <u>16,965</u> | <u>19,413</u> | <u>83,924</u> | <u>1,605,517</u> |
| As at 31 December 2016 | <u>23,282</u> | <u>(58,681)</u> | <u>3,398</u> | <u>59,163</u> | <u>24,319</u> | <u>51,481</u> |
| Amounts recognised in the income statement | | | | | | |
| Service cost | 1,288 | - | 40 | 265 | 1,129 | 2,722 |
| Net interest expense | 738 | (3,103) | 21 | 1,126 | 691 | (527) |
| Changes and plan amendments and settlements | (5,248) | (13,851) | - | - | (22,508) | (41,607) |
| Administration cost | 595 | 968 | 6 | - | - | 1,569 |
| | <u>(2,627)</u> | <u>(15,986)</u> | <u>67</u> | <u>1,391</u> | <u>(20,688)</u> | <u>(37,843)</u> |
| Amounts recognised in other comprehensive income | | | | | | |
| Remeasurements: | | | | | | |
| - Return on plan assets, excluding interest income | (32,988) | (208,507) | (15,329) | (378) | (165) | (257,367) |
| - (Gain)/loss from change in demographic assumptions | 237 | 2,643 | - | - | - | 2,880 |
| - (Gain)/loss from change in financial assumptions | 32,738 | 237,052 | 32 | 6,559 | 20,609 | 296,990 |
| - Experience (gains)/losses | (1,180) | 2,689 | 17,413 | 806 | 328 | 20,056 |
| | <u>(1,193)</u> | <u>33,877</u> | <u>2,116</u> | <u>6,987</u> | <u>20,772</u> | <u>62,559</u> |
| Income tax | 298 | (4,982) | (722) | (1,511) | (2,345) | (9,262) |
| Remeasurement net of tax | <u>(895)</u> | <u>28,895</u> | <u>1,394</u> | <u>5,476</u> | <u>18,427</u> | <u>53,297</u> |

| | Netherlands | United Kingdom | Belgium | Germany | Ireland | Total |
|---|----------------|------------------|--------------|----------------|-----------------|------------------|
| As at 31 December 2015 | | | | | | |
| Defined benefit liability | 36,338 | - | 1,314 | 55,303 | 28,380 | 121,335 |
| Defined benefit asset | - | 74,684 | - | - | - | 74,684 |
| | <u>36,338</u> | <u>(74,684)</u> | <u>1,314</u> | <u>55,303</u> | <u>28,380</u> | <u>46,651</u> |
| <i>Present value of obligation</i> | | | | | | |
| As at 1 January 2015 | 481,195 | 938,240 | 3,136 | 79,722 | 122,641 | 1,624,934 |
| Service cost | 2,023 | - | 45 | 280 | 3,286 | 5,634 |
| Interest expense | 9,100 | 36,677 | 44 | 1,630 | 2,685 | 50,136 |
| Remeasurements | (29,071) | (53,706) | (54) | (3,989) | (15,016) | (101,836) |
| Plan participants contributions | 229 | - | 7 | - | 516 | 752 |
| Benefit payments | (10,667) | (42,097) | (210) | (4,043) | (2,409) | (59,426) |
| Changes and plan amendments | (2,815) | - | - | - | - | (2,815) |
| Settlements | (23,442) | - | - | - | - | (23,442) |
| Disposals | - | - | - | - | - | - |
| Exchange rate differences | - | 58,969 | - | - | - | 58,969 |
| As at 31 December 2015 | <u>426,552</u> | <u>938,083</u> | <u>2,968</u> | <u>73,600</u> | <u>111,703</u> | <u>1,552,906</u> |
| <i>Fair value of plan assets</i> | | | | | | |
| As at 1 January 2015 | 432,549 | 952,540 | 1,732 | 18,721 | 79,292 | 1,484,834 |
| Interest income | 8,253 | 37,669 | 24 | 375 | 1,779 | 48,100 |
| Remeasurements | (26,676) | (27,503) | 49 | (18) | (109) | (54,257) |
| Employer contributions | 10,571 | 35,606 | 55 | 3,262 | 4,254 | 53,748 |
| Plan participants contributions | 229 | - | 7 | - | 516 | 752 |
| Benefit payments | (10,667) | (42,097) | (210) | (4,043) | (2,409) | (59,426) |
| Administration cost | (603) | (2,461) | (3) | - | - | (3,067) |
| Settlements | (23,442) | - | - | - | - | (23,442) |
| Exchange rate differences | - | 59,013 | - | - | - | 59,013 |
| As at 31 December 2015 | <u>390,214</u> | <u>1,012,767</u> | <u>1,654</u> | <u>18,297</u> | <u>83,323</u> | <u>1,506,255</u> |
| Present value of obligation | 426,552 | 938,083 | 2,968 | 73,600 | 111,703 | 1,552,906 |
| Fair value of plan assets | <u>390,214</u> | <u>1,012,767</u> | <u>1,654</u> | <u>18,297</u> | <u>83,323</u> | <u>1,506,255</u> |
| As at 31 December 2015 | <u>36,338</u> | <u>(74,684)</u> | <u>1,314</u> | <u>55,303</u> | <u>28,380</u> | <u>46,651</u> |
| Amounts recognised in the income statement | | | | | | |
| Service cost | 2,023 | - | 45 | 280 | 3,286 | 5,634 |
| Net interest expense | 847 | (992) | 20 | 1,255 | 906 | 2,036 |
| Changes and plan amendments and settlements | (2,815) | - | - | - | - | (2,815) |
| Administration cost | 603 | 2,461 | 3 | - | - | 3,067 |
| | <u>658</u> | <u>1,469</u> | <u>68</u> | <u>1,535</u> | <u>4,192</u> | <u>7,922</u> |
| Amounts recognised in other comprehensive income | | | | | | |
| Remeasurements: | | | | | | |
| - Return on plan assets, excluding interest income | 26,676 | 27,503 | (49) | 18 | 109 | 54,257 |
| - (Gain)/loss from change in demographic assumptions | 113 | (24,355) | - | - | 2,493 | (21,749) |
| - (Gain)/loss from change in financial assumptions | (28,647) | (35,082) | (80) | (4,066) | (13,796) | (81,671) |
| - Experience (gains)/losses | (537) | 5,731 | 26 | 77 | (3,713) | 1,584 |
| | <u>(2,395)</u> | <u>(26,203)</u> | <u>(103)</u> | <u>(3,971)</u> | <u>(14,907)</u> | <u>(47,579)</u> |
| Income tax | 598 | 6,813 | 35 | 921 | 2,116 | 10,483 |
| Remeasurements, net of tax | <u>(1,797)</u> | <u>(19,390)</u> | <u>(68)</u> | <u>(3,050)</u> | <u>(12,791)</u> | <u>(37,096)</u> |

The average duration of the defined benefit obligations per country were as follows:

| | Netherlands | United Kingdom | Belgium | Germany | Ireland |
|-----------------------------|-------------|----------------|---------|---------|---------|
| Average duration (in years) | 16 | 22 | 7 | 13 | 23 |

The significant actuarial assumptions per country were as follows:

| | Netherlands | United Kingdom | Belgium | Germany | Ireland |
|---------------------|-------------|----------------|---------|---------|---------|
| 2016 | | | | | |
| Discount rate | 1.70% | 2.80% | 1.45% | 1.40% | 1.90% |
| Salary growth rate | 0-1.8% | 0-3.6% | 1.80% | 1.50% | 0.00% |
| Pension growth rate | 0-1.60% | 2.20-3.6% | - | 1.50% | 0-1.5% |
| 2015 | | | | | |
| Discount rate | 2.30% | 3.90% | 1.60% | 2.10% | 2.20% |
| Salary growth rate | 0 - 1.90% | 2.25 - 3.15% | 1.90% | 1.50% | 2,25% |
| Pension growth rate | 0 - 1.70% | 2.20 - 3.15% | - | 1.50% | 1.75% |

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 per cent higher (lower), the pension liability will decrease by approximately €148 million (increase by approximately €165 million).
- If the expected salary increase is 0.5 per cent higher (lower), the pension liability will increase by approximately €5 million (decrease by approximately €6 million).
- If the expected indexation is 0.5 per cent higher (lower), the pension liability will increase by approximately €77 million (decrease by approximately €73 million).
- If the life expectancy increases (decreases) by 1 year, the pension liability will increase by approximately €59 million (decrease by approximately €63 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 |
|--|----------------|------------------|---------------|---------------|---------------|------------------|
| 2016 | | | | | | |
| Equity instruments (quoted) | - | 285,359 | - | - | 48,345 | 333,704 |
| Debt instruments (quoted) | - | 648,648 | - | - | 30,495 | 679,143 |
| Property (quoted) | - | 41,309 | - | - | 3,195 | 44,504 |
| Qualifying insurance policies (unquoted) | 411,231 | - | 16,965 | 19,413 | 521 | 448,130 |
| Cash and cash equivalents | - | 98,668 | - | - | 1,368 | 100,036 |
| | <u>411,231</u> | <u>1,073,984</u> | <u>16,965</u> | <u>19,413</u> | <u>83,924</u> | <u>1,605,517</u> |
| 2015 | | | | | | |
| Equity instruments (quoted) | - | 305,418 | - | - | 49,546 | 354,964 |
| Debt instruments (quoted) | - | 542,208 | - | - | 28,865 | 571,073 |
| Property (quoted) | - | 47,331 | - | - | 2,957 | 50,288 |
| Qualifying insurance policies (unquoted) | 390,214 | - | 1,654 | 18,297 | 366 | 410,531 |
| Cash and cash equivalents | - | 117,810 | - | - | 1,589 | 119,399 |
| | <u>390,214</u> | <u>1,012,767</u> | <u>1,654</u> | <u>18,297</u> | <u>83,323</u> | <u>1,506,255</u> |

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 2017 are expected to be significantly lower than 2016.

21. Provisions

| | Warranty | Restructuring | Rental guarantees | Associates and joint ventures | Other | Total |
|--|---------------|---------------|----------------------|-------------------------------------|---------------|----------------|
| As at 1 January 2016 | 62,896 | 41,234 | 3,554 | 21,273 | 21,234 | 150,191 |
| Charged/(credited) to the income statement: | | | | | | |
| - Additional provisions | 13,909 | 39,523 | - | 15,512 | 2,612 | 71,556 |
| - Unused amounts reversed | (8,895) | (5,991) | - | - | (8,670) | (23,556) |
| Used during the year | (9,400) | (32,841) | (1,471) | (8,575) | (3,457) | (55,744) |
| Reclassifications | 11 | - | - | 137 | 793 | 941 |
| Other movements | (162) | (31) | - | (1,154) | (110) | (1,457) |
| Exchange rate differences | - | - | - | - | (68) | (68) |
| As at 31 December 2016 | 58,359 | 41,894 | 2,083 | 27,193 | 12,334 | 141,863 |

Provisions are classified in the balance sheet as follows:

| | 2016 | 2015 |
|-------------|----------------|----------------|
| Non-current | 86,058 | 84,933 |
| Current | 55,805 | 65,258 |
| | 141,863 | 150,191 |

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 24 per cent of the provision is current in nature (2015: approximately 27 per cent).

The provision for restructuring concerns the best estimate of the expenditure associated with reorganisation plans already initiated. Approximately 89 per cent of the provision is current in nature (2015: approximately 87 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 additional provisions in 2016 mainly relate to restructurings predominantly in the Netherlands.

The provision for rental guarantees consists of commitments arising from rental guarantees issued to third parties. Approximately 88 per cent of the provision is current in nature (2015: 55 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 €0.4 million (2015: €0.1 million) relates to associates and €26.8 million (2015: €21.2 million) to joint ventures.

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. The provision of the dividend guarantee amounting to €8.5 million in 2015 related to the divestment of 21.5 per cent stake in Van Oord in 2011, has been released in 2016. Approximately 19 per cent of the provision is current in nature (2015: approximately 48 per cent).

The non-current part of the provisions has been discounted at an interest rate of approximately 3 per cent (2015: approximately 3 per cent).

22. Deferred tax assets and liabilities

| | 2016 | 2015 |
|---|------------------|------------------|
| Deferred tax assets: | | |
| - To be recovered after more than twelve months | 244,626 | 245,145 |
| - To be recovered within twelve months | <u>4,219</u> | <u>6,570</u> |
| | 248,845 | 251,715 |
| Deferred tax liabilities: | | |
| - To be recovered after more than twelve months | 25,249 | 20,454 |
| - To be recovered within twelve months | <u>1,038</u> | <u>10,505</u> |
| | 26,287 | 30,959 |
| Deferred tax liabilities (net) | <u>(222,558)</u> | <u>(220,756)</u> |

The gross movement on the deferred income tax assets and liabilities is as follows:

| | 2016 | 2015 |
|--|------------------|------------------|
| As at 1 January | (220,756) | (216,586) |
| Income statement charge/(credit) | 2,201 | (17,247) |
| Tax charge/(credit) relating to components of other comprehensive income | (383) | 11,427 |
| Disposal of subsidiary | 676 | - |
| Change of income tax rate | (2,629) | (125) |
| Transfer to assets/liabilities held for sale | - | 1,635 |
| Reclassifications | (154) | - |
| Exchange differences | <u>(1,513)</u> | <u>140</u> |
| As at 31 December | <u>(222,558)</u> | <u>(220,756)</u> |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Provisions | Tax losses | Derivatives | Employee benefit obligations | Other | Total |
|--|--------------|----------------|---------------|------------------------------------|---------------|----------------|
| Deferred tax assets | | | | | | |
| As at 1 January 2015 | 2,312 | 205,769 | 13,555 | 25,168 | 26,558 | 273,362 |
| (Charged)/credited to the income statement | 692 | 533 | (291) | (2,259) | 6,475 | 5,150 |
| (Charged)/credited to other comprehensive income | - | - | 148 | (3,600) | - | (3,452) |
| Changes in enacted tax rates | (180) | - | - | - | (1,005) | (1,185) |
| Transfer to assets held for sale | - | - | (1,635) | - | - | (1,635) |
| Reclassifications | - | 10,591 | - | (750) | (10,591) | (750) |
| Exchange rate differences | 123 | - | 230 | 55 | 118 | 526 |
| As at 31 December 2015 | <u>2,947</u> | <u>216,893</u> | <u>12,007</u> | <u>18,614</u> | <u>21,555</u> | <u>272,016</u> |
| (Charged)/credited to the income statement | (83) | 10,683 | (15) | (4,958) | (2,877) | 2,750 |
| (Charged)/credited to other comprehensive income | - | - | (7,135) | 4,169 | - | (2,966) |
| Disposal of subsidiary | - | (40) | - | (61) | (750) | (851) |
| Changes in enacted tax rates | 23 | - | - | - | 92 | 115 |
| Exchange rate differences | (228) | - | (408) | (40) | (854) | (1,530) |
| As at 31 December 2016 | <u>2,659</u> | <u>227,536</u> | <u>4,449</u> | <u>17,724</u> | <u>17,166</u> | <u>269,534</u> |

| | Construction contracts | Accelerated tax depreciation | Derivatives | Employee benefit assets | Other | Total |
|--|---------------------------|------------------------------------|--------------|-------------------------------|--------------|---------------|
| Deferred tax liabilities | | | | | | |
| As at 1 January 2015 | 20,612 | 14,249 | 697 | 3,556 | 17,662 | 56,776 |
| Charged/(credited) to the income statement | (3,893) | (582) | - | 3,999 | (11,621) | (12,097) |
| Charged/(credited) to other comprehensive income | - | - | 1,092 | 6,883 | - | 7,975 |
| Changes in enacted tax rates | - | (980) | - | (330) | - | (1,310) |
| Reclassifications | - | - | - | (750) | - | (750) |
| Exchange rate differences | - | 581 | - | 85 | - | 666 |
| As at 31 December 2015 | <u>16,719</u> | <u>13,268</u> | <u>1,789</u> | <u>13,443</u> | <u>6,041</u> | <u>51,260</u> |
| Charged/(credited) to the income statement | 247 | (955) | - | 6,262 | (603) | 4,951 |
| Charged/(credited) to other comprehensive income | - | - | (1,682) | (5,093) | 3,426 | (3,349) |
| Disposal of subsidiary | (175) | - | - | - | - | (175) |
| Changes in enacted tax rates | - | (441) | - | (2,073) | - | (2,514) |
| Reclassifications | - | - | - | - | (154) | (154) |
| Exchange rate differences | - | (1,174) | - | (1,869) | - | (3,043) |
| As at 31 December 2016 | <u>16,791</u> | <u>10,698</u> | <u>107</u> | <u>10,670</u> | <u>8,710</u> | <u>46,976</u> |

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 2016 amount to approximately €1 billion (2015: €985 million). These unused tax losses relate to the years 2009 up to and including 2016 and include an amount of 395 million (2015: €395 million) owing to the liquidation of old property development activities in Germany. The increase in the unused tax losses in 2016 is mainly caused by the impairments on property as well as restructuring costs. The legal term within which these losses may be offset against future profits is nine years.

Based on estimates of the level and timing of future taxable profits within the fiscal unity in the Netherlands for the upcoming nine years approximately €850 million (2015: €815 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 are based on external market data and benchmark information, 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.

Tax losses to a minimum of €593 million (2015: €567 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 €32 million (2015: €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 | 2016 | 2015 |
|--------------------------------------|-------|------------------|------------------|
| Trade payables | | 930,851 | 903,640 |
| Amounts due to customers | 6 | 803,926 | 714,428 |
| Amounts due to related parties | 36 | 44,829 | 35,506 |
| Social security and other taxes | | 119,309 | 118,622 |
| Pension premiums | | 15,219 | 8,224 |
| Invoices due for work completed | | 152,864 | 147,233 |
| Invoices due for work in progress | | 507,394 | 571,698 |
| Other financial liabilities | | 1,967 | 3,372 |
| Other liabilities | | 156,826 | 150,137 |
| Accrued expenses and deferred income | | 271,243 | 242,961 |
| | | <u>3,004,428</u> | <u>2,895,821</u> |

24. Employee benefit expenses

| | Notes | 2016 | 2015 |
|--|-------|------------------|------------------|
| Wages and salaries | | 1,070,790 | 1,095,178 |
| Social security costs | | 162,884 | 173,097 |
| Pension costs - defined contribution plans | | 79,254 | 80,578 |
| Pension costs - defined benefit plans | 20 | (37,843) | 7,922 |
| Other post-employment benefits | | 1,129 | 1,659 |
| | | <u>1,276,214</u> | <u>1,358,434</u> |

Wages and salaries include restructuring costs and other termination benefits of €28.3 million (2015: €21.5 million).

At year-end 2016, the Group had 19,486 employees in FTE (2015: 21,248). The average number of employees in FTE amounted to 20,370 (2015: 21,916).

25. Impairment charges

| | Notes | 2016 | 2015 |
|--|-------|---------------|---------------|
| Property, plant and equipment | 7 | 2,213 | 1,452 |
| Intangible assets | 8 | 833 | 3,298 |
| Investments and other financial assets | 10,11 | (196) | (949) |
| Inventories | 12 | <u>47,809</u> | <u>37,325</u> |
| Impairment charges | | 50,659 | 41,126 |
| Share of impairment charges in investments | | - | (2,040) |
| | | <u>50,659</u> | <u>39,086</u> |

In 2016, impairment charges in connection with inventories relating to land and building rights are €35 million and €13 million to commercial property development. The share in the reversal of impairment charges in investments in 2015 relates to the favourable development of the associated land and building rights held for property development.

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 | 2016 | 2015 |
|-------------------------|-------|---------------|---------------|
| Impairment charges | 25 | 50,659 | 39,086 |
| Restructuring costs | 21 | 33,532 | 27,980 |
| Pension one-off | 20 | (41,607) | (2,815) |
| Other exceptional costs | | - | 10,588 |
| | | <u>42,584</u> | <u>74,839</u> |

Pension one-off relates to pension plan amendments in United Kingdom, Ireland and the Netherlands. Pension one-off in 2015 relates to a pension plan amendment in the Netherlands. Other exceptional costs in 2015 consist of consultancy fees of €11 million directly related to the Back in Shape programme and have been included in 'other operating expenses' in the income statement of 2015.

27. Audit fees

The total fees for the audit of the consolidated financial statements 2016 are listed below.

Expenses for services provided by the Company's current independent auditor, Ernst & Young Accountants LLP ('EY') and its predecessor in 2015 PricewaterhouseCoopers Accountants N.V. ('PwC') and its foreign member firms to the Group are specified as follows:

| | 2016 | | | 2015 | | |
|----------------------|-------------------|-------------------------------|--------------|--------------------|--------------------------------|--------------|
| | EY Netherlands | EY foreign member firms | Total | PwC Netherlands | PwC foreign member firms | Total |
| Audit fees | 2,800 | 1,493 | 4,293 | 3,084 | 713 | 3,797 |
| Audit-related fees | - | - | - | 443 | 468 | 911 |
| Tax fees | - | 44 | 44 | 58 | 158 | 216 |
| Other non-audit fees | - | 153 | 153 | 10 | 201 | 211 |
| | | | <u>4,490</u> | | | <u>5,135</u> |

The 2015 foreign member firms audit fees did not include the audit of the UK companies, as they were audited by EY.

28. Finance income and expense

| | 2016 | 2015 |
|--|---------------------|----------------------|
| Finance income | | |
| - Interest income - cash at banks | 1,285 | 2,348 |
| - Interest income - other financial assets | 1,976 | 1,925 |
| - Interest income - PPP receivables | 20,679 | 23,077 |
| - Other finance income | <u>7,865</u> | <u>7,145</u> |
| | 31,805 | 34,495 |
| Finance expense | | |
| - Subordinated convertible bonds | 3,599 | - |
| - Subordinated loan | 3,585 | 7,416 |
| - Bank fees - subordinated loan | 665 | 500 |
| - Committed syndicated credit facility | 109 | 196 |
| - Bank fees - committed syndicated credit facility | 3,324 | 4,688 |
| - Non-recourse PPP loans | 13,170 | 14,198 |
| - Non-recourse project financing | 3,084 | 4,511 |
| - Other non-recourse financing | 188 | 287 |
| - Interest expense - bank overdrafts | 376 | 642 |
| - Finance lease liabilities | 717 | 915 |
| - Recourse property financing | 1,524 | 2,056 |
| - Recourse PPP loans | 1,284 | 2,109 |
| - Other recourse financing | 1,145 | 787 |
| - Interest expense - other liabilities | 658 | 335 |
| - Fair value result interest rate swaps | 1,795 | - |
| - Fair value result - forward exchange contracts | <u>422</u> | <u>(1,827)</u> |
| | 35,645 | 36,813 |
| Less: capitalised interest on the Group's own projects | <u>(11,160)</u> | <u>(13,323)</u> |
| | 24,485 | 23,490 |
| Net finance result | <u>7,320</u> | <u>11,005</u> |

Included in the finance expense is an amount of €6 million (2015: €7 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

| | 2016 | 2015 |
|--------------|----------------------|---------------------|
| Current tax | 8,682 | 19,556 |
| Deferred tax | <u>2,201</u> | <u>(17,247)</u> |
| | <u>10,883</u> | <u>2,309</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:

| | 2016 | 2015 |
|---|---------|---------|
| Result before tax | 60,087 | 13,341 |
| Tax calculated at Dutch tax rate | 15,022 | 3,338 |
| Tax effects of: | | |
| - Tax rates in other countries | (9,414) | (4,250) |
| - Income not subject to tax | (1,040) | (5,768) |
| - Remeasurement of deferred tax – changes in enacted tax rates | (2,542) | (125) |
| - Tax filings and previously unrecognised temporary differences | 1,269 | 4,541 |
| - Previously unrecognised tax losses | (5,565) | (4,519) |
| - Tax losses no(t) (longer) recognised | 13,153 | 10,662 |
| - Results of investments and other participations, net of tax | (5,737) | (4,040) |
| - Other including expenses not deductible for tax purposes | 5,737 | 1,349 |
| - Impairment of goodwill | - | 1,121 |
| Tax charge/(gain) | 10,883 | 2,309 |
| Effective tax rate | 18.1% | 17.3% |

The weighted average tax rate applicable was 9.3 per cent (2015: -6.8 per cent). The difference is attributable to a different spread of results over the countries.

In 2016 as well as 2015, the tax burden was influenced predominantly by tax losses which are not recognised (anymore), as well as the recognition of tax losses that were previously unrecognised.

As at 1 April 2017, the main rate of corporation tax in the United Kingdom will be reduced from 20 per cent to 19 per cent, and subsequently to 17 per cent as at 1 April 2020.

30. Earnings per share

| | 2016 | 2015 |
|--|---------|---------|
| Weighted average number of ordinary shares in issue (x 1,000) | 270,503 | 270,957 |
| Net result attributable to shareholders | 46,831 | 10,180 |
| Basic earnings per share (in €) | 0.17 | 0.04 |
| Net result from continuing operations attributable to shareholders | 46,831 | 10,180 |
| Basic earnings per share from continuing operations (in €) | 0.17 | 0.04 |
| Net result from discontinued operations attributable to shareholders | - | - |
| Basic earnings per share from discontinued operations (in €) | - | - |

Allowing for dilution, the earnings per share are as follows:

| | 2016 | 2015 |
|---|----------------|---------|
| Diluted weighted average number of ordinary shares in issue (<i>x 1,000</i>) | 283,643 | 270,957 |
| Net result attributable to shareholders (<i>diluted</i>) | 49,530 | 10,180 |
| Diluted earnings per share (<i>in €</i>) | 0.17 | 0.04 |
| Net result from continuing operations attributable to shareholders (<i>diluted</i>) | 49,530 | 10,180 |
| Diluted earnings from continuing operations per share (<i>in €</i>) | 0.17 | 0.04 |
| Net result from discontinued operations attributable to shareholders (<i>diluted</i>) | - | - |
| Diluted earnings from discontinued operations per share (<i>in €</i>) | - | - |

31. Dividends per share and proposed appropriation of result

The net result for 2016, amounting to €46.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2016 of 9 eurocents in cash per ordinary share or in shares, at the option of the shareholders (2015: 2 eurocents). Based on the number of ordinary shares outstanding at year-end 2016, a maximum of €24.3 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 2016 were €5.4 million, €2.0 million in cash (€0.02 per share) and €3.4 million in shares (€0.02 per share). In 2015 the Company has not paid a dividend over the financial year 2014.

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. Examples of major legal proceedings are given below.

In 2005, during the construction of a drilled tunnel for the SMART North tunnel project in Kuala Lumpur, engineering firm Wayss & Freytag Ingenieurbau was faced with ground conditions that varied from the information provided by the client. Wayss & Freytag Ingenieurbau terminated the contract early 2006 as a result of the client's failure to fulfil its payment obligations and refusal to deal with Wayss & Freytag's claims for an extension of the construction period and reimbursement of costs. The client, in turn, also terminated the contract in January 2006. Wayss & Freytag Ingenieurbau lodged a claim against the client for more than €20 million as compensation for costs incurred. The client lodged provisional counterclaims of €5 million. An independent dispute adjudicator, in the contractually

prescribed procedure, has ruled that Wayss & Freytag Ingenieurbau was entitled to terminate the contract. This verdict has been confirmed by an arbitration. The client appealed before the Federal Court, but meanwhile the parties initiated negotiations for settlement. These negotiations were successful. A full and final settlement, in line with the amount recognised, was reached in January 2017.

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. The German Public Prosecution Service is also carrying out its own investigation to determine whether any criminal offences have been committed. 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 €151 million (2015: €156 million). Guarantees issued by banks and surety companies amount to €1,695 million (2015: €1,776 million). Guarantee facilities amount to €2.7 billion (2015: €2.4 billion).

32.3 Other

Based on agreements with the Dutch tax authorities for cooperative compliance (Horizontaal Toezicht), BAM initiated enquiries into the wage tax treatment of company cars used by BAM employees in the Dutch operating companies. Based on our information to date, the vast majority of company cars is properly treated. A reliable estimate of a possible wage tax cash outflow for company cars that are not properly treated from a tax perspective cannot be made. Given all facts and circumstances, it is impracticable to estimate the financial effect of a cash outflow.

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:

| | 2016 | 2015 |
|-------------------------------|----------------|----------------|
| Property, plant and equipment | 489 | 232 |
| Land | <u>104,346</u> | <u>121,272</u> |
| | <u>104,835</u> | <u>121,504</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 2016 the costs associated with operating leases amount to €57 million (2015: €69 million).

The future aggregate minimum lease payments are as follows:

| | 2016 | 2015 |
|--------------|----------------|----------------|
| Up to 1 year | 59,657 | 64,507 |
| 1 to 5 years | 117,685 | 114,167 |
| Over 5 years | <u>23,401</u> | <u>23,245</u> |
| | <u>200,743</u> | <u>201,919</u> |

The future aggregate minimum lease income is as follows:

| | 2016 | 2015 |
|--------------|------------|---------------|
| Up to 1 year | 116 | 1,562 |
| 1 to 5 years | 88 | 7,298 |
| Over 5 years | <u>-</u> | <u>6,629</u> |
| | <u>204</u> | <u>15,489</u> |

34. Business combinations

No material acquisitions have taken place in 2016 nor 2015.

35. Assets held for sale and discontinued operations

| | 2016 | 2015 |
|----------------------------------|---------------|---------------|
| PPP receivables | - | 39,391 |
| Deferred tax assets | - | 1,635 |
| Investments | 4,410 | - |
| Inventories | 34,553 | - |
| Trade and other receivables | 668 | 367 |
| Cash and cash equivalents | 614 | 421 |
| Assets held for sale | 40,245 | 41,814 |
| Borrowings (non-current) | - | 35,470 |
| Derivative financial instruments | - | 6,538 |
| Borrowings (current) | - | 3,983 |
| Trade and other payables | 3,986 | 471 |
| Provisions | 347 | - |
| Liabilities held for sale | 4,333 | 46,462 |

At year-end 2016, the assets and liabilities held for sale related to the planned disposal of all 47 property development positions in the Northeast part of the Netherlands. In 2015 the assets held for sale related to the disposal of one PPP project to the joint venture BAM PPP/PGGM.

During 2016 the Group transferred three operational projects (2015: two projects), to the joint venture BAM PPP/PGGM and, after deduction of costs, realised a net result of €4.4 million (2015: €5.2 million). The total consideration received amounted to €19.5 million, of which €16.6 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 2016 nor 2015.

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 majority 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 €60.4 million (2015: €125.6 million) and related to the purchase of goods and services for €8.0 million (2015: €5.2 million).

The 2016 year-end balance of receivables arising from aforementioned transactions amounts to €13.2 million (2015: €5.4 million) and the liabilities to €44.8 million (2015: €35.5 million).

36.2 Loans to related parties

At year-end 2016, the Group granted loans to related parties (mainly relating to associates and joint ventures) for the amount of €67 million (2015: €76 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:

| | 2016 | | | | | |
|--------------------------------|----------------|----------------------|--------------------------|----------------|---------------------|--------------|
| | Management fee | Short-term incentive | Post-employment benefits | Other benefits | Long-term incentive | Total |
| R.P van Wingerden ¹ | 680 | 408 | 126 | 8 | 119 | 1,341 |
| T. Menssen ² | 480 | 288 | 39 | 8 | 95 | 910 |
| E.J. Bax ³ | 480 | 288 | 66 | 5 | 99 | 938 |
| | <u>1,640</u> | <u>984</u> | <u>231</u> | <u>21</u> | <u>313</u> | <u>3,189</u> |

| | 2015 | | | | | |
|--------------------------------|----------------|----------------------|--------------------------|----------------|---------------------|--------------|
| | Management fee | Short-term incentive | Post-employment benefits | Other benefits | Long-term incentive | Total |
| R.P van Wingerden ¹ | 620 | 350 | 46 | 8 | 371 | 1,395 |
| T. Menssen ² | 470 | 265 | 38 | 8 | 266 | 1,047 |
| E.J. Bax ³ | 470 | 265 | 52 | - | 111 | 898 |
| | <u>1,560</u> | <u>880</u> | <u>136</u> | <u>16</u> | <u>748</u> | <u>3,340</u> |

¹ Appointed as Chairman of the Executive Board with effect from 1 October 2014, re-appointed as Chairman 20 April 2016.

² Re-appointed as a member of the Executive Board with effect from 20 April 2016.

³ Appointed as a member of the Executive Board with effect from 1 May 2014.

As at from 2016, the Executive Board receives a management fee instead of a fixed gross salary.

The short-term incentive is part of the remuneration package of the Executive Board with a target pay-out of 55 per cent with 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. Pay-out gradually increases with performance, starting with a pay-out of 35 per cent of the target at threshold performance and potentially going up to 75 per cent pay-out at maximum performance per individual target. Performance below the threshold will result in a zero pay-out. The Supervisory Board sets the performance ranges (i.e. threshold, at target and maximum performance levels) and corresponding payout levels, with the constraint that the STI payout will not exceed 75 per cent of base salary. The Supervisory Board determined the pay-out for 2016 at 60.0 per cent (2015: 56.5 per cent).

Post-employment benefits relate to the pension costs of the defined benefit plans recognised in the income statement and 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.

Other benefits relate to annual fixed expense allowances and insurance premiums.

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 shares under the Performance Share Plan, nor have loans or advances been granted.

Supervisory Board

The compensation paid or payable (including annual fixed expense allowance) to the Supervisory Board for services is shown below:

| | 2016 | 2015 |
|------------------------------|------------|------------|
| P.A.F.W. Elverding, Chairman | 58 | 58 |
| H. Scheffers, Vice-Chairman | 52 | 52 |
| J.P. Hansen | 47 | 47 |
| C.M.C. Mahieu | 47 | 47 |
| H.L.J. Noy | 47 | 47 |
| K.S. Wester | 47 | 47 |
| | <u>298</u> | <u>298</u> |

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 2016, 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 gross salary) by the average share price based on the five trading days after the Annual General Meeting ('AGM').

The shares were granted on the fifth 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 above minimum share ownership requirements are met, with the exception of any sale of shares during the lock-up period except to finance tax (and other levies) payable at the date of vesting. The maximum 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 construction 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, Carillion, Heijmans, Hochtief, Eiffage, Skanska, Strabag, Vinci and YIT. 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 | | Financial | | Non-financial | |
|---------|---------|-----------------|---------|-----------------|---------|
| 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 same vesting conditions as described above apply. Upon termination of employment without cause in certain circumstances (e.g., restructuring or divestment), a pro rata part of the granted shares will vest on the date of termination of employment. 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 2016 for the members of the Executive Board and for all other participants is shown below:

| | As at 1 January 2016 | Granted | Vested | Forfeited | As at 31 December 2016 |
|--------------------|----------------------------|-----------------------|-----------------|----------------------|------------------------------|
| R.P. van Wingerden | 114,319 | 112,711 | - | - | 227,030 |
| T. Menssen | 74,281 | 68,195 | - | - | 142,476 |
| E.J. Bax | 74,281 | 68,195 | - | - | 142,476 |
| Other participants | <u>342,094</u> | <u>339,069</u> | <u>-</u> | <u>56,921</u> | <u>624,242</u> |
| | <u>604,975</u> | <u>588,170</u> | <u>-</u> | <u>56,921</u> | <u>1,136,224</u> |

The fair value per share of the 2016 grant, for the Participants, in connection with the TSR performance part amounted to €3.17 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 most important assumptions used in the valuations of the fair values were as follows:

| | 2016 |
|----------------------------------|-------|
| Share price at grant date (in €) | 4.30 |
| Risk-free interest rate (in %) | 0.31 |
| Volatility (in %) | 48.97 |

Expected volatility has been determined based on historical volatilities for a period of five years.

In 2016, an amount of €606 thousand was charged to the income statement arising from 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 gross salary) by the average share price based on the five trading days after the AGM.

The shares were granted on the fifth 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. Participants are not allowed to divest any shareholding until the two year lock-up period has lapsed. The maximum cash distribution to the Participants at the date of vesting of the Phantom Share Plan is capped at 1.5 times the gross salary 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 2016 for the individual Executive Board members is as follows:

| | As at 1 January 2016 | Stock dividend | Vested | Forfeited | As at 31 December 2016 |
|--------------------|----------------------------|-------------------|--------|-----------|------------------------------|
| R.P. van Wingerden | 218,361 | 1,114 | - | - | 219,475 |
| T. Menssen | 130,331 | 665 | - | - | 130,996 |
| E.J. Bax | 54,064 | 276 | - | - | 54,340 |
| | 402,756 | 2,055 | - | - | 404,811 |

In addition, 190,169 shares are allocated to retired Executive Board members at year-end 2016. The lock-up period for the most recent phantom share plan will end at 4 May 2019.

The fair value per share of the conditionally granted shares outstanding amount to €4.09 for the 2014 grant and are determined using a Monte Carlo simulation model.

The most important assumptions used in the valuations of the fair values were as follows:

| | 2016 | 2015 |
|--------------------------------|--------|--------|
| Risk-free interest rate (in %) | (0.79) | (0.26) |
| Volatility (in %) | 52.73 | 49.31 |
| Assumed dividend yield (in %) | 2.00 | 2.00 |

In 2016, an amount of €7 thousand (2015: €772 thousand) was charged to the income statement arising from the Phantom Share Plan. As at 31 December 2016, the liability amounts to €1,042 thousand (2015: €1,035 thousand).

38. Joint operations

A part of the Group's activities is carried out in joint arrangements 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.

The Group's share of the revenue of these joint operations amounts to approximately €1.2 billion in 2016 (2015: approximately €1.1 billion), which represents approximately 17 per cent of the Group's revenue (2015: 15 per cent).

The Group's share of the balance sheets of joint operations is indicated below:

(in € million)

| | 2016 | | |
|---------------------------|------------------------------|----------------------|---------------------|
| | Construction and Property | Civil engineering | Total |
| Assets | | | |
| - Non-current assets | - | 60,8 | 60,8 |
| - Current assets | <u>236,7</u> | <u>513,4</u> | <u>750,1</u> |
| | 236,7 | 574,2 | 810,9 |
| Liabilities | | | |
| - Non-current liabilities | 42,5 | 6,3 | 48,8 |
| - Current liabilities | <u>216,7</u> | <u>527,1</u> | <u>743,8</u> |
| | 259,2 | 533,4 | 792,6 |
| Net balance | <u>(22,5)</u> | <u>40,8</u> | <u>18,3</u> |

| | 2015 | | |
|---------------------------|------------------------------|----------------------|--------------|
| | Construction and Property | Civil engineering | Total |
| Assets | | | |
| - Non-current assets | - | 57,7 | 57,7 |
| - Current assets | <u>224,5</u> | <u>763,7</u> | <u>988,2</u> |
| | 224,5 | 821,4 | 1.045,9 |
| Liabilities | | | |
| - Non-current liabilities | 53,6 | 12,7 | 66,3 |
| - Current liabilities | <u>163,8</u> | <u>795,6</u> | <u>959,4</u> |
| | 217,4 | 808,3 | 1.025,7 |
| Net balance | <u>7,1</u> | <u>13,1</u> | <u>20,2</u> |

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.

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 | 100% | Group company | Justice | Ireland | No | 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 | 100% | Group company | Other | Netherlands | No | 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 | 33.3% | Joint venture | Motorway | Netherlands | Yes | 2007 | 15 |
| A12 | 20% | Joint venture | Motorway | Netherlands | Yes | 2012 | 25 |
| 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 | 2019 | 26 |
| 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 |
| Liefkenshoek tunnel | 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 €66 million (2015: €72 million).

The Group has approximately €35 million (2015: €45 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 (2015: approximately €1.5 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 1999 up to and including 2014, for periods varying from 15 to 30 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 2016, predominantly relating to education, amount to €3.3 million (2015: €3.1 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 (2015: approximately €0.9 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 | 2016 | 2015 |
|---|-------|-------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 2 | 7,027 | 20,010 |
| Intangible assets | 3 | 362,908 | 386,698 |
| Financial assets | 4 | 1,627,237 | 1,568,864 |
| Deferred tax assets | 5 | <u>185,457</u> | <u>188,649</u> |
| | | 2,182,629 | 2,164,221 |
| Current assets | | | |
| Receivables | 6 | 33,282 | 44,432 |
| Cash and cash equivalents | 7 | <u>53,025</u> | <u>16,312</u> |
| | | 86,307 | 60,744 |
| Total assets | | <u>2,268,936</u> | <u>2,224,965</u> |
| Equity attributable to shareholders of the Company | 8 | | |
| Issued and paid capital | | 27,181 | 27,099 |
| Share premium | | 812,130 | 812,212 |
| Reserves | | (170,252) | (104,536) |
| Retained earnings | | 118,360 | 157,192 |
| Net result | | <u>46,831</u> | <u>10,180</u> |
| | | 834,250 | 902,147 |
| Provisions | 9 | | |
| Employee benefits | | <u>47,339</u> | <u>56,060</u> |
| | | 47,339 | 56,060 |
| Non-current liabilities | | | |
| Borrowings | 10 | <u>112,491</u> | <u>132,104</u> |
| | | 112,491 | 132,104 |
| Current liabilities | 11 | | |
| Borrowings | | - | 1,424 |
| Other liabilities | | <u>1,274,856</u> | <u>1,133,230</u> |
| | | 1,274,856 | 1,134,654 |
| Total equity and liabilities | | <u>2,268,936</u> | <u>2,224,965</u> |

Company income statement

(x € 1,000)

| | Note | 2016 | 2015 |
|---------------------------------------|------|----------------------|----------------------|
| Internal charges | 12 | 71,724 | 74,530 |
| External charges | | (7,801) | (4,470) |
| Employee benefit expenses | 13 | (26,863) | (30,453) |
| Depreciation and amortisation charges | 2,3 | (4,117) | (4,175) |
| Impairment charges | 2 | - | (763) |
| Other operating expenses | | (44,671) | (53,081) |
| Exchange rate differences | | <u>(296)</u> | <u>(168)</u> |
| | | (83,748) | (93,110) |
| Operating result | | <u>(12,024)</u> | <u>(18,580)</u> |
| Finance income | 14 | 18,601 | 18,713 |
| Finance expense | 14 | <u>(17,884)</u> | <u>(18,006)</u> |
| | | 717 | 707 |
| Share of result of investments | 4 | 56,171 | 29,116 |
| Result before tax | | <u>44,864</u> | <u>11,243</u> |
| Income tax | | <u>1,967</u> | <u>(1,063)</u> |
| Result for the year from operations | | <u>46,831</u> | <u>10,180</u> |

Notes to the company financial statements

1. Summary of significant accounting policies

1.1 Basis of preparation

The company financial statements of Royal BAM Group nv ('the Company' or 'BAM') have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands 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).

As a result of a change in section 402, Book 2 of the Netherlands Civil Code, the income statement in the company financial statements is no longer condensed. BAM has included the full income statement and other additional notes resulting from this change, including the comparative figures.

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.

2. Property, plant and equipment

| | Land and buildings | Other assets | Total |
|--|-----------------------|-----------------|-----------------|
| As at 1 January 2015 | | | |
| Cost | 16,360 | 14,846 | 31,206 |
| Accumulated depreciation and impairments | <u>(4,030)</u> | <u>(9,946)</u> | <u>(13,976)</u> |
| | <u>12,330</u> | <u>4,900</u> | <u>17,230</u> |
| Additions | 1,649 | 6,654 | 8,303 |
| Disposals | (350) | (567) | (917) |
| Depreciation charges | (854) | (2,989) | (3,843) |
| Impairment charges | <u>(763)</u> | <u>-</u> | <u>(763)</u> |
| | <u>(318)</u> | <u>3,098</u> | <u>2,780</u> |
| As at 31 December 2015 | | | |
| Cost | 16,896 | 17,076 | 33,972 |
| Accumulated depreciation and impairments | <u>(4,884)</u> | <u>(9,078)</u> | <u>(13,962)</u> |
| | <u>12,012</u> | <u>7,998</u> | <u>20,010</u> |
| Additions | - | 3,497 | 3,497 |
| Disposals | (11,468) | (1,296) | (12,764) |
| Depreciation charges | (544) | (3,172) | (3,716) |
| Impairment charges | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(12,012)</u> | <u>(971)</u> | <u>(12,983)</u> |
| As at 31 December 2016 | | | |
| Cost | - | 18,109 | 18,109 |
| Accumulated depreciation and impairments | <u>-</u> | <u>(11,082)</u> | <u>(11,082)</u> |
| | <u>-</u> | <u>7,027</u> | <u>7,027</u> |

3. Intangible assets

| | Goodwill | Non-integrated software | Other | Total |
|--|------------------|-------------------------|-------------|------------------|
| As at 1 January 2015 | | | | |
| Cost | 532,467 | 1,724 | - | 534,191 |
| Accumulated amortisation and impairments | <u>(155,731)</u> | <u>(1,182)</u> | <u>-</u> | <u>(156,913)</u> |
| | <u>376,736</u> | <u>542</u> | <u>-</u> | <u>377,278</u> |
| | | | | |
| Additions | - | 375 | - | 375 |
| Amortisation charges | - | (332) | - | (332) |
| Exchange rate differences | <u>9,377</u> | <u>-</u> | <u>-</u> | <u>9,377</u> |
| | 9,377 | 43 | - | 9,420 |
| As at 31 December 2015 | | | | |
| Cost | 541,844 | 2,099 | - | 543,943 |
| Accumulated amortisation and impairments | <u>(155,731)</u> | <u>(1,514)</u> | <u>-</u> | <u>(157,245)</u> |
| | <u>386,113</u> | <u>585</u> | <u>-</u> | <u>386,698</u> |
| | | | | |
| Additions | - | - | 883 | 883 |
| Disposals | (1,357) | - | - | (1,357) |
| Amortisation charges | - | (335) | (66) | (401) |
| Exchange rate differences | <u>(22,915)</u> | <u>-</u> | <u>-</u> | <u>(22,915)</u> |
| | (24,272) | (335) | 817 | (23,790) |
| As at 31 December 2016 | | | | |
| Cost | 518,929 | 2,099 | 883 | 521,911 |
| Accumulated amortisation and impairments | <u>(157,088)</u> | <u>(1,849)</u> | <u>(66)</u> | <u>(159,003)</u> |
| | <u>361,841</u> | <u>250</u> | <u>817</u> | <u>362,908</u> |

4. Financial assets

| | Shares in subsidiaries | Receivables from subsidiaries | Other participating interests | Other loans and receivables | Total |
|--|---------------------------|-------------------------------------|-------------------------------------|-----------------------------------|------------------|
| As at 1 January 2015 | 847,306 | 621,147 | 1,543 | 125 | 1,470,121 |
| Net result | 29,116 | - | - | - | 29,116 |
| Dividends | (3,595) | - | - | - | (3,595) |
| Additions | - | - | 368 | - | 368 |
| Reclassifications | 24,068 | (24,068) | - | - | - |
| Capital contributions | 21,000 | - | - | - | 21,000 |
| Loans granted and repayments | - | (3,224) | - | (125) | (3,349) |
| Cash flow hedge | 2,932 | - | - | - | 2,932 |
| Remeasurements of post-employment benefit obligations | 35,405 | - | - | - | 35,405 |
| Exchange rate differences | 16,866 | - | - | - | 16,866 |
| As at 31 December 2015 | <u>973,098</u> | <u>593,855</u> | <u>1,911</u> | <u>-</u> | <u>1,568,864</u> |
| Net result | 46,487 | - | 9,684 | - | 56,171 |
| Dividends | (80,311) | - | - | - | (80,311) |
| Additions | - | - | 180 | - | 180 |
| Disposals | (510) | - | - | - | (510) |
| Reclassifications | 33,372 | (33,372) | (9,684) | - | (9,684) |
| Capital contributions | 55,266 | - | - | - | 55,266 |
| Loans granted and repayments | - | 136,446 | - | - | 136,446 |
| Cash flow hedge | (2,130) | - | - | - | (2,130) |
| Remeasurements of post-employment benefit obligations | (54,299) | - | - | - | (54,299) |
| Exchange rate differences | (42,756) | - | - | - | (42,756) |
| As at 31 December 2016 | <u>928,217</u> | <u>696,929</u> | <u>2,091</u> | <u>-</u> | <u>1,627,237</u> |

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

| | 2016 | 2015 |
|---------------------|----------------|----------------|
| Deferred tax assets | <u>185,457</u> | <u>188,649</u> |
| | <u>185,457</u> | <u>188,649</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

| | 2016 | 2015 |
|---------------------------------|---------------|---------------|
| Amounts due from subsidiaries | 22,495 | 27,685 |
| Social security and other taxes | - | 544 |
| Prepayments and accrued income | <u>10,787</u> | <u>16,203</u> |
| | <u>33,282</u> | <u>44,432</u> |

Receivables are due within one year.

7. Cash and cash equivalents

| | 2016 | 2015 |
|--------------|---------------|---------------|
| Cash at bank | <u>53,025</u> | <u>16,312</u> |
| | <u>53,025</u> | <u>16,312</u> |

Cash and cash equivalents are at the free disposal of the Company.

8. Equity attributable to shareholders of the Company

At year-end 2016, the authorised capital of the Group was 400 million ordinary shares (2015: 400 million) and 600 million preference shares (2015: 600 million), all with a nominal value of €0.10 per share (2015: €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 2015 | 270,998,957 | - | 270,998,957 |
| Repurchased shares | <u>-</u> | <u>604,975</u> | <u>(604,975)</u> |
| As at 31 December 2015 | <u>270,998,957</u> | <u>604,975</u> | <u>270,393,982</u> |
| Repurchase of ordinary shares | - | 588,170 | (588,170) |
| Dividends | <u>815,771</u> | <u>-</u> | <u>815,771</u> |
| As at 31 December 2016 | <u>271,814,728</u> | <u>1,193,145</u> | <u>270,621,583</u> |

Movements in shareholders' equity are as follows:

| | Attributable to the shareholders of the Company | | | | | |
|--|---|------------------|------------------|----------------------|---------------|----------------|
| | Issued and paid capital | Share premium | Reserves | Retained earnings | Net result | Total |
| As at 1 January 2015 | 27,099 | 812,212 | (134,873) | 231,128 | (108,172) | 827,394 |
| Net result for the year | - | - | - | - | 10,180 | 10,180 |
| Appropriation of result | - | - | - | (108,172) | 108,172 | - |
| Remeasurements of post-employment benefit obligations | - | - | - | 37,026 | - | 37,026 |
| Cash flow hedges | - | - | 4,094 | - | - | 4,094 |
| Repurchase of ordinary shares | - | - | - | (3,092) | - | (3,092) |
| Share-based payments | - | - | - | 302 | - | 302 |
| Exchange rate differences | - | - | 26,243 | - | - | 26,243 |
| As at 31 December 2015 | <u>27,099</u> | <u>812,212</u> | <u>(104,536)</u> | <u>157,192</u> | <u>10,180</u> | <u>902,147</u> |
| Net result for the year | - | - | - | - | 46,831 | 46,831 |
| Appropriation of result | - | - | - | 10,180 | (10,180) | - |
| Issue of convertible bonds | - | - | - | 7,852 | - | 7,852 |
| Dividends | 82 | (82) | - | (1,978) | - | (1,978) |
| Remeasurements of post-employment benefit obligations | - | - | - | (53,226) | - | (53,226) |
| Cash flow hedges | - | - | (45) | - | - | (45) |
| Repurchase of ordinary shares | - | - | - | (2,529) | - | (2,529) |
| Share-based payments | - | - | - | 606 | - | 606 |
| Exchange rate differences | - | - | (65,671) | - | - | (65,671) |
| Other | - | - | - | 263 | - | 263 |
| As at 31 December 2016 | <u>27,181</u> | <u>812,130</u> | <u>(170,252)</u> | <u>118,360</u> | <u>46,831</u> | <u>834,250</u> |

Due to a change in accounting policy, the remeasurements of post-employment benefits are no longer included in the reserves, but have been restated to the retained earnings. The comparative figures have been adjusted accordingly.

8.1 Reserves

Reserves relate to the reserves for (cash flow) hedging, remeasurements of post-employment benefits and translation differences. The reserves for (cash flow) hedging and translation differences 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 €77 million negative (2015: €77 million negative) and the translation reserve €93 million negative (2015: €27 million negative).

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 2016 of 9 eurocents in cash per ordinary share or in shares, at the option of the shareholders (2015: 2 eurocents). Based on the number of ordinary shares outstanding at year-end 2016, a maximum of €24.3 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

| | 2016 | 2015 |
|-------------------|---------------|---------------|
| Employee benefits | <u>47,339</u> | <u>56,060</u> |
| | <u>47,339</u> | <u>56,060</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

| | 2016 | 2015 |
|--------------------------------|----------------|----------------|
| Subordinated convertible bonds | 112,491 | - |
| Subordinated loan | - | 125,000 |
| Other loans | <u>-</u> | <u>7,104</u> |
| | <u>112,491</u> | <u>132,104</u> |

Additional information on borrowings is disclosed in note 18 to the consolidated financial statements.

11. Current liabilities

| | 2016 | 2015 |
|-----------------------------|------------------|------------------|
| Bank overdrafts | - | 1,163 |
| Subordinated loan | - | (665) |
| Other loans | - | 926 |
| Amounts due to subsidiaries | 1,241,267 | 1,086,403 |
| Provisions | 82 | 9,647 |
| Other liabilities | <u>33,507</u> | <u>37,180</u> |
| | <u>1,274,856</u> | <u>1,134,654</u> |

Provisions include a restructuring provision of €0.1 million (2015: €1.1 million). In 2015 the provisions also included the dividend guarantee provision relating to the disposal of the interest in Van Oord (€8.5 million), which has been released in 2016.

12. Internal charges

The internal charges represent services that have been charged to the other Group Companies.

13. Employee benefit expenses

| | 2016 | 2015 |
|--|---------------|---------------|
| Wages and salaries | 22,421 | 26,599 |
| Social security costs | 2,097 | 2,594 |
| Pension costs - defined contribution plans | 2,005 | 3,529 |
| Pension costs - defined benefit plans | 340 | (2,269) |
| | <u>26,863</u> | <u>30,453</u> |

At year-end 2016, the Company had 225 employees in FTE (2015: 210). The average number of employees in FTE amounted to 221 (2015: 243).

14. Finance income and expense

| | 2016 | 2015 |
|--|---------------|---------------|
| Finance income | | |
| - Interest income - intercompany | 16,115 | 15,448 |
| - Interest income - cash at banks | 817 | 2,165 |
| - Interest income - other financial assets | 40 | 8 |
| - Dividend income | - | (8) |
| - Other finance income | 1,629 | 1,100 |
| | <u>18,601</u> | <u>18,713</u> |
| Finance expense | | |
| - Subordinated convertible bonds | 3,599 | - |
| - Subordinated loan | 3,585 | 7,416 |
| - Bank fees - subordinated loan | 665 | 500 |
| - Committed syndicated credit facility | 109 | 196 |
| - Bank fees - committed syndicated credit facility | 3,324 | 4,688 |
| - Other non-recourse financing | 44 | 92 |
| - Interest expense - intercompany | 3,567 | 4,277 |
| - Interest expense - bank overdrafts | 4 | 156 |
| - Recourse property financing | 206 | - |
| - Other recourse financing | 986 | 681 |
| - Fair value result - interest rate swaps | 1,795 | - |
| | <u>17,884</u> | <u>18,006</u> |
| Net finance result | <u>717</u> | <u>707</u> |

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 €151 million (2015: €156 million) at year-end 2016.

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 Netherlands Civil Code.

The Company, together with other participants, has a joint and several liability for deficits in the Group's cash pool as a whole.

The Company forms a fiscal unity with BAM's major Dutch and certain other subsidiaries for income tax and VAT purposes and, for that reason, it is jointly and severally liable for the Dutch income tax and Dutch VAT liabilities of the whole fiscal unity.

Bunnik, the Netherlands
20 February 2017

Supervisory Board:

P.A.F.W. Elverding
H. Scheffers
J.-P. Hansen
C.M.C. Mahieu
H.L.J. Noy
K.S. Wester

Executive Board:

R.P. van Wingerden
T. Menssen
E.J. Bax

7. Other information

7.1 Combined independent auditor's report on the 2016 financial statements and Sustainability Information

Our conclusions

Royal BAM Group nv Integrated Report 2016

What we have audited

Consolidated and company financial statements

Audit scope

Reasonable assurance

Conclusion

- The accompanying consolidated financial statements give a true and fair view of the financial position of Royal BAM Group nv as at 31 December 2016 and of its result and its cash flows for 2016 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 accompanying company financial statements give a true and fair view of the financial position of Royal BAM Group nv as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

Material themes, Business conduct and transparency and Safety

Audit scope

Reasonable assurance

Conclusion

- The descriptive information in Material themes (page 26-27), Business conduct and transparency (page 65) and Safety in paragraph Health & Safety (pages 60, 63-64) in BAM's Integrated Report 2016 (the Report) present, in all material respects, a reliable and adequate view, in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the supplemental BAM reporting criteria as disclosed on page 239-241 of the Report.

What we have reviewed

Sustainability information

Review scope

Limited assurance

Conclusion

- Nothing has come to our attention that causes us to conclude that the Sustainability Information, in all material respects, does not present, a reliable and adequate view of the policy and business operations with regard to sustainability and the thereto related events and achievements for the year ended 31 December 2016, in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the supplemental BAM reporting criteria as disclosed on page 239-241 of the Report.

The other information included in the Integrated Annual Report, including the Reports by the Board of Management and 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 conducted our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'. Dutch Standard 3810N is a subject specific standard under 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 “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 engagement. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)’.

Our scope

Our engagements scope

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016;
- The following statements for 2016: 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 2016;
- The company income statement for 2016;
- The notes comprising a summary of the accounting policies and other explanatory information.

The Sustainability Information in scope comprise:

- Reasonable assurance - Descriptive information in the following paragraphs/chapters: Material themes (page 26-27), Business conduct and transparency (page 65) and Safety in paragraph Health and Safety (pages 60, 63, 64);
- Limited assurance - All other information reported in chapters chapters 2, 3.1, 3.2, 4.2, 4.3, 9.

Limitations in our scope

The Sustainability Information contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of prospective information.

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 2016 audit, we visited Tanzania and Costa Rica as key locations ourselves to perform audit procedures. For the Middle East business, 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 BAM. In addition, we have performed analytical review procedures and made inquiries with management 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.

Reporting criteria

The information in the scope of our engagements needs to be read and understood together with the reporting criteria, for which BAM is solely responsible for selecting and applying, taking into account applicable law and regulations related to reporting. The criteria used for the preparation of the Report and thus relevant for our examination are described below. We consider the reporting criteria used relevant and suitable for our assurance engagements.

| | |
|--|---|
| Consolidated financial statements: | International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code. |
| Corporate financial statements, Report by the Board of Management and the Supervisory Board: | Part 9 of Book 2 of the Dutch Civil Code. |
| Sustainability information including the CO ₂ emission data 2016: | Sustainability Reporting Guidelines version G4 ('comprehensive' option) of the Global Reporting Initiative (GRI) and the supplemental reporting criteria developed by BAM as disclosed on page 239-241 of the Report. |

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 €1,750,000, 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.

At December 31, 2016 there were no remaining audit differences impacting result.

Sustainability Information

For the assurance procedures concerning the Sustainability Information as a whole and for each part of the Sustainability Information, we have considered the factors that influence the relevance for the intended users of the Sustainability Information, based on the Royal BAM Group nv's materiality assessment. Based on our professional judgment, we determined the materiality for each of the identified key performance indicators at 5 per cent deviation, with the exception of BAM Incident Frequency, which has been determined at 3 per cent deviation.

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 error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of intended 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.

Our key audit and review matters

Key audit and review 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 review matters to the Supervisory Board. The key audit and review 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. All these matters have been audited by us with satisfactory results and we believe these have been properly disclosed where applicable. For the interest of the reader, we highlight the most important elements we focused on in 2016.

Financial statements

| | |
|------------------------|--|
| Materiality | €35 million |
| Benchmark used | 0.5% 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. This materiality is subsequently allocated to and used in the audits of the local operating companies. Since this is our first year as auditors of BAM, we also compared these actual materiality levels used in the audits of local operating companies to the materiality used by the predecessor auditor at local operating company level and noted that materiality levels are not materially different. |

| | Key audit matter | How our audit addressed the matter |
|-------------------------------|--|--|
| Audit of financial statements | Valuation of projects and revenue recognition <i>Refer to page 41 and 55 (Executive Board Report), page 151-152 (Critical accounting judgements and key sources of estimation uncertainties) and page 156-157 (Notes to the consolidated financial statements).</i> | <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 management's position against supporting documentation and BAM's accounting policy. We also reviewed the reasonableness of BAM's accounting policy and its interpretation of relevant accounting standards.</p> <p>In cases where a high degree of judgement is involved, we gained additional comfort by comparing management's position to opinions from external parties such as lawyers or surveyors and/or we looked at BAM's track record for collecting variation orders and claims.</p> <p>For long-term contracts, we also compared BAM's positions taken to the previous year, to ensure consistency in the valuation and to perform back testing on this estimate. Overall, we agree with the valuation of projects and the revenue recognised in the year.</p> |
| | Valuation of deferred tax assets <i>Refer to page 54 (Executive Board Report), page 151-152 (Critical accounting judgements and key sources of estimation uncertainties) and page 185-187 (Notes to the consolidated financial statements).</i> | |
| Audit of financial statements | <p>The valuation of deferred tax assets amounting to €249 million at 31 December 2016, relates to tax losses carried forward in the Netherlands and Germany and is based on expected future taxable profits. Management has taken the period for recovery into account in the valuation.</p> | <p>Our audit procedures included an assessment of the company's assumptions underlying the estimated future taxable profits for their reasonableness and consistency with internal budgets and strategic plans for future years. Together with our tax specialists, we reviewed the company's tax positions and declarations over recent years and discussions with the tax authorities. We also challenged management's expectations of a taxable profit increase for future years. We noted that risk/reward ratio for contracts is expected to improve (supported through the Tender Stage Gate Procedure introduced in 2015). Furthermore, in the current and previous years, there were significant and incidental restructuring costs and impairment charges for land held for property development that impacted taxable profit in previous years.</p> |
| | <p>The valuation includes a high degree of judgment as the valuation is dependent on the estimation and realisation of future taxable profits. Furthermore, the Dutch fiscal unity has been in a fiscal loss position in 2014, 2015 and 2016, mainly due to impairments and restructuring costs following the back in shape program, but does forecast taxable profits going forward.</p> | |
| Audit of financial statements | IT controls and procedures <i>Refer to page 44 (Executive Board Report).</i> | <p>We assessed the reliability and continuity of electronic data processing to the extent necessary within the scope of the audit of the financial statements and we involved IT audit specialists to support us. Our work consisted of assessing the developments in the IT infrastructure and applications and testing of relevant internal controls related to IT infrastructure, applications and IT management processes. During the year 2016, we noted some areas for improvement, which BAM has acted upon.</p> <p>Through a combination of reliance on controls and data analytical procedures, we concluded that IT procedures worked as designed and we were able to rely on IT for purposes of our audit of the financial statements.</p> |
| | <p>With the introduction of the Back in Shape program, BAM committed to reducing the high level of decentralisation in the IT landscape and harmonising/centralising IT procedures and responsibilities where applicable. Also with a view on the digitalization of the industry, there is increasing need to upscale IT security procedures, which BAM has identified and is acting upon.</p> | |

| | Key audit matter | How our audit addressed the matter |
|--|---|---|
| Audit of financial statements | Valuation of land and building rights <i>Refer to page 44 (Executive Board Report), page 151-152 (Critical accounting judgements and key sources of estimation uncertainties) and page 156-157 and 165-166 (Notes to the consolidated financial statements).</i> | <p>During our audit, amongst others, we have assessed the calculations of the land's net realisable values and challenged the reasonableness and consistency of the assumptions used by management. We verified that management's assumptions around the possibilities for future residential property development are consistent with documentation which include the plans and decisions of government bodies and with the information included in external appraisals.</p> <p>We also compared management's assumptions concerning the development of house prices with independent expectations of external parties and institutions. Expected future costs and interest expenses are assessed based on underlying documentation and assessed based on reasonableness. A part of the land portfolio has also been appraised by external appraisers to benchmark the net realisable value and we have involved our own appraisers as audit experts to assess the underlying assumptions and methodology of the appraisals.</p> |
| | <p>The valuation of land held for residential property development ('land') is based on cost or lower net realisable value. The calculations of the net realisable value are based on assumptions relating to future market developments, decisions of governmental bodies, interest rates and future changes in costs and price.</p> <p>Because these estimates relate to terms which vary from one year to more than thirty years, the estimation uncertainty relating to the valuation of land held for residential property development is significant. Management has recorded several impairments on smaller properties amounting to a net total of €48 million.</p> | |
| Audit of financial statements | Auditor transition, including the audit of opening balances <i>Refer to page 47 (Executive Board Report).</i> | <p>In order to comply with our professional standards to obtain sufficient audit evidence about the opening balances and comparative numbers, we reviewed the audit files of the predecessor auditor and had frequent interaction and a formal hand over process with them including performing additional procedures on selected projects (and review of subsequent project results in particular).</p> |
| | <p>Initial audit engagements involve a number of considerations not associated with recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes gaining an understanding of the Company's control environment and information systems, sufficient to make an audit assessment and develop the audit strategy and plan. We also participated as observer in several closing meetings with the predecessor auditor and management and the supervisory board to learn about the Company and its key issues and ensure that these are also properly addressed by us in 2016.</p> | |
| Audit of financial statements & audit of Business Conduct and transparency | Business conduct, integrity and transparency <i>Refer to page 65-66 (Executive Board Report), page 156-157 (Notes to the consolidated financial statements).</i> | <p>Business conduct and transparency was in scope of obtaining reasonable assurance. We evaluated whether the policies as described by BAM in page 65-66 exist and are embedded in the organisation as described. This included the governance around business conduct and the communication throughout the organisation. With respect to bribery and corruption, we designed additional audit procedures in line with 2016 NBA guidelines and we involved our sustainability and forensic specialists to amongst others test the incident registration system and the handling of incidents by local compliance officers. Our procedures did not reveal issues or deviations.</p> |
| | <p>Business conduct and transparency is seen for BAM as highly relevant both by stakeholders as well as captured in laws and regulations. As described on page 65-66, BAM has taken significant steps in 2016 to upgrade its procedures and controls around business conduct, sustainability, integrity and transparency. BAM has thereby set a minimum standard for compliance and integrity that is to be consistently applied throughout the group.</p> | |

Other information included in the integrated report

In addition to the financial statements and our auditor's report thereon, the integrated report contains other information that consists of:

- Key figures;
- The Executive Board Report;
- Report of the Supervisory Board;
- Remuneration Report;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- Chapter 8 Royal BAM Group nv shares; and
- Chapter 9 Appendices.

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 is less than the scope of those performed in our audit of the financial statements or in our review of the Sustainability Information.

Management is responsible 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 other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 nv as of the audit for the year 2016 and have operated as statutory auditor since that date.

Responsibilities

Responsibilities of Management and the Supervisory Board

Management 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.

Management is also responsible for the preparation of the Sustainability Information in accordance with the Sustainability Reporting Guidelines version G4 of the GRI (Comprehensive option) and the supplemental BAM reporting criteria, including the identification of the stakeholders and the determination of material issues. The choices made by Management with respect to the scope of the Report are included

in page 239-241 of the Sustainability information.

Furthermore, Management is responsible for such internal control as Management 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 error.

As part of the preparation of the financial statements, Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, Management should prepare the financial statements using the going concern basis of accounting unless Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's (financial) reporting process.

Our responsibilities

Our objective is to plan and perform the assurance assignments in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our assurance procedures aimed at obtaining reasonable assurance have been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

The procedures performed in obtaining limited assurance are focused on the plausibility of information which does not require exhaustive gathering of evidence as in engagements focused on reasonable assurance. The procedures performed consisted primarily of making inquiries of Management and others within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in an audit engagement.

Utrecht, 20 February 2017

Ernst & Young Accountants LLP

Signed by G.A.M. Aarnink

Annex to the combined independent auditor's report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with Dutch Standards on Auditing and the Dutch Standard 3810N 'assurance engagements relating to sustainability reports', 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 error, 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 Management.
- Concluding on the appropriateness of Management'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 an 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 external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organisation.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialog and the reasonableness of management's estimates.
- Evaluating the design and implementation of the reporting systems and processes related to the information in the Sustainability Information.
- Interviewing Management and relevant staff at corporate and local levels responsible for the sustainability strategy, policies and performance.

- Interviewing relevant staff responsible for providing the information as disclosed in the Sustainability Information, carrying out internal control procedures on the data and consolidating of data in the Sustainability Information.
- Visits to multiple sites and offices of BAM's Operating Companies in Belgium, United Kingdom, the Netherlands, Germany and Costa Rica to evaluate the source data and to evaluate the design and implementation of control and validation procedures at local level.
- Performing analytical review of the data and trend explanations submitted for consolidation at group level.

In addition to the procedures mentioned above, for information included in the paragraphs Material themes and Business conduct and transparency and for the information on Safety in paragraph Health and Safety we performed the following to obtain reasonable assurance:

- Conducting analytical procedures and substantive testing procedures on the relevant data.
- Assessing the processing of other information, such as the aggregation process of data into the information as presented in the sustainability information.
- Investigating internal and external documentation to determine whether the applicable sustainability information is reliable.

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 procedures.

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 review of the Sustainability Information of the current period and are therefore the key audit and review matters. We describe these matters in our combined auditor's report and assurance 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.

7.2 Proposed appropriation of result

The net result for 2016, amounting to €46.8 million, has been accounted for in shareholders' equity.

The Company proposes to declare a dividend over the financial year 2016 of 9 euro cents in cash per ordinary share or in shares, at the option of the shareholders. Based on the number of ordinary shares outstanding at year-end 2016, a maximum of €24.3 million will be distributed as dividend on the ordinary shares. As yet, the dividend proposal has not been deducted from retained earnings under equity.



Kieldrecht Lock, Port of Antwerp. BAM Belgium (Galère).



7.3 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 up 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 and sub-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-FP4:

The dividend percentage will be calculated by taking the arithmetical 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 digital Official Price List of Euronext Amsterdam, plus two percentage points.

Series FP5-FP8:

The dividend percentage will be equal to the average of the Euribor rates for money market loans with a maturity of 12 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 three hundred 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.



Bridlington Leisure Centre.
BAM Construct UK.

7.4 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 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 companies that are held by the Company and the group of companies associated with the Company. Specifically, the Foundation seeks to ensure that the interests of the Company and of those companies 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 those companies 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 – whether or not by exercising the option referred to above – and holding class B cumulative preference shares in the Company's capital, by exercising the rights connected with those shares and/or by using its right of enquiry.

As announced at the General Meeting held on 4 June 1992 and considered at the General Meeting on 8 June 1993, the Company granted the Foundation an option to acquire class B cumulative preference shares in the Company's capital on 17 May 1993. This option was granted up to such an amount as the Foundation might require, subject to a maximum of a nominal amount that would result in the total nominal amount of class B cumulative preference shares in issue and not held by the Company equalling no more than ninety-nine point nine per cent (99.9%) of the nominal amount of the issued share capital in the form of shares other than class B cumulative preference shares and not held by the Company at the time of exercising of the right referred to above. The 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.

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).

No class B cumulative preference shares have been issued at this time.

The Supervisory Board and the Executive Board reserve the right, in the interests of the Company and its associated companies, to resolve to take measures other than the issue of class B preference shares in order to protect the Company 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 Group.

The Foundation's Executive Committee consists of three members who are appointed by the Foundation's Executive Committee, after notification to the Executive Board.

The current composition of the Executive Committee is:

R. Pieterse, Chairman

F.K. Buijn

R. de Jong

The Chairman of the Foundation's Executive Committee 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 Executive Committee.

The particulars of the Executive Committee members are:

R. Pieterse (1942), *Chairman*

Mr Pieterse has served on the Foundation's Executive Committee since 2009 and was appointed Chairman in 2012. He is a Dutch national. A former Chairman of the Executive Board of Wolters Kluwer, Mr Pieterse is a member of the Supervisory Board of eVision and is Chairman of the Board of Stichting Preferente Aandelen USG People.

In 2003, Mr Pieterse was a member of the committee that drew up the first Dutch Corporate Governance Code.

F.K. Buijn (1950)

Mr Buijn has been a member of the Foundation's Executive Committee since 2012. He is a Dutch national. As a qualified civil-law notary Mr Buijn is well-versed in commercial law. Mr Buijn is a member of the Executive 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. De Jong RA (1948)

Mr De Jong has been a member of the Foundation's Executive Committee 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 Bakeplus Holding and Chairman of the Supervisory Board of Rabobank Arnhem en Omstreken. He is a member of the Supervisory Board of Hogeschool of Amsterdam and advisor to the Supervisory Board of the University of Amsterdam. He is a member of the Executive Committee of the Foundation of Holding Preferred Shares in Wereldhave.

7.5 Five-year overview

(x 1 million, unless otherwise stated)

| | 2016 | 2015 | 2014 | 2013 | 2012 ³ |
|---|--------|---------|---------|---------|-------------------|
| Revenue | 6,976 | 7,423 | 7,314 | 7,042 | 7,225 |
| Operating result | 32.9 | (10.7) | (104.7) | 15.9 | (273.1) |
| Result before tax | 60.1 | 13.3 | (122.4) | 44.4 | (224.3) |
| Net result attributable to the shareholders of the Company | 46.8 | 10.2 | (108.2) | 46.2 | (183.8) |
| Basic earnings per share (in €1) | 0.17 | 0.04 | (0.40) | 0.19 | (0.77) |
| Diluted earnings per share (in €1) | 0.17 | 0.04 | (0.40) | 0.19 | (0.77) |
| Dividend per ordinary share (in €1) ¹ | 0.09 | 0.02 | - | 0.05 | 0.10 |
| Equity attributable to the shareholders of the Company | 834.3 | 902.1 | 827.4 | 929.1 | 728.6 |
| Subordinated convertible bonds | 112.5 | - | - | - | - |
| Subordinated loan | - | 124.3 | 124.5 | 124.0 | 123.5 |
| Capital base | 946.7 | 1,026.5 | 951.9 | 1,053.1 | 852.1 |
| Net investment in property, plant and equipment | 45.1 | 41.7 | 39.0 | 65.2 | 94.6 |
| Depreciation, amortisation and impairment charges of: | | | | | |
| - Property, plant and equipment | 62.5 | 67.9 | 80.8 | 85.9 | 80.2 |
| - Intangible assets | 5.0 | 7.4 | 3.7 | 3.2 | 154.5 |
| - Other impairment charges | 47.6 | 34.3 | 114.1 | 29.5 | 247.7 |
| Cash flow before dividend | 161.9 | 119.8 | 90.5 | 164.8 | 298.6 |
| Total impairment charges | 50.7 | 39.1 | 115.9 | 30.0 | 398.1 |
| Order book ² | 10,193 | 11,480 | 10,268 | 10,021 | 10,700 |
| Average number of employees (in FTE) | 20,370 | 21,916 | 23,325 | 23,502 | 23,143 |
| Number of employees as at 31 December (in FTE) | 19,486 | 21,248 | 23,137 | 23,329 | 23,691 |
| Ratios (in %) | | | | | |
| Result before tax and impairment charges as % of revenue | 1.6 | 0.7 | (0.1) | 1.2 | 2.4 |
| Net result to the shareholders of the Company as % of revenue | 0.7 | 0.1 | (1.5) | 0.7 | (2.5) |
| Net result to the shareholders of the Company as % average equity | 5.4 | 1.2 | (12.3) | 5.6 | (19.4) |
| Solvency ratios (in %) | | | | | |
| Equity attributable to shareholders as % of total assets | 17.3 | 18.6 | 16.7 | 17.5 | 13.7 |
| Capital ratio as % of total assets | 19.7 | 21.2 | 19.2 | 19.8 | 16.1 |
| Current ratio | 1.04 | 1.07 | 1.09 | 1.10 | 1.07 |

¹ Dividend proposal 2016.

² Order book comprises both signed contracts and verbally agreed upon orders.

³ Figures are adjusted due to IFRS 11 and IAS 19 (as revised in 2011).

7.6 List of principal subsidiaries, joint arrangements and associates

| Subsidiaries | % |
|--|------|
| BAM Bouw en Vastgoed bv*, Bunnik (Netherlands) | 100 |
| uniting the activities of: | |
| BAM Bouw en Techniek bv*, Bunnik | 100 |
| BAM Wonen bv*, Bunnik | 100 |
| AM bv*, Utrecht | 100 |
| BAM Infra Nederland bv*, Gouda (Netherlands) | 100 |
| uniting the activities of: | |
| BAM Infra bv*, Gouda | 100 |
| BAM Infra Rail bv*, Breda | 100 |
| BAM Infraconsult bv*, Gouda | 100 |
| BAM Belgium nv, Brussels (Belgium) | 100 |
| uniting the activities of: | |
| Interbuild nv, Wilrijk-Antwerp | 100 |
| Galère sa, Chaudfontaine | 100 |
| BAM Contractors nv, Brussels | 100 |
| Kairos nv, Wilrijk-Antwerp | 100 |
| BAM Construct UK Ltd, Hemel Hempstead (United Kingdom) | 100 |
| BAM Nuttall Ltd, Camberley, Surrey (United Kingdom) | 100 |
| BAM Deutschland AG, Stuttgart (Germany) | 100 |
| Wayss & Freytag Ingenieurbau AG, Frankfurt am Main (Germany) | 100 |
| BAM International bv*, The Hague (Netherlands) | 100 |
| BAM Contractors Ltd, Kill, County Kildare (Ireland) | 100 |
| BAM PPP bv*, Bunnik (Netherlands) | 100 |
| Joint arrangements | |
| BAM PPP PGGM Infrastructure Coöperatie U.A | 50.0 |
| 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.

7.7 Glossary¹

| | |
|-----------------------------------|--|
| Adjusted result before tax | Result before tax excluding restructuring costs and other exceptional 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 debt. |
| 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 total | Incident frequency including all employees working for BAM (BAM, hired, subcontractors and third parties). |
| 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 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 (APM's). 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 APM's 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. APM's defined above, or elsewhere in the report, are fully reconcilable with the notes to the consolidated financial statements.



High School St. Mary's College Dundalk.



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Carrick-on-Suir Taekwondo School for sports.



BAM PPP and BAM Ireland build four new post-primary schools under Schools Bundle 4 of the Government's Public Private Partnership (PPP) Programme.

Skibbereen Community College.



St. Josephs Secondary School Tulla.



Co-educational post primary school Comeragh College.



8. Royal BAM Group nv shares

8 Royal BAM Group nv shares

Stock exchange listing

The shares of BAM have been listed on the Euronext Amsterdam stock exchange since 1959. BAM is listed on the AMX index (Midkap) as well as on the Euronext NEXT-150 Index. Royal BAM Group ordinary share options have been traded by Liffe, the Euronext derivatives exchange, since 2006.

The market capitalisation of the Group was €1.2 billion at year-end 2016 (year-end 2015: €1.4 billion).

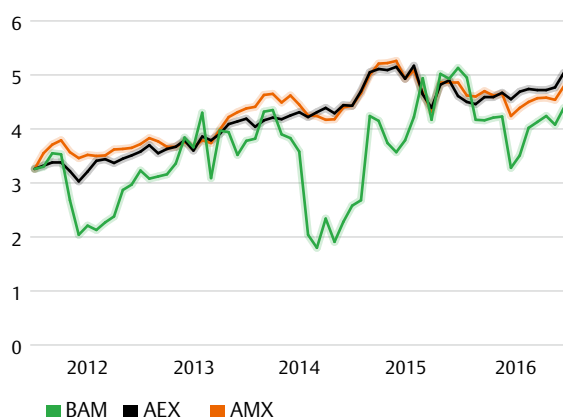
Share price

The 2016 closing price of the ordinary share was €4.39, which was 14 per cent lower compared to the closing price at year-end 2015 (€5.13). The change in the AMX index was -2 per cent in 2016. BAM's share price rose by about 35 per cent over the last five years. By way of comparison, the AEX and the AMX index rose by 55 per cent and 47 per cent in the same period.

> Graph 64 shows the history of the BAM ordinary share price over the past five years.

64 Ordinary share price movement

(in €)



Volume of trade on Euronext Amsterdam

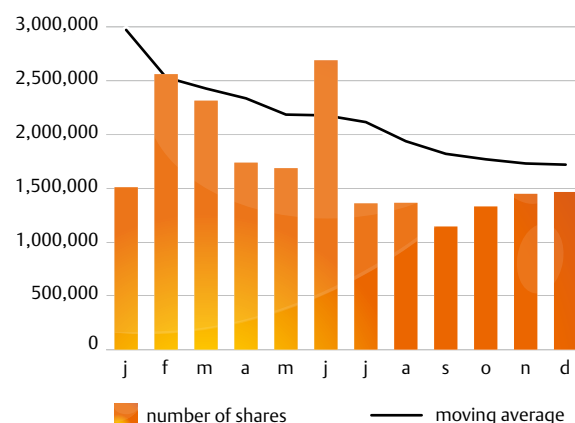
In 2016, the number of ordinary shares traded were 441 million (2015: 798 million).

The average daily trade was 1,717,000 ordinary shares (2015: 3,117,000). The value of ordinary shares traded in 2016 was €1,804 million (2015: €3,152 million). In 2016 the average daily trade in BAM shares was €7.0 million (2015: €12.3 million).

> Graph 65 shows the development of the average number of ordinary shares traded in 2016 on Euronext Amsterdam.

65 Number of traded ordinary shares in 2016

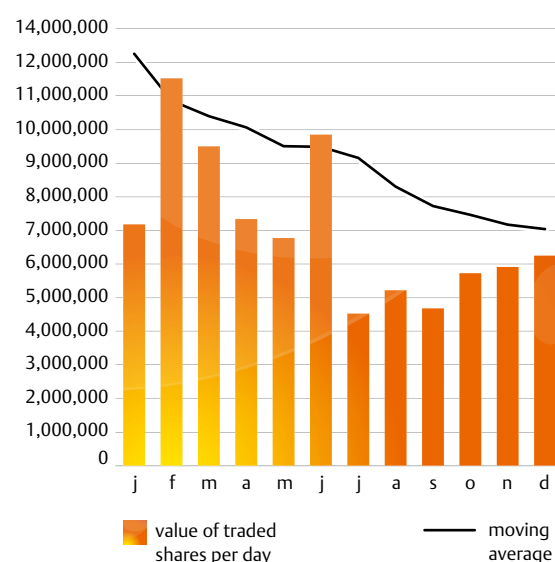
(average per day - Euronext 2016)



> Graph 66 shows the development of the average value of traded ordinary shares on Euronext Amsterdam in 2016.

66 Value of traded ordinary shares in 2016

(average per day - Euronext 2016)



If necessary, ING and Rabobank act as liquidity providers for the trade in ordinary shares.

67 — Number of ordinary shares in issue in 2016

| | Ordinary | Total |
|--|----------------------|----------------------|
| Ordinary shares in issue as at 1 January 2016 | 270,393,982 99.8% | 270,393,982 99.8% |
| Repurchase of ordinary shares for Performance Share Plan | 588,170 | 588,170 |
| Shares issued for stock dividend | 815,771 | 815,771 |
| Ordinary shares in issue as at 31 December 2016 | 270,621,583 99.6% | 270,621,583 99.6% |

68 — Numbers of ordinary shares

(in € per share, unless otherwise indicated)

| | 2016 | 2015 | 2014 | 2013 | 2012 ¹ |
|--|-------------|-------------|-------------|-------------|-------------------|
| Number of ordinary shares ranking for dividend | 270,621,583 | 270,393,982 | 270,998,957 | 269,424,089 | 241,524,914 |
| Average number of ordinary shares | 270,503,004 | 270,956,691 | 270,394,899 | 245,951,992 | 238,193,212 |
| Net result ranking for dividend | 0.17 | 0.04 | (0.40) | 0.19 | (0.77) |
| Net result from continued operations | 0.17 | 0.04 | (0.40) | 0.15 | (1.04) |
| Average number of ordinary shares (<i>diluted</i>) | 283,642,546 | 270,956,691 | 270,394,899 | 245,951,992 | 238,193,212 |
| Number of ordinary shares ranking for dividend (<i>diluted</i>) | 294,547,317 | 270,393,982 | 270,998,957 | 269,424,089 | 241,524,914 |
| Net result (<i>diluted</i>) | 0.17 | 0.04 | (0.40) | 0.19 | (0.77) |
| Net result from continued operations (<i>diluted</i>) | 0.17 | 0.04 | (0.40) | 0.15 | (1.04) |
| Cash flow before dividend | 0.60 | 0.44 | 0.33 | 0.67 | 1.26 |
| Equity attributable to shareholders | 3.08 | 3.34 | 3.05 | 3.45 | 3.82 |
| Dividend | 0.09 | 0.02 | - | 0.05 | 0.10 |
| Payout (<i>in %</i>) | 50 | 50 | - | 30 | - |
| Dividend yield (<i>in %</i>) ² | 2.1 | 0.4 | - | 1.4 | 3.1 |
| Highest closing price | 5.02 | 5.16 | 4.50 | 4.73 | 3.97 |
| Lowest closing price | 2.97 | 2.22 | 1.65 | 2.99 | 1.94 |
| Price on 31 December | 4.39 | 5.13 | 2.58 | 3.78 | 3.23 |
| Average daily trade (<i>in number of shares</i>) | 1,717,000 | 3,117,000 | 2,742,000 | 1,439,200 | 1,198,900 |
| Market capitalisation at year-end (<i>x €1,000</i>) ³ | 1,193,267 | 1,387,121 | 698,093 | 1,019,321 | 779,401 |

¹ Comparative figures adjusted to IFRS 11 and IAS 19 (revised).

² Based on share price at year-end.

³ Based on total number of ordinary shares in issue.



Terminal 4 site, Dubai.
BAM International.

Movements in the number of outstanding shares

In 2016, the number of outstanding ordinary shares increased by 227,601, due to the issue of shares for stock dividend and the repurchase of shares for the long-term incentive plan. The movement in the number of outstanding shares in 2016 is shown in > table 67. The average number of ordinary shares in 2016 was 270,503,004 (2015: 270,956,691).

According to the AFM register of substantial shareholdings, four institutional investors have real interests of 3 per cent or more. Changes may have occurred, however, within the disclosure thresholds.

> Table 69 shows the interests of 3 per cent or more according to the AFM register of substantial shareholdings.

Dividend policy

Dividend policy and proposed dividend for 2016

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 9 euro cents per ordinary share for 2016 (2015: 2 cents). This equates to a pay-out ratio of 50 per cent (2015: also 50 per cent) in line with BAM's policy to pay out 30 to 50 per cent of the net result for the year. Subject to approval by the Annual General Meeting on 19 April 2017, this will be paid in cash with a scrip alternative on 17 May 2017.

Subordinated unsecured convertible bonds

In June 2016, BAM placed €125 million subordinated unsecured convertible bonds to repay 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.

Investor relations

BAM attaches great importance to the provision of transparent and identical information to all investors. BAM's investor relations policy is geared to informing investors about the Group's strategy, objectives, performance and prospects in good time, fully and in clear and unambiguous terms. Business results will not be adequately reflected in the value of the shares unless there is high-quality communication with investors.

BAM publishes the Group's results every quarter. The annual 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 English and can be followed live or on demand via BAM's website.

The company organises road shows and participates at investor conferences during the year to meet investors. All data and venues are published on the website.

For questions or more information concerning BAM, please visit the company's website at www.bam.com. Shareholders (or potential shareholders) and financial analysts can address any questions to the Investor Relations Manager of Royal BAM Group, Joost van Galen, e-mail ir@bam.nl, telephone +31 (0)30 659 87 07.

Headoffice INEOS,
Grangemouth, Scotland.
BAM Construct UK.



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69 — Interests of 3 per cent or more according to the register of substantial shareholdings kept by the Netherlands Authority for the Financial Markets (AFM)

| | Interest in per cent issued share capital | Date of last notification | Interest above 3 per cent since * |
|--------------------|--|------------------------------|--------------------------------------|
| A. van Herk | 9.5 | 20 August 2015 | October 2005 |
| NN Group N.V. | 5.5 | 26 May 2015 | February 1992 |
| I.M. Fares | 5.0 | 24 October 2014 | July 2013 |
| Danske Invest SICV | 4.3 | 29 June 2016 | January 2016 |

* According to the AFM Register of Substantial Holdings and Gross Short Positions.

9. Appendices

9.1 Sustainability reporting process and methods

This chapter provides specific information on the reporting process and reporting methods BAM 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 and public authorities.

Reporting criteria – GRI G4 'In accordance' – Comprehensive

This report has been compiled 'in accordance' with the Comprehensive Option of the G4 Guidelines of the Global Reporting Initiative (GRI). Chapter 9.2 includes an overview of the GRI G4 and CRESS economic, environmental and social performance indicators covered by this report. Certain indicators are reported qualitatively rather than quantitatively. Chapter 9.2 discloses the nature of reporting per G4 – Comprehensive Indicators e.g. quantitatively or qualitatively.

BAM is preparing to adopt the GRI standards and apply these criteria for its 2017 Integrated Report.

Reporting period and reporting frequency

This report presents both quantitative and qualitative data for the calendar year 2016. An exception is made for all CO₂ and waste data reported by BAM International which applies a reporting period of 1 December 2015 to 30 November 2016. 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 is reliable and adequate. BAM believes that the effects of a different reporting period by BAM International is not material to the Group's annual report. All other data is reported annually. There have been no significant changes from previous reporting periods in the Scope and Aspect 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 is 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, a reporting system for CO₂ emissions and waste was launched as an extension of the financial reporting system.

The reporting processes and definitions used are formalised in BAM's CSR reporting manual. The sustainability 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) to make it possible for readers to monitor and measure progress year-on-year, unless the reporting criteria require absolute figures to be disclosed.

Safety

BAM defined its incident frequency (IF) as the number of BAM employees involved in reportable incidents per million manhours worked on construction sites. Reportable incidents are based on actual occurrences and are never extrapolated or estimated. Reported hours are measured, calculated or estimated. 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 their direct supervision although 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.

Human Resources (HR)

HR data is obtained twice a year using a standardised questionnaire. HR data is 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 cause different insights.

Energy consumption and CO₂ emissions

Our 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 Resource 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 uses country specific emission factors for the calculation of the greenhouse gas emissions, or more accurate factors if available. BAM uses standardised conversion factors to calculate energy consumption. 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 is based mostly on meter readings, invoices and data provided by suppliers. Where reliable data is 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.

BAM calculates the energy consumption (in TJs) 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.

It occurs on its projects that BAM supplies fuel and/or electricity to subcontractors. BAM's CSR reporting instructions state 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, including for rented or leased machinery and possibly operating personnel. In practice, however, it is not always possible to unambiguously 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. Excavation waste and demolition waste are especially difficult to measure. 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.

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. 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 LEAB and STAB 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. LEAB is a product with new data and is compared to STAB, of which the most accurate data is five years old.

Water

Potable water consumption volume is based on final settlements paid in 2016.

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. Based on the country of residence of its suppliers, BAM determined the percentage of local sourcing.



Apartment building
Kraanbolwerk in Zwolle,
the Netherlands, with
28 apartments and an
underground carpark.
AM, BAM Bouw en Techniek
and BAM Wonen.

NO_x

BAM has reported the NO_x emissions from asphalt plants, using actual NO_x emission factor from fuel combustion. In 2014 the emission trade system for NO_x was terminated. Asphalt plants were obliged to report their NO_x emissions to the Dutch Emission Authority (NEa). An independent auditor determined the NO_x emissions per consumed unit of fuel. BAM continues to calculate the NO_x emission factors which were required in previous years. For joint arrangement asphalt plants BAM reports the NO_x emissions based on its share of equity in these asphalt plants.

Business conduct

Business conduct includes information regarding the Group's Business Principles and Code of Conduct, on which BAM reports qualitatively. In addition, this report contains quantitative information on a mandatory e-learning course to increase awareness and understanding of the Code of Conduct and expected ethical behaviour. The performance indicator concerned is the percentage of these employees that successfully completed the course between introduction in 2014 and 31 December 2016.

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 obtained reasonable assurance for all information with regard to the Safety section as included in chapter 4.2, IF. Additionally EY provided reasonable assurance over the 'Material themes' section in chapter 3.2 and the 'Business conduct and transparency' section in chapter 4.2. For all other information reported in chapters 2, 3.1, 3.2, 4.2, 4.3 and 9 BAM obtained limited assurance.

As BAM applies the 'best standard' principle with regard to external assurance, the Group 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 CSR. If you have any questions or remarks, please contact BAM's CSR department via e-mail (csr@bam.eu).

9.2 GRI Disclosures

| | | Page | Omissions |
|-------------------------------------|--|-------------------------|---|
| General Standard Disclosures | | | |
| G4-1 | Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability. | 5 | |
| G4-2 | Description of key impacts, risks and opportunities. | 28-34, 40-46 | |
| G4-3 | Name of the organisation. | 3 | |
| G4-4 | Primary brands, products and services. | 3, 17 | |
| G4-5 | Location of the organisation's headquarters. | 254 | |
| G4-6 | Number of countries where the organisation operates and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report. | 3, 17 | |
| G4-7 | Nature of ownership and legal form. | 129, 233-234 | |
| G4-8 | Markets served (including geographic breakdown, sectors served and types of clients and beneficiaries). | 3, 17 | |
| G4-9 | Scale of the organisation. | 2 | |
| G4-10 | A. Total number of employees by employment contract and gender. B. Total number of permanent employees by employment type and gender. C. Total workforce by employees and supervised workers and by gender. D. Total workforce by region and gender. E. Whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. F. Any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries). | 2, 3, 69 | F. Not applicable, as this does not directly relate to BAM's business operations. |
| G4-11 | Percentage of total employees covered by collective bargaining agreements. | 242 | |
| G4-12 | Description of supply chain. | 21 | |
| G4-13 | Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain. | 22, 59 | |
| G4-14 | Whether and how the precautionary approach or principle is addressed by the organisation. | 74, 76, 78, 79, 84, 240 | |
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses. | 250-251 | |
| G4-16 | Memberships of associations (such as industry associations) and national or international advocacy. | 250-251 | |
| G4-17 | A. All entities included in the organisation's consolidated financial statements or equivalent documents. B. Whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report. | 229 | |
| G4-18 | A. The process for defining the report content and the aspect boundaries. B. How the organisation has implemented the reporting principles for defining report content. | 25-26 | |
| G4-19 | All the material Aspects identified in the process for defining report content. | 27 | |

Explanatory notes

| | |
|-------|---|
| G4-10 | C. Supervised workers in 2016: 1487. Of these workers 233 were female and 1254 male. E. Work performed by workers who are legally recognised as self-employed mainly applies to the Netherlands. |
| G4-11 | 60 per cent |
| G4-14 | Please refer to G4-EC2, G4-EN18, G4-en23 and G4-EN26. |

| | | Page | Omissions |
|--------|--|--------------------------|-----------|
| G4- 20 | For each material Aspect, the Aspect Boundary within the organisation. | 25-35 | |
| G4- 21 | For each material Aspect, the Aspect Boundary outside the organisation. | 25-35 | |
| G4- 22 | The effect of any restatements of information provided in previous reports and the reasons for such restatements. | 127, 169, 212 | |
| G4- 23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries. | 239 | |
| G4- 24 | List of stakeholder groups engaged by the organisation. | 25 | |
| G4- 25 | Basis for identification and selection of stakeholders with whom to engage. | 25 | |
| G4- 26 | Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process. | 25-26 | |
| G4- 27 | Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting. The stakeholder groups that raised each of the key topics and concerns. | 25-26 | |
| G4- 28 | Reporting period (such as fiscal or calendar year) for information provided. | 239 | |
| G4- 29 | Date of most recent previous report. | 243 | |
| G4- 30 | Reporting cycle (such as annual, biennial). | 239 | |
| G4- 31 | Contact point for questions regarding the report or its contents. | 241 | |
| G4- 32 | A. 'in accordance' option the organisation has chosen. B. GRI content index for the chosen option (see tables below). C. Reference to the external assurance report, if the report has been externally assured. | 239, 242-249, 217-223 | |
| G4- 33 | A. Policy and current practice with regard to seeking external assurance for the report. B. If not included in the assurance report accompanying the sustainability report, the scope and basis of any external assurance provided. C. Relationship between the organisation and the assurance providers. D. Whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report. | 241, 98-99 | |
| G4- 34 | Governance structure of the organisation, including committees of the highest governance body; committees responsible for decision making on economic, environmental and social impacts. | 87-96, 98-101 | |
| G4- 35 | Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees. | 95, 96 | |
| G4- 36 | Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics and whether post holders report directly to the highest governance body. | 95, 96 | |
| G4- 37 | Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body. | 25, 26, 98, 99 | |

Explanatory notes

G4- 29 25 February 2016

| | | Page | Omissions |
|--------|---|-------------------------|-----------|
| G4- 38 | The composition of the highest governance body and its committees by: - Executive or non-executive - Independence - Tenure on the governance body - Number of each individual's other significant positions and commitments and the nature of the commitments - Gender - Membership of under-represented social groups - Competences relating to economic, environmental and social impacts - Stakeholder representation | 101-102 | |
| G4- 39 | Whether the Chair of the highest governance body is also an executive officer. | 244 | |
| G4- 40 | Nomination and selection processes for the highest governance body and its committees and the criteria used for nominating and selecting highest governance body members. | 87-90 | |
| G4- 41 | Processes for the highest governance body to ensure conflicts of interest are avoided and managed; Whether conflicts of interest are disclosed to stakeholders. | 102 | |
| G4- 42 | The highest governance body's and senior executives' roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to economic, environmental and social impacts. | 87-96 | |
| G4- 43 | Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics | 95,96 | |
| G4- 44 | A. Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not and its frequency. Report whether such evaluation is a self-assessment. B. Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice. | 95-96 | |
| G4- 45 | A. The highest governance body's role in the identification and management of economic, environmental and social impacts, risks and opportunities; The highest governance body's role in the implementation of due diligence processes. B. Whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks and opportunities. | 87-96, 38-39, 25, 95-96 | |
| G4- 46 | The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics. | 95,96 | |
| G4- 47 | Frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities. | 95-96 | |
| G4- 48 | Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered. | 95-96 | |

Explanatory notes

G4- 39 The Chair of the highest governance body is not an executive officer.

| | | Page | Omissions |
|--------|---|---------|-----------|
| G4- 49 | Process for communicating critical concerns to the highest governance body. | 95-96 | |
| G4- 50 | Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | | |
| G4- 51 | <p>A. Remuneration policies for the highest governance body and senior executives for the below types of remuneration:</p> <ul style="list-style-type: none"> - fixed pay and variable pay - Performance-based pay - Equity-based pay - Bonuses - Deferred or vested shares - Sign-on bonuses or recruitment incentive payments - Termination payments - Clawbacks - Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives and all other employees <p>B. How performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives.</p> | 104-109 | |
| G4- 52 | Process for determining remuneration; Whether remuneration consultants are involved in determining remuneration and whether they are independent of management; Any other relationships which the remuneration consultants have with the organisation. | 104-109 | |
| G4- 53 | How stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable. | 99 | |
| G4- 54 | Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country. | 70 | |
| G4- 55 | Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country. | 70 | |
| G4- 56 | Values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics. | 65, 37 | |
| G4- 57 | Internal and external mechanisms for seeking advice on ethical and lawful behaviour and matters related to organisational integrity, such as helplines or advice lines. | 65, 40 | |
| G4- 58 | Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines. | 40, 87 | |

Explanatory notes

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| G4 - 50 | There have been no significant critical concerns communicated to the highest governance body. |
| G4- 54 | BAM calculated the ratios with average annual total compensation instead of median annual total compensation because of incomplete data. |
| G4- 55 | BAM calculated the ratios with average annual total compensation instead of median annual total compensation because of incomplete data. |

| | | Page | Omissions |
|---|---|--------------------|--|
| Specific standard disclosures | | | |
| Disclosures on Management Approach | | | |
| EC | Economic performance | 29 | |
| EN | Materials | 29, 31 | |
| EN | Energy | 29 | |
| EN | Emissions | 29, 31 | |
| EN | Effluents and Waste | 29, 32 | |
| EN | Transport | 29, 32 | |
| EN | Supplier environmental assessment | 32 | |
| LA | Occupational Health and Safety | 28 | |
| LA | Training and Education | 29 | |
| LA | Diversity and Equal Opportunity | 28, 29 | |
| LA | Supplier Assessment for Labour Practices | 32, 33 | |
| HR | Supplier Human Rights Assessment | 32, 33 | |
| SO | Anti-corruption | 28, 29 | |
| SO | Anti-competitive Behaviour | 28, 29 | |
| SO | Compliance | 28, 29 | |
| PR | Compliance | 28, 29 | |
| G4- EC1 | Direct economic value generated and distributed. | 2, 55-58, 188 | |
| G4- EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | 74, 76, 84, 79, 82 | |
| G4- EC3 | Coverage of the organisation's defined benefit plan obligations. | 180-182, 177-179 | |
| G4- EC4 | Financial assistance received from government. | 204, 145 | |
| G4- EN1 | Materials used by weight or volume. | 81 | |
| G4- EN2 | Percentage of materials used that are recycled input materials. | 81 | |
| G4- EN3 | Energy consumption within the organisation. | 2, 239-240 | |
| G4- EN4 | Energy consumption outside of the organisation. | 75, 239-241 | |
| G4- EN5 | Energy intensity. | 74 | |
| G4- EN6 | Reduction of energy consumption. | 74 | |
| G4- EN7 | Reductions in energy requirements of products and services. | 83 | |
| G4- EN15 | Direct greenhouse gas (ghg) emissions (scope 1). | 74 | BAM only reports CO ₂ emissions, as other greenhouse gas emissions are considered not material. |
| G4- EN16 | Energy indirect greenhouse gas (ghg) emissions (scope 2). | 74 | BAM only reports CO ₂ emissions, as other greenhouse gas emissions are considered not material. |
| G4- EN17 | Other indirect greenhouse gas (ghg) emissions (scope 3). | 74 | BAM only reports CO ₂ emissions, as other greenhouse gas emissions are considered not material. |
| G4- EN18 | Greenhouse gas (ghg) emissions intensity. | 74 | BAM only reports CO ₂ emissions, as other greenhouse gas emissions are considered not material. |
| G4- EN19 | Reduction of greenhouse gas (ghg) emissions. | 74 | BAM only reports CO ₂ emissions, as other greenhouse gas emissions are considered not material. |

Explanatory notes

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| G4- EC4 | The most significant subsidies received by BAM (approximately €7 million) are part of funding from the European Commission for environmental initiative. |
|---------|--|

| | | Page | Omissions |
|----------|---|----------------|---|
| G4- EN20 | Emissions of ozone-depleting substances (ods). | 239-241 | This indicator is not applicable, as ozone depleting gasses and SO ₂ (sulphur dioxide) are not emitted in material amounts. |
| G4- EN21 | NO _x , SO _x and other significant air emissions. | 239-242 | Significant air emissions other than NO _x emissions are considered not material. |
| G4- EN22 | Total water discharge by quality and destination. | | Information outside the Netherlands is not yet available, therefore water discharges by quality and destination have been omitted for BAM's operations outside the Netherlands. BAM aims to expand its scope by reporting country by country in the next years. |
| G4- EN23 | Total weight of waste by type and disposal method. | 2, 240, 78, 79 | |
| G4- EN24 | Total number and volume of significant spills. | | |
| G4- EN25 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention annex i, ii, iii and viii and percentage of transported waste shipped internationally. | | Information been omitted, as this indicator does not directly relate to BAM's business operations. |
| G4- EN26 | Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff. | | Information been omitted. BAM works according to national environmental legislation. This information is therefore not significant. |
| G4- EN30 | Significant environmental impacts of transporting products and other goods and materials for the organisation's operations and transporting members of the workforce. | | |
| G4- EN32 | Percentage of new suppliers that were screened using environmental criteria. | | Information has been omitted. BAM aims to seek long term, mutually preferred relationships with partners who can help BAM improve its supply chain in the coming years. |
| G4- EN33 | Significant actual and potential negative environmental impacts in the supply chain and actions taken. | | Information has been omitted. BAM aims to seek long term, mutually preferred relationships with partners who can help BAM improve its supply chain in the coming years. |
| G4- LA5 | Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advise on occupational health and safety programmes. | | |
| G4- LA6 | Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities, by region and by gender. | 64-65 | Due to the nature of BAM's business and composition of its workforce, BAM does not monitor information by gender, as this is less relevant for BAM's management processes |
| G4- LA7 | Workers with high incidence or high risk of diseases related to their occupation. | 60 | |
| G4- LA8 | Health and safety topics covered in formal agreements with trade unions. | | |
| G4- LA9 | Average hours of training per year per employee by gender and by employee category. | 70 | |

Explanatory notes

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|----------|--|
| G4- EN21 | 32 tonnes NO _x |
| G4- EN24 | No spills are included in BAM's financial statements (such as due to resulting liabilities) or recorded as a spill by BAM. |
| G4- LA8 | Laid down in Collective Labour Agreements. |
| G4- LA5 | 87 per cent of total workforce is represented in health and safety committees. |

| | | Page | Omissions |
|----------|--|------|--|
| G4- LA10 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | 29 | |
| G4- LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category. | | |
| G4- LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity. | | |
| G4- LA14 | Percentage of new suppliers that were screened using labour practices criteria. | | Information has been omitted. BAM aims to seek long term, mutually preferred relationships with partners who can help BAM improve its supply chain in the coming years. |
| G4- LA15 | Significant actual and potential negative impacts for labour practices in the supply chain and actions taken. | | Information has been omitted. BAM aims to seek long term, mutually preferred relationships with partners who can help BAM improve its supply chain in the coming years. |
| G4- HR10 | Percentage of new suppliers that were screened using human right criteria | | Information has been omitted. BAM complies with local legislation in the countries where it operates. In countries with poor human rights record, BAM internally and externally audits labour practices of its suppliers and subcontractors. |
| G4- HR11 | Significant actual and potential negative human rights impacts in the supply chain and actions taken | | Information has been omitted. BAM complies with local legislation in the countries where it operates. In countries with poor human rights record, BAM internally and externally audits labour practices of its suppliers and subcontractors. |
| G4- SO1 | Percentage of operations with implemented local community engagement, impact assessments and development programmes. | 71 | |
| G4- SO2 | Operations with significant actual and potential negative impacts on local communities. | 21 | |
| G4- SO3 | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified. | 40 | |
| G4- SO4 | Communication and training on anti-corruption policies and procedures. | 65 | |
| G4- SO5 | Confirmed incidents of corruption and actions taken. | 65 | |
| G4- SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes. | 65 | |
| G4- SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | 66 | |

Explanatory notes









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|----------|--|
| G4-LA11 | Employees receiving regular performance and career development reviews: 81 per cent (female); 82 per cent (male) |
| G4- LA12 | The composition of BAM governance bodies is based on the same principles for equal opportunity as all team compositions within BAM and complies with BAM's Business Principle on employee equality and diversity. |
| G4- HR10 | In its General Purchase and Subcontract Conditions BAM warrants its suppliers to respect the Guiding Principles on Business and Human Rights of the United Nations and to monitor compliance in the chain of its own suppliers and contractors |
| G4 - SO3 | All operations are sensitive to corruption risk due to the nature of contracting business. |
| G4- SO8 | BAM defines 'significant' as 'of more than €5 million (passive), of more than €1 million (active) or with potential reputational damage'. |

| | | Page | Omissions |
|---|--|------|-----------|
| G4- PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | 66 | |
| Specific Standard Disclosures for Sector | | | |
| CRE1 | Building energy intensity. | 76 | |
| CRE3 | Greenhouse gas emissions intensity from buildings. | 76 | |
| CRE4 | Greenhouse gas emissions intensity from new construction and redevelopment activity. | 76 | |
| CRE5 | Land remediated and in need of remediation for the existing or intended land use, according to applicable legal designations. | | |
| CRE6 | Percentage of the organisation operating in verified compliance with an internationally recognised health and safety management system. | | |
| CRE7 | Number of persons voluntarily and involuntarily displaced and/or resettled by development, broken down by project. | | |
| CRE8 | Type and number of sustainability certification, rating and labeling schemes for new construction, management, occupation and redevelopment. | 77 | |

Explanatory notes

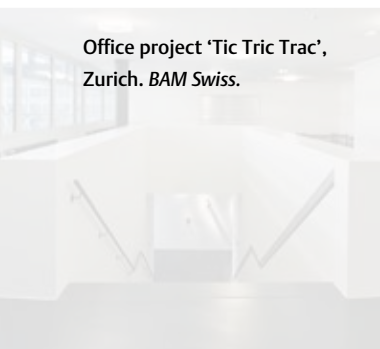
| | |
|---------|--|
| G4- PR9 | There are no material fines for non-compliance with laws and regulations concerning the provision and use of products and services. The operating companies have not reported any non-compliance with laws or regulations to BAM's headoffice. BAM defines 'significant' as 'of more than €5 million (passive), of more than €1 million (active) or with potential reputational damage'. |
| CRE3 | Only in the Netherlands. |
| CRE5 | BAM has no known locations which are in need of remediation due to BAM's activities, or its land that has been remediated or needs to be remediated. |
| CRE6 | A total of 96 percent of BAM was operating in verified compliance with OHSAS 18001 in 2016. |
| CRE7 | BAM is not aware of any operations that have led to voluntarily or involuntarily displacements. |

9.3 Charters, memberships and certifications

|  | Name | Operating company |
|---|--|---|
|  | Global | |
| | BWI (Building and Wood Workers' International) | Royal BAM Group |
| | CDP: A List, CDLI | Royal BAM Group |
| | CE100 (Ellen MacArthur Foundation) | Royal BAM Group |
| | CEMARS: ISO 14064 | BAM Construct UK, BAM Nuttall |
| | ISO 14001 | BAM Contractors nv, BAM Contractors Ltd, BAM Construct UK, BAM Infra Nederland, Galère, BAM International, BAM Nuttall, BAM Bouw en Techniek, Interbuild, Wayss & Freytag Ingenieurbau |
| | ISO 26000 | Royal BAM Group |
| | ISO 9001 | BAM Infra Nederland, BAM Construct UK, BAM Contractors Ltd, BAM Deutschland, BAM International, BAM Materieel, BAM Nuttall, BAM Bouw en Techniek, BAM Wonen, BAM Contractors nv, Galère, Interbuild, Wayss & Freytag Ingenieurbau, Pennings |
| | OHSAS 18001 | BAM Construct UK, BAM Contractors, BAM Deutschland, BAM Infra Nederland, BAM International, BAM Nuttall, BAM Bouw en Techniek, BAM Wonen, BAM Contractors nv, Galère, Interbuild, Wayss & Freytag Ingenieurbau |
|  | Europe | |
| | E2BA (Energy Efficient Buildings Association) | Royal BAM Group |
|  | STTC (European Sustainable Tropical Timber Coalition) | Royal BAM Group |
| | Belgium | |
|  | Recy Liège (Recycle Construction Waste Center - Liège) | Galère |
| | Sideco (Industrial society for construction waste) | Galère |
| | WTCB (BBRI, Belgian Builders, Research Institute) | BAM Contractors nv |
|  | Germany | |
| | Central Federation Building Industry | BAM PPP |
|  | Hauptverband der Deutschen Bauindustrie e.V. | Wayss & Freytag Ingenieurbau |
| | Ireland | |
| | American Chamber of Commerce | BAM Contractors |
| | Business in the Community (BITC) | BAM Contractors |
| | Chambers Ireland | BAM Contractors |
| | Constructing Industry Federation Ireland (CIRI) | BAM Contractors |
| | Construction Employers Federation (CEF) | BAM Contractors |
| | Construction Industry Federation (CIF) | BAM Contractors |
| | Construction ITA Alliance (CITA) | BAM Contractors |
| | Engineers Ireland | BAM Contractors |
|  | Society of Chartered Surveyors Ireland (SCSI) | BAM Contractors |
| | Netherlands | |
| | Amsterdam Economic Board | AM |
| | Bewuste Bouwers | Royal BAM Group |
| | Bouwen met Staal | BAM Infraconsult |
| | Bouwend Nederland | BAM Infra Nederland, BAM Bouw en Techniek, BAM Wonen |
| | CO ₂ Prestatieladder | BAM Bouw en vastgoed |
| | Initiatiefgroep Ketenintegratie | BAM Bouw en Techniek |
| | Dutch Green Building Council | Royal BAM Group |
| | Duurzaam Gebouwd | BAM Bouw en Techniek |

| Name | Operating company |
|---|---|
| Energy Valley | BAM Infra Nederland, BAM Bouw en Techniek |
| Expertgroep ABC Meldpunt (Aanpak Bouwincidenten Constructieve Veiligheid) | BAM Bouw en Techniek |
| FSC | BAM Bouw en Vastgoed |
| MVO Nederland | Royal BAM Group |
| MVO Prestatieladder: Niveau 3 | BAM Bouw en Techniek |
| Nabu (Netherlands Association of International Contractors) | Royal BAM Group |
| Nederlandse Klimaat Coalitie | Royal BAM Group |
| Neprom | AM, BAM Bouw en Techniek |
| NVDO | BAM Bouw en Techniek |
| Platform Constructieve Veiligheid | BAM Bouw en Techniek |
| Platform Gezond Binnen | BAM Bouw en Techniek |
| Coöperatie GEN (Gebieden Energie Neutraal) | Royal BAM Group |
| SKAO | BAM Infra Nederland |
| Stichting Beoordeling Integriteit Bouwnijverheid | Royal BAM Group |
| Stichting Klantgericht Bouwen | BAM Wonen, Pennings |
| Stichting Sportive4Kids | AM |
| STUTECH | BAM Infraconsult |
| SWK | BAM Bouw en Techniek, BAM Wonen, AM, Pennings |
| VCA | BAM Bouw en Techniek, Pennings, BAM Infra Nederland |
| Veilig en Duurzaam op weg | Royal BAM Group |
| Vernieuwing Bouw | Royal BAM Group |
| VNO-NCW | Royal BAM Group |
|  United Kingdom | |
| BRE (Building Research Establishment) | BAM Construct UK, BAM Nuttall |
| BS11000 | BAM Nuttall |
| CBI | BAM Nuttall |
| CECA (Chartered Institution of Civil Engineering Surveyors) | BAM Nuttall |
| Chartered Institute of Water and Environmental Management (CIWEM) | BAM Nuttall |
| CIWM (Chartered Institution of Waste Management) | BAM Nuttall |
| Considerate Constructors Scheme | BAM Construct UK, BAM Nuttall |
| Constructing Better Health | BAM Nuttall |
| Construction Health and Safety Group (CHSG) | BAM Nuttall |
| Green Construction Board | BAM Construct UK |
| ICE (Institute of Civil Engineers) | BAM PPP, BAM Nuttall |
| RoSPA (The Royal Society for the Prevention of Accidents) | BAM Nuttall |
| Investors in People: Gold | BAM Nuttall |
| RoSPA (The Royal Society for the Prevention of Accidents) | BAM Nuttall |
| Supply Chain Sustainability School | BAM Construct UK, BAM Nuttall |
| UK Green Building Council (UK-GBC) | BAM Construct UK, BAM Nuttall |
| Women in Science Technology and Engineering (WISE) | BAM Nuttall |

Check the website www.bam.com for the full list of charters, memberships and certifications.



Office project 'Tic Tric Trac',
Zurich. BAM Swiss.



Key financial dates

| | |
|------------------|---|
| 19 April 2017 | Annual General Meeting of Shareholders |
| 11 May 2017 | Interim management statement under Article 5:25e of the Dutch Financial Supervision Act |
| 24 August 2017 | Publication of half-year results 2017 |
| 9 November 2017 | Interim management statement under Article 5:25e of the Dutch Financial Supervision Act |
| | |
| 22 February 2018 | Publication of annual results 2017 |
| 18 April 2018 | Annual General Meeting of Shareholders |
| 3 May 2018 | Interim management statement under Article 5:25e of the Dutch Financial Supervision Act |
| 23 August 2018 | Publication of half-year results 2018 |
| 8 November 2018 | Interim management statement under Article 5:25e of the Dutch Financial Supervision Act |

Colophon

Layout:

Boulogne Jonkers Vormgeving, Zoetermeer, the Netherlands.

Printing:

Veenman+, Rotterdam, the Netherlands.

Illustrations:

Rick Akkerman, Petra Appelhof, Barrow Coakley Photography, Guido Benschop, Achim Birnbaum, Eva Bloem – atelier PRO, Michael Boulogne, Dries van den Brande, CGI by STW Architects (Scott Tallon Walker), Courtesy Trevor Palin, De Beeldredactie, Jean-Luc Deru – Daylight sprl, Marc Detiffe, Tom D'haenens, F22 Photography, Gispén, Marcel van Kerckhoven, Mecanoo architecten, David Nortn Photographer, Wolfgang Reiher, Sanoma, Philippe Sanyn and Partners, Andreas Secci, Filip Schepens, Gerrit Serne, Raoul Suemondt, Studio Valle Progettazioni – Buro Happold, Walter Saenen, Sasja van Vechgel, Ben Vulkers, Neil Warner Photography, Patrick Zier.

Printed on FSC®-certified paper, Tom&Otto Silk from Antalis.

27.02.2017



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ISO 26000



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Trade register number 30058019.



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