Royal BAM Group nv

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BAM reports 1H17 adjusted result of €52.7 million and reconfirms full year outlook

- Margin improved to 1.7% on lower revenue
- Construction & Property: strong margin improvement due to prior restructuring and market conditions
- Civil engineering: better margin in Q2 after slow start to the year
- PPP: strong result from portfolio; healthy tender pipeline
- Order book: upward trend and continued tender discipline
- Cash flow: normal seasonality; trade working capital efficiency -10.6%

(in € million)	**1st half-year 2017**	1st half-year 2016	Full year 2016
Revenue	**3,145**	3,404	6,976
Adjusted result before tax*	**52.7**	40.6	102.7
Margin adjusted result before tax*	**1.7%**	1.2%	1.5%
Restructuring	**-**	-10.6	-33.5
Impairments	**-0.1**	-0.3	-50.7
Pension one-off	**-**	15.3	41.6
Net result	**40.0**	32.9	46.8
Return on average capital employed	**3.3%**	2.5%	2.8%
Order book (end of period)	**10,400**	10,600	10,200

* Before restructuring, impairments and pension one-off.

Rob van Wingerden, CEO of Royal BAM Group:

'For the first half of 2017, we delivered an adjusted pre-tax margin of 1.7%, moving towards our strategic target. Most operating companies are at or above 2% margin, reflecting the progress on our strategic agenda. The result is held back by Dutch and Belgian civil engineering and the anticipated under recovery of overheads at German construction. We continued to invest in market opportunities and innovation; for example, we are installing our first patented Gravity Based Foundations for the offshore wind power sector. Our safety and sustainability performance improved. The financial position is solid and our invested capital is trending down, supporting the improvement in return on capital employed.

The market for Dutch residential construction and property continues to improve and there are early signs of recovery in non-residential construction. In the UK, our performance and short term outlook remain solid and we are closely monitoring market developments. At BAM International, we continue to pursue attractive onshore opportunities. We have consistently maintained our tender discipline throughout BAM and our order book is starting to grow.

We reconfirm our outlook for the full year. 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.'

Market conditions

- Netherlands residential construction and property: growing demand, new build residential volumes still lagging due to constrained capacity for zoning and permitting at local governments.
- Netherlands non-residential construction and property: early signs of recovery.
- Netherlands civil engineering: remains competitive for regional and larger multidisciplinary projects.
- UK: economy showing signs of slowing down. So far, Brexit has had limited impact on construction and civil engineering markets.
- Germany: construction and civil engineering markets stable. The longer-term outlook for public infrastructure, including PPP, remains promising.
- Belgium: civil engineering is stable, with long lead times and delays for public infrastructure. Construction and property markets are stable.
- Ireland: continued positive momentum; construction activities recovering faster than civil engineering.
- International: continuing weak demand oil and gas market; opportunities in selected onshore markets.

Foreign exchange translation effects

The average exchange rate of pound sterling versus euro changed from 0.7758 in the first half of 2016 to 0.8607 in 2017. The closing rate as at 30 June 2017 was 0.8765 (31 December 2016: 0.8594). BAM's reported figures for the first half of 2017 included the following foreign exchange effects:

	Impact FX
Revenue	-€102 million
Adjusted result before tax	-€3 million
Order book 30 June 2017	-€82 million
Cash position 30 June 2017	-€2 million

Order book development

(x € million)	**30 June 2017**	31 December 2016
Construction and Property	**6,276**	6,264
Civil engineering	**4,246**	3,950
PPP	**292**	342
Eliminations and miscellaneous	**-414**	-356
Total	**10,400**	10,200

On a constant currency basis, the order book increased by €0.3 billion (before negative FX €82 million). Construction and Property was slightly higher mainly driven by residential in the Netherlands. The order book at Civil engineering increased in the UK which was partly offset by Germany and BAM International. At PPP, the development of the order book reflects the progress on the construction of PPP projects. In the first half of 2017, the average margin on the new order intake was well within the strategic target margin of 2% to 4%.

Analysis by sector

(x € million)	**1st half-year 2017**		1st half-year 2016*	
Results and revenue	**Revenue**	**Result**	Revenue	Result
Construction and Property	**1,820**	**32.9**	2,047	-4.5
Civil engineering	**1,372**	**12.4**	1,360	34.7
PPP	**67**	**8.4**	116	6.8
Eliminations and miscellaneous	**-114**	**-0.1**	-119	-
Total	**3,145**	**53.6**	3,404	37.0
Group overhead		**-1.0**		5.3
Group interest charge		**0.1**		-1.7
Adjusted result before tax		**52.7**		40.6
Restructuring		**-**		-10.6
Impairments		**-0.1**		-0.3
Pension one-off		**-**		15.3
Result before tax		**52.6**		45.0

* Restated for new sectors.

Analysis by geography

(x € million)	**1st half-year 2017**		1st half-year 2016*	
Results and revenue	**Revenue**	**Result**	Revenue	Result
The Netherlands	**1,184**	**5.6**	1,227	9.7
United Kingdom	**926**	**22.2**	1,057	18.2
Belgium	**316**	**6.4**	363	-0.5
Ireland	**233**	**8.4**	168	7.4
Germany	**398**	**-0.5**	393	-7.5
PPP	**67**	**8.4**	116	6.8
International	**113**	**3.1**	177	2.9
Eliminations and miscellaneous	**-92**	**-**	-97	-
Total	**3,145**	**53.6**	3,404	37.0
Group overhead		**-1.0**		5.3
Group interest charge		**0.1**		-1.7
Adjusted result before tax		**52.7**		40.6

First half year 2017 results

Revenue of €3,145 million reduced by €259 million (8%) compared to the first half of 2016, of which €102 million was attributable to the weaker pound sterling. Construction and Property and PPP had lower revenues, Civil engineering was slightly up.

Despite the lower revenue, the adjusted result before tax for the first half of 2017 rose to €52.7 million, giving a margin of 1.7% (first half of 2016: 1.2%). This was driven by Construction and Property where most activities reported improved results. The margin in Civil engineering was held back mainly by the lower first quarter results. Group overhead in the first half of last year included the release of a dividend provision of €9.7 million related to the divestment of BAM's 21.5% stake in Van Oord in 2011.

Total restructuring costs for the first half of 2017 were nil (first half of 2016: €10.6 million).

The pension one-off benefit in the first half of 2016 was due to a change in indexation arrangements in BAM's UK pension scheme.

Sector review

At Construction and Property, revenue of €1,820 million was €227 million lower (including negative FX €60 million) compared to the first half of 2016. Revenue in Ireland was up significantly due to progress at larger projects. The total sector result for the first half of 2017 was €32.9 million which equates to a margin of 1.8%. The contribution from property was about €8.3 million (first half of 2016: €18.2 million) and mostly coming from Dutch residential. As expected, Germany had a small negative result due to under recovery of overheads as activities are being refocused, which will be offset in the second half of the year. Dutch house sales were up by 5% to 1,150. Despite growing demand for new build houses, development opportunities are still limited by reduced planning and zoning capacity at municipalities.
The order book was stable at €6.3 billion including €38 million negative FX. The slightly lower order book in Ireland, Germany and at BAM International was mainly offset by higher order intake in Dutch residential construction.
The gross investment in property positions reduced by €29 million to €601 million as at 30 June 2017 due to the sales at slightly above book value of two Dutch properties (€55 million). This was partly offset by the consolidation of positions due to the buyout of joint venture partners. The property portfolio was financed by €77 million recourse property loans (year-end 2016: €69 million) and €81 million non-recourse property loans (year-end 2016: €86 million).

In Civil engineering, revenue grew by 4% on a constant currency basis (negative FX impact €41 million). The growth was attributable to all operating companies except BAM International. The sector result for the first half was below the first half of 2016. This mainly reflected losses on some projects in the Netherlands due to design related issues which now have been resolved, the challenging market circumstances in Belgium and the absence of a strong contribution from Germany as in 2016. All countries were profitable in the second quarter, with a strong contribution from the UK including some final account settlements. The order book rose by nearly €0.3 billion to €4.2 billion. The increase was driven by the UK despite a negative FX impact of €42 million.

PPP delivered a strong result of €8.4 million from the project portfolio. There were no divestments to the PGGM joint venture (half year 2016: two). The order book reduced due to progress on projects under construction. The pipeline of active bids remains healthy with decisions expected in 2018 and beyond.

Cash flow[1]

(x € million)	1st half-year 2017	1st half-year 2016	Full year 2016
Group: net cash result[2]	**59**	39	90
Investments (in)tangible assets	**-47**	-21	-55
Trade working capital[3]	**-122**	1	116
Net Investment			
Property	**76**	11	-1
PPP	**3**	4	7
Other changes in working capital	**-65**	-16	27
Business cash flow	**-96**	18	184
Dividend	**-7**	-2	-2
Restructuring	**-18**	-17	-33
Pensions (additional)	**-7**	-6	-12
Other	**-8**	-26	-35
Increase/decrease in cash position	**-136**	-33	102

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

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

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

Compared to the very strong business cash flow in the first half of 2016, the business cash flow in 2017 showed a more normal seasonal pattern with a cash out in the first half of the year.

The investments in (in)tangible assets in the first half of 2017 were above the level of 2016 mainly due to extra investments in market opportunities and innovation. BAM invested in the patented development of Gravity Based Foundations for offshore wind power and capitalised €9.2 million. BAM is installing its first project and is confident this will be an attractive growth market in the coming years. Other investments included strategic equipment and an experience centre for consumers to buy BAM homes.

The cash flow from trade working capital was in line with the seasonal pattern after a very strong inflow in the first half of 2016. Trade working capital efficiency (defined as average four quarter-end trade working capital as a percentage of rolling four quarters revenue) improved to -10.6 % at 30 June 2017 (31 December 2016: -10.0%; 30 June 2016: -9.1%).

The property cash flow was mainly driven by the transfer (as announced in November 2016) of the property positions in the north east of the Netherlands and the sale of the Stadium Complex Zwolle.

At PPP, the cash flow for the first half of 2017 was stable. The redemption of the non-recourse bridge facility (€55 million) in the first quarter has been offset by the payment by the client in the second quarter.

Other changes in working capital in the first half of 2017 were driven by changes in accruals, whereas in the same period in 2016 there was a favourable effect from the cash flow in relation to joint arrangements. As usual, the cash flow in the second half of the year will be positive.

Other included the effect of the weaker pound sterling and the purchase of treasury shares.

Financial position

(x € million)	**30 June 2017**	31 December 2016	30 June 2016
Cash position	**603**	739	604
Interest-bearing debt	**613**	612	579
Net (debt) / cash	**-10**	127	25
Recourse net cash	**349**	495	355
Shareholders' equity	**861**	834	841
Capital base	**975**	947	953
Balance sheet total	**4,577**	4,812	4,677
Capital ratio	**21.3%**	19.7%	20.4%
Capital employed	**1,727**	1,728	1,796
Return on rolling capital employed	**3.3%**	2.8%	2.5%

The recourse net cash position at 30 June 2017 was in line with the very strong cash position of a year ago. So far, the cash position in 2017 developed along a normal seasonality.

The capital ratio as at 30 June 2017 improved to 21.3% (30 June 2016: 20.4%) due to the increased shareholders' equity and the lower balance sheet total. The translation effect of the lower pound sterling and actuarial losses on pensions was more than offset by the net profit for the first half of 2017.

The Group was well within the limits of all its banking covenants as at 30 June 2017; the recourse leverage ratio was -2.64 (≤ 2.75), the recourse interest coverage ratio 10.6 (≥ 4.0) and the recourse solvency ratio 31% (≥ 15%).

Outlook

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.

Risks and uncertainties

As indicated in the annual report for the 2016 financial year, there is a Group-wide focus on risk management in the primary process, prompted by increasing complexity and growing competition. The Group's risk management system does not imply avoidance of all risks. Instead it aims at identifying opportunities and threats and managing them. Better, more effective risk management will enable BAM to undertake larger commitments in a well-controlled environment. The risks that can have a material impact on the Group's results and its financial position are described in detail in the annual report for the 2016 financial year. Other risks that are either not currently known or currently considered non-material could prove to have an effect (material or otherwise) in due course on the markets, objectives, revenue, results, assets, liquidity or funding of the Group.

Declaration in accordance with the Dutch Financial Supervision Act

In accordance with their statutory obligations under Article 5:25d(2)(c) of the Dutch Financial Supervision Act, the members of the Executive Board declare that, in so far as they are aware:

- the half-yearly financial report provides a true and fair reflection of the assets and liabilities, the financial position and the result generated by the Company and by companies included in the consolidated accounts; and
- the half-yearly report by the Executive Board provides a true and fair overview of the information required pursuant to Article 5:25d(8) and (9) of the Dutch Financial Supervision Act.

Bunnik, the Netherlands, 23 August 2017

Executive Board, Royal BAM Group nv:
Rob van Wingerden, CEO
Thessa Menssen, CFO
Erik Bax, COO

Live audio webcast

The Executive Board of Royal BAM Group will present the results of the first half of 2017 on 24 August 2017 during an (English) analyst meeting from 10.15 a.m. to 11.30 a.m. The meeting can be followed via live video webcast (www.bam.com).

Further information

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Annexes half-yearly financial report

1. Interim condensed consolidated income statement

(x € million)

	1st half-year 2017	1st half-year 2016	Full year 2016
Continuing operations			
Revenue	**3,145.1**	3,404.2	6,976.1
Operating result before depreciation, amortisation and impairment charges and restructuring costs	**71.0**	70.7	181.5
Depreciation and amortisation charges	**-28.0**	-31.9	-64.4
Impairment charges	**-0.1**	-0.3	-50.7
Restructuring costs	**-**	-10.5	-33.5
Operating result	**42.9**	28.0	32.9
Finance income	**15.5**	16.6	31.8
Finance expense	**-11.2**	-13.0	-24.5
Total finance income and –expense	**4.3**	3.6	7.3
Result from associates and joint ventures	**5.4**	13.4	19.9
Impairments in associates and joint ventures	**-**	-	-
Result before tax	**52.6**	45.0	60.1
Income tax	**-12.6**	-12.0	-10.9
Result from continuing operations	**40.0**	33.0	49.2
Discontinued operations			
Result from discontinued operations	**-**	-	-
Net result for the period	**40.0**	33.0	49.2
Attributable to:			
Non-controlling interests	**0.1**	0.1	2.4
Net result attributable to shareholders of the Company	**39.9**	32.9	46.8
	40.0	33.0	49.2
Net result attributable to shareholders of the company	**0.15**	0.12	0.17
Net result attributable to shareholders of the company (diluted)	**0.14**	0.12	0.17

2. Interim condensed consolidated statement of comprehensive income

(x € million)

	1st half-year 2017	1st half-year 2016	Full year 2016
Net result for the period	**40.0**	33.0	49.2
Items that will be reclassified to profit or loss, net of tax			
Cash flow hedges	**17.3**	-26.5	-0.1
Exchange rate differences	**-10.8**	-56.0	-65.9
Items that will not be reclassified to profit or loss, net of tax			
Actuarial gains and losses pensions	**-9.9**	-15.0	-53.2
Other comprehensive income	**-3.4**	-97.5	-119.2
Total comprehensive income	**36.6**	-64.5	-70.0
Attributable to:			
Non-controlling interests	**0.1**	-0.1	2.1
Shareholders of the Company	**36.5**	-64.4	-72.1
	36.6	-64.5	-70.0

Other comprehensive income in the first half year 2017 was positively influenced by movements in cash flow hedges.

3. Interim consolidated statement of financial position

(x € million)

	30 June 2017	31 December 2016	30 June 2016
Property, plant and equipment	**279.4**	270.2	279.5
Intangible assets	**397.1**	390.0	393.7
PPP receivables	**344.1**	296.4	236.3
Investments	**92.4**	85.9	96.1
Other financial assets	**81.7**	92.0	91.3
Derivative financial instruments	**0.2**	-	-
Employee benefits	**45.6**	62.8	105.6
Deferred tax assets	**244.6**	248.8	252.2
Non-current assets	**1,485.1**	1,446.1	1,454.7
Inventories	**618.9**	645.4	715.7
Trade and other receivables	**1,853.6**	1,934.6	1,871.6
Income tax receivable	**4.6**	6.2	4.1
Derivative financial instruments	**3.1**	1.0	1.8
Cash and cash equivalents	**603.0**	738.6	603.7
Current assets	**3,083.2**	3,325.8	3,196.9
Assets held for sale	**8.5**	40.2	25.1
Total assets	**4,576.8**	4,812.1	4,676.7
Share capital	**839.3**	839.3	839.3
Reserves	**-154.6**	-170.2	-186.7
Retained earnings	**176.6**	165.2	188.9
Equity attributable to the shareholders of the Company	**861.3**	834.3	841.5
Non-controlling interests	**5.2**	5.1	3.3
Total equity	**866.5**	839.4	844.8
Borrowings	**521.7**	463.5	479.5
Derivative financial instruments	**15.4**	20.3	36.6
Employee benefits	**131.5**	144.7	184.9
Provisions	**76.0**	86.1	116.7
Deferred tax liabilities	**24.3**	26.3	34.2
Non-current liabilities	**768.9**	740.9	851.9
Borrowings	**91.2**	148.1	99.7
Trade and other payables	**2,792.7**	3,004.4	2,772.6
Derivative financial instruments	**0.6**	4.4	19.2
Provisions	**39.1**	55.8	42.9
Income tax payable	**17.8**	14.8	21.1
Current liabilities	**2,941.4**	3,227.5	2,955.5
Liabilities held for sale	**-**	4.3	24.5
Total equity and liabilities	**4,576.8**	4,812.1	4,676.7
Capital base	**975.0**	946.7	952.7

Due to a change in accounting policy as per 31 December 2016, the remeasurement of the 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.

4. Interim condensed consolidated statement of changes in equity

(x € million)

	1st half-year 2017	1st half-year 2016	Full year 2016
As at 1 January	**839.4**	905.8	905.8
Net result for the period	**40.0**	33.0	49.2
Fair value cash flow hedges	**17.3**	-26.5	-0.1
Actuarial gains and losses pensions	**-9.9**	-15.0	-53.2
Exchange rate differences	**-10.8**	-56.0	-65.9
Other comprehensive income	**-3.4**	-97.5	-119.2
Total comprehensive income	**36.6**	-64.5	-70.0
Dividends paid	**-7.5**	-2.0	-2.5
Other changes	**-2.0**	5.5	6.1
Total change	**27.2**	-61.0	-66.4
Position as at period-end	**866.5**	844.8	839.4

Other comprehensive income in the first half year 2017 was positively influenced by movements in cash flow hedges. For the capitalization of development cost a legal reserve of € 9.2 million has been formed.

5. Interim condensed consolidated statement of cash flows
(x € million)

	1st half-year 2017	1st half-year 2016	Full year 2016
Net result for the period	**40.0**	33.0	49.2
Adjustments for:			
- Income tax	**12.6**	12.0	10.9
- Depreciation and amortisation charges	**28.0**	31.9	64.4
- Impairment charges	**0.1**	0.3	50.7
- Result on sale of subsidiaries	**-**	-0.3	-0.3
- Result on sale of PPP projects	**-**	-1.9	-4.4
- Result on sale of property, plant and equipment	**-0.9**	-2.3	-6.3
- Share based payments	**0.5**	0.5	0.6
- Share of result of investments	**-5.4**	-13.4	-19.8
- Finance income and expense	**-4.3**	-3.6	-7.3
- Interest received	**5.1**	6.0	10.9
- Dividends received from investments	**9.6**	5.1	13.0
Changes in provisions	**-28.6**	-19.7	-62.5
Changes in working capital (excluding cash and cash equivalents)	**-98.8**	24.6	176.4
Cash flow from operations	**-42.1**	72.2	275.5
Interest paid	**-14.6**	-23.9	-38.4
Income tax received / (paid)	**-5.0**	-7.1	-14.5
Net cash flow from ordinary operations	**-61.7**	41.2	222.6
Investments in PPP receivables	**-66.8**	-108.5	-189.8
Repayments of PPP receivables	**81.7**	15.9	35.1
Net cash flow from operating activities	**-46.8**	-51.4	67.9
Investments in non-current assets	**-73.0**	-38.6	-94.6
Disposals and repayments of non-current assets	**14.7**	17.6	31.2
Sale of subsidiaries	**-**	4.2	-2.3
Sale of PPP projects	**-**	11.7	16.6
Other investment activities	**-**	-	-0.9
Net cash flow from investing activities	**-58.3**	-5.1	-50.0
Proceeds from borrowings	**121.5**	247.0	312.2
Repayments of borrowings	**-139.7**	-184.4	-190.0
Dividends paid (including non-controlling interests)	**-7.5**	-2.0	-2.5
Repurchase of shares with respect to performance share plan	**-2.7**	-2.5	-2.5
Net cash flow from financing activities	**-28.4**	58.1	117.2
Change in net cash and cash equivalents	**-133.5**	1.6	135.1
Cash and cash equivalents at beginning of the year	**738.6**	637.2	637.2
Change in cash and cash equivalents in assets and liabilities held for sale	**-**	-8.7	-0.6
Exchange rate differences on cash and cash equivalents	**-2.1**	-26.4	-33.1
Net cash position at period-end	**603.0**	603.7	738.6
Cash and cash equivalents	**603.0**	603.7	738.6
Bank overdrafts	**-**	-	-
Net cash position at period-end	**603.0**	603.7	738.6
Of which in joint operations:	**204.2**	192.0	223.0

6. Segment information

(x € million)

Results and revenue from continuing operations	1st half-year 2017 Result	1st half-year 2017 Revenue	1st half-year 2016 Result	1st half-year 2016 Revenue
Construction and Property	**32.9**	**1,819.9**	-4.5	2,047.0
Civil engineering	**12.4**	**1,372.2**	34.7	1,360.0
Public Private Partnerships (PPP)	**8.4**	**67.1**	6.8	115.8
Eliminations and miscellaneous	**-0.1**	**-114.1**	-	-118.5
Total for continuing operations	**53.6**	**3,145.1**	37.0	3,404.3
Group overhead	**-1.0**		5.3	
Group interest charge	**0.1**		-1.7	
Adjusted result before tax	**52.7**		40.6	
Restructuring	**-**		-10.6	
Impairment charges	**-0.1**		-0.3	
Pension one off	**-**		15.3	
Result before tax	**52.6**		45.0	
Income tax	**-12.6**		-12.0	
Net result from continuing operations	**40.0**		33.0	
Net result from discontinued operations	**-**		-	
Net result for the period	**40.0**		33.0	
Non-controlling interests	**-0.1**		-0.1	
Net result attributable to shareholders	**39.9**		32.9	

For further information on segment performance, reference is made to the chapters First half year results and order book and Sector review on pages 3 and 4.

The comparative figures of the first half year 2016 have been adjusted to the new identified segments as presented in the annual financial statements 2016.

7. Figures per ordinary share with par value of €0.10

(x €1, unless indicated otherwise)

	1st half-year 2017	1st half-year 2016	Full year 2016
Net result attributable to shareholders of the company	**0.15**	0.12	0.17
Net result attributable to shareholders of the company (diluted)	**0.14**	0.12	0.17
Cash flow (net result plus depreciation, amortisation and impairment charges)	**0.25**	0.24	0.60
Equity attributable to shareholders of the company	**3.15**	3.11	3.08
Highest closing share price	**5.46**	5.02	5.02
Lowest closing share price	**4.37**	3.20	2.97
Closing share price at period-end	**4.76**	3.28	4.39
Number of shares ranking for dividend (x 1,000)	**273,213**	270,622	270,622
Average number of shares ranking for dividend (x 1,000)	**271,201**	270,383	270,503
Number of shares ranking for dividend diluted (x 1,000)	**297,584**	294,547	294,547
Average number of shares ranking for dividend diluted (x 1,000)	**295,252**	272,618	283,643

8. Explanatory notes to the half-year 2017 report

1. General information
Royal BAM Group nv (‘the Company’) was incorporated under Dutch law and is domiciled in the Netherlands. These condensed consolidated interim financial statements contain the financial data for the first six months of 2017 for the Company and its subsidiaries (jointly referred to as ‘the Group’) and includes its share in joint operations.

These interim financial statements were approved by the Supervisory Board and released for publication by the Executive Board. The information in these condensed consolidated interim financial statements is reviewed, not audited.

2. Basis of preparation
These interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34, ‘Interim Financial Reporting’. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs, and the commentary by the Executive Board earlier in this interim report.

3. Accounting principles
The accounting principles adopted are consistent with those of the previous financial year. Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

During the first half year of 2017, the Group has continued the preparations for the IFRS 15 implementation as per 1 January 2018. A full contract by contract analysis is in progress for the comparative figures. Throughout the year the Group will complete this analysis. Without completing the analysis and based on the work done so far, the Group has not detected a significant impact resulting from the conversion to IFRS 15.

The following exchange rates of the euro against the pound sterling (£) have been used in the preparation of these interim financial statements:

	1st half-year 2017	Full year 2016	1st half-year 2016
Closing exchange rate			
Pound sterling	**0.87650**	0.85940	0.82850
Average exchange rate			
Pound sterling	**0.86073**	0.81301	0.77580

4. Taxes
During the first half year of 2017, the effective tax rate was mainly influenced by exempt results of participations, tax losses which were not recognised, as well as differences in statutory tax rates that apply to the taxable results in the countries in which the Group operates.

5. Seasonal influences
Due to the seasonal nature of the business in the operational sectors, sometimes adversely influenced by winter conditions, higher revenue and profitability are usually expected in the second half of the year.

6. Estimates and assessments in the interim financial report
The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2016. There were no changes in circumstances that should have led to different estimates for the valuation of goodwill and deferred taxes.

7. Legal proceedings
In the normal course of business the Group and its subsidiaries are involved in legal proceedings predominantly concerning litigation as a result of claims with respect to construction contracts.
In accordance with current accounting policies, the Group has recognised these claims, where appropriate, which are reflected on its balance sheet as a receivable or liability. Some proceedings, if decided adversely or settled, may have a material impact on the Group’s financial position, operational result or cash flows.

8. Related party transactions
In the first half year of 2017 the Group has not transferred any PPP projects to the joint venture BAM PPP/ PGGM (first half year 2016: two projects with a net result of €1.9 million).

9. Fair value measurements and disclosures
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. One of these techniques is the calculation of the net present value of the expected cash flows (DCF-method). 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 financial institutions are requested for interest rate swaps.

Financial instruments measured at fair value consist of interest rate swaps and foreign exchange contracts only and are classified as a level 2 valuation method. As at 30 June 2017 the balance sheet includes derivative financial instruments measured at fair value amounting to €3.3 million (asset) and €16.0 million (liability).

As at 30 June 2017 the fair value of the liability component of the subordinated convertible bonds is approximately €120 million (carrying amount €114 million). The fair value of the non-current PPP receivables is approximately €360 million (carrying amount €344 million). The fair value of the other financial assets is approximately €87 million (carrying amount €82 million). The carrying amounts of other financial instruments do not differ significantly from their fair values.

10. Dividend
Holders of ordinary shares were assigned a dividend of €0.09 per share in cash or 1 new share per 60.33 shares (2016: €0.02 per share in cash or 1 new share per 210.24 shares).

11. Other intangible assets
Development cost are recognised as an intangible asset 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. Following initial recognition of the development cost as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Research cost are expensed as incurred.

12. Events after the balance sheet date
No material events after the balance sheet date have occurred.

Review report

To: the Executive Board, Supervisory Board and Audit Committee of Royal BAM Group N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Royal BAM Group N.V., Bunnik, which comprises the consolidated statement of financial position as at 30 June 2017, the condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the 6-month period then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information. The Executive Board is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the 6-month period ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Utrecht, 23 August 2017

Ernst & Young Accountants LLP

Signed by W.H. Kerst