Royal BAM Group nv

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BAM reports first half year performance in line with 2 July trading update; expects positive adjusted result before tax for second half 2020

Royal BAM Group nv reports for the first half of 2020 an adjusted loss before tax of €134 million, in line with the expected range of €130-€150 million as announced on 2 July. Results were considerably impacted by the extraordinary circumstances caused by Covid-19. This is reflected in a decline of revenue in the second quarter of €360 million or 19 per cent compared to the same quarter last year. In addition, results were affected by losses at BAM International (€56 million), the Cologne metro settlement (€36 million) and underperformance at German construction and Dutch civil engineering. Dutch construction and property, UK civil engineering and BAM PPP performed well. BAM's cash position further increased during the second quarter, supported by Covid-19 governmental measures, cost and capex reductions and the partial transfer of PPP investments. The process to wind down BAM International has started. Based on current market and Covid-19 conditions and the strong order book, BAM expects a positive adjusted result before tax for the second half of 2020.

- Revenue declined by 10% in the first half year to €3.1 billion, mainly due to impact of Covid-19
- Adjusted result before tax of -€133.6 million, caused by Covid-19, Cologne metro settlement and underperforming businesses
- Measures implemented to address underperformance and reduce risks, including starting process to wind down BAM International
- Net loss of €235 million, including €116 million of non-cash impairments, mainly on goodwill and DTA
- Cash position strengthened to €1.3 billion, including €400 million of fully drawn revolving credit facility
- Waiver obtained on interest and leverage ratios from lenders of RCF
- Capital ratio at 11.3% impacted by the net loss as well as the extension of the balance sheet, partially offset by a PPP accounting related equity increase
- Order book increase of 5% during second quarter to €13.3 billion

Key numbers (in € million, unless otherwise indicated)	**1st half-year 2020**	1st half-year 2019	Full year 2019
Revenue	**3,108**	3,454	7,209
Adjusted result before tax [1]	**-133.6**	-27.2	74.1
Adjusted result before tax [1] margin	**-4.3%**	-0.8%	1.0%
Net result attributable to shareholders	**-234.5**	-52.4	11.8
Trade working capital efficiency [2]	**-12.1%**	-9.1%	-10.4%
Order book (end of period)	**13,300**	12,800	12,700

[1] *Before restructuring, impairments and pension one-off.*
[2] *Defined as average four quarter-end trade working capital as a percentage of rolling four quarters revenue.*

Frans den Houter, CFO / interim CEO of Royal BAM Group:

'This has been a challenging half year, particularly because of the impact of Covid-19 in combination with underperformance in several businesses. With safe working as our top priority, our focus has been on reducing costs and capex, preserving cash and strengthening liquidity. We have started the process of winding down BAM International following continued losses over the last few years, the deterioration of the oil and gas market and the lack of attractive alternative opportunities. We also have finalised the long outstanding Cologne metro claim which has helped to significantly reduce the risk in the Group.

We are of course disappointed with the reported loss, for a large part caused by the unprecedented Covid-19 pandemic. We adapted to different governmental restrictions across our various markets in close cooperation with all our stakeholders. Our people responded quickly and effectively to the challenges. Nevertheless, in April and May, our average operational efficiency reduced to approximately 65 per cent. This improved to 80 per cent in June and is now nearly back to 90 per cent. Although we see short term uncertainty in parts of our construction business line where private commercial developers are reviewing their plans, civil engineering markets remain positive as governments initiate investment programmes to stimulate the economy.

Our strong order book and cash position show that BAM is a resilient company. Based on current market and Covid-19 conditions and the strong order book, we expect a positive adjusted result before tax for the second half of 2020.

We welcome Ruud Joosten as our new CEO per 1 September 2020, subject to the approval of shareholders at the extraordinary general meeting of 24 August, and together we will develop a new strategic plan, based on BAM's key strengths.'

Key developments

BAM has rigorously cut non-essential capital expenditure and reduced company tied costs in the second quarter. This remains a key focus and will support the results in the second half. BAM's cash position improved further during the second quarter to €1.3 billion. The positive trend reflects governmental support schemes, mainly VAT, as well as careful cash management while fully respecting payment term commitments to the supply chain. In April this year, the RCF was extended by one year to March 2024 with a total committed amount of €360 million for the additional year. The company is evaluating alternatives for the subordinated unsecured convertible bonds and aims to announce next steps in due course.

As announced in July, BAM started the process to wind down the activities of BAM International, which is operating outside the company's European home markets. The priorities during this process are to support BAM International's employees, complete delivery of its projects and realise value from the assets. The process requires completion of discussions with BAM's works councils and the consultation of involved trade unions, which discussions and consultations are ongoing.

While withdrawing from the construction activities outside its home markets, BAM is discussing the extension of the long-term partnership between PGGM and BAM PPP with the aim to benefit from growth opportunities in the global PPP market. This allows BAM to leverage its experience built up over the last 20 years in successfully developing and managing PPP projects in combination with its technical skills. At end-June 2020, BAM PPP lowered its share in 21 investments currently within the joint venture from 20 to 10 per cent. This transaction contributed to the result, cash flow and equity for the first half year.

Business review first half year 2020

Income statement (in € million)	**1st half-year 2020** Revenue	Result	1st half-year 2019 Revenue	Result
Construction and Property	**1,700**	**-82.7**	2,048	-13.3
Civil engineering	**1,395**	**-70.2**	1,430	-19.1
Public Private Partnerships (PPP)	**33**	**25.1**	18	10.8
Eliminations and miscellaneous	**-20**	**-**	-42	-
Total business lines	**3,108**	**-127.8**	3,454	-21.6
Group overhead		**1.2**		-0.8
Group interest charge		**-7.0**		-4.8
Adjusted result before tax		**-133.6**		-27.2
Restructuring		**-1.4**		-0.9
Impairments		**-65.5**		-10.3
Result before tax		**-200.5**		-38.4
Income tax		**-34.4**		-14.3
Non-controlling interest		**0.4**		0.3
Net result attributable to shareholders		**-234.5**		-52.4

BAM's financial performance in the first half of 2020 was considerably impacted by the extraordinary circumstances caused by Covid-19 in the second quarter. Revenue in the first half year declined by 10 per cent compared to the first half of 2019 to €3.1 billion. In the second quarter, the decline compared to the corresponding quarter in 2019 was 19 per cent. Revenue was most heavily impacted in Construction and Property in Belgium, Ireland and the United Kingdom, where governments had imposed lock-downs.

The lower revenue resulted in lower margins and only partial coverage of company tied costs. All BAM companies incurred extra costs for adjusting their procedures to meet social distancing requirements and supply chain challenges. BAM responded to the pandemic by implementing new ways of working and adjusting the cost profile, with cuts to non-essential costs, postponement of discretionary capital expenditure and voluntary reduction of salaries and variable remuneration. Governmental furlough schemes also helped mitigate the impact of Covid-19. In April and May, BAM's average operational efficiency reduced to approximately 65 per cent. This improved to 80 per cent in June and is now nearly back to 90 per cent.

Next to Covid-19, the adjusted result before tax also reflected losses at BAM International of €56 million and the settlement of the Cologne metro claim, which had a negative effect of €36 million on German civil engineering. There was also continued underperformance at German construction, and to a lesser extent, Dutch civil engineering. The performance of Dutch construction and property, civil engineering in the United Kingdom and BAM PPP remained strong. The result from BAM PPP's operational portfolio was largely unaffected by Covid-19, and €14 million additional profit was recorded related to the partial transfer of 21 investments to PGGM.

The Group interest charge increased due to fully drawing down the RCF from March 2020 onwards. Restructuring costs of €1.4 million were related to UK and Dutch civil engineering. Non-cash impairments of goodwill and property totalled €65.5 million. The goodwill impairments related to BAM International (€22 million), Belgium (€26 million) and Germany (€12 million). There was a €5.5 million impairment on property development positions in the Netherlands, of which €1 million in joint ventures. Income tax in the first half of 2020 included a non-cash impairment on the balance sheet deferred tax assets (DTA) of €50 million (2019 H1: €7.5 million), mainly in the Dutch fiscal unity, partly offset by the creation of €5 million DTA for German civil engineering.

Construction and Property

(x € million, unless otherwise indicated)	1st half-year 2020		1st half-year 2019	
Analysis by geography	**Revenue**	**Result**	Revenue	Result
Netherlands	**773**	**27.8**	813	32.0
United Kingdom	**392**	**-18.3**	491	12.5
Belgium	**130**	**-8.5**	242	2.3
Ireland	**163**	**-16.7**	238	4.4
Germany	**197**	**-25.1**	230	-45.4
International	**45**	**-41.9**	34	-19.2
Eliminations and miscellaneous	**-**	**-**	-	-
Total sector	**1,700**	**-82.7**	2,048	-13.3

Trade working capital efficiency	**-15.7%**		-13.9%	
Revenue growth	**-17.0%**			
Adjusted result before tax margin		**-4.9%**		-0.7%
		1st half-year 2020		**Full year 2019**
Order book	**5,834**		6,268	
Order book growth	**-7%**			

The business line Construction and Property was severely affected by Covid-19, with revenue down by €348 million (17%) in the first half at €1.7 billion. The largest impact was in Belgium (revenue -46% in 2020 H1 versus 2019 H1), Ireland (-32%) and the United Kingdom (-20%). In the Netherlands and Germany, most sites could remain open and revenues were less affected.

Covid-19 had a negative effect on the result in all countries due to reduced operational efficiency and additional costs, but the effect was significantly stronger in countries with a temporarily lock down. The adjusted result before tax for Construction and Property declined to -€82.7 million (2019 H1: -€13.3 million).

The Dutch Construction and Property activities showed a strong performance driven by residential construction and property development, although the contribution was slightly below the exceptionally high level realised in the first half of 2019. Dutch home sales of 1,028 were in line with pre Covid-19 expectations, although below the high number of 1,379 homes sold in the first half of 2019. Sales of commercial property were significantly below the prior period. Some larger property transactions were delayed due to Covid-19 and it is uncertain if execution will take place during the current year. BAM's gross investment in property increased by €20 million to €551 million versus end of 2019.

The performance in the United Kingdom was impacted by a technical set-back on a project under construction, where BAM identified settlement issues. Given the uncertainty of the outcome of discussions involving the client, the expert subcontractors and the insurer, a provision was recognised in the first half of 2020. In Ireland, there are various discussions with clients regarding recovery of direct and indirect costs, mainly related to Covid-19. In Germany the performance continued to disappoint with additional losses on several projects, and management has implemented measures in order to improve the results. Although the effect of Covid-19 on revenue in Germany was modest, the costs related to the ramp-down and ramp-up of activities were relatively high. BAM International was impacted by additional project losses.

Trade working capital efficiency further improved to -15.7 per cent, mainly driven by the well performing Dutch operations and continuing focus on cash collection.

The order book in Construction and Property declined by 7 per cent to €5.8 billion. In the Netherlands, the order book declined by 8 per cent, primarily explained by the timing of awards. The order backlog in the United Kingdom declined 19 per cent in the first half. Some commercial clients in the UK appear more cautious due to the uncertainty related to Brexit and Covid-19. BAM's recent success in winning framework agreements for public sector projects will help going forward. The order book in Belgium was stable. In Ireland there was a number of successful awards and the order backlog increased by 22 per cent, with a mixture between industrial projects such as a semi-conductor facility and residential projects, for example Limestreet Residential. In Germany the order backlog declined by 14 per cent.

Market outlook. Due to the Covid-19 crisis the short-term investment sentiment deteriorated, especially from the private sector for new commercial buildings and retail space. The longer-term impact is currently difficult to forecast.

In the Netherlands, the demand for new homes continues to be larger than the supply while interest rates remain relatively low. The demand for homes in the premium segment is slowing down. Uncertainty regarding nitrogen and PFAS continues, which is causing delays in the issuance of building permits.

In the United Kingdom, the Covid-19 crisis in combination with uncertainty regarding Brexit results in increasing competition. The UK public sector is gearing up for increased spending in the near term, especially in health and education, whereas the private sector in the UK is mixed. In anticipation of the market circumstances, the workforce will be lowered by 150 employees.

In Belgium the public building market is stable with opportunities in health care while the private market might come under pressure due to Covid-19. In Ireland, the construction outlook remains positive, although Brexit is still a risk. The government continuous to focus on education and health care and Ireland remains an attractive home base for multinationals. The market in Germany remains generally stable but competitive.

Civil engineering

(x € million, unless otherwise indicated)	1st half-year 2020		1st half-year 2019	
Analysis by geography	**Revenue**	**Result**	Revenue	Result
Netherlands	**615**	**-16.2**	623	-20.6
United Kingdom	**454**	**13.2**	392	3.1
Belgium	**108**	**-12.4**	138	1.8
Ireland	**23**	**-4.7**	61	-0.3
Germany	**142**	**-35.5**	159	-3.6
International	**55**	**-14.5**	59	0.5
Eliminations and miscellaneous	**-2**	**-**	-2	-
Total sector	**1,395**	**-70.2**	1,430	-19.1

Trade working capital efficiency	**-8.1%**		-2.9%	
Revenue growth [5]	**-2%**			
Adjusted result before tax margin		**-5.0%**		-1.3%
		1st half-year 2020		**Full year 2019**
Order book	**7,441**		6,382	
Order book growth	**17%**			

Overall, BAM's civil engineering revenue was less affected by Covid-19 compared to construction and property, due to the nature of the work which makes social distancing easier. There were additional costs in all countries, in some cases substantial, for implementing new work protocols and adjusting the supply chain. The order book was resilient as public sector clients continued to invest.

Revenue declined by 2 per cent to €1.4 billion in the first half of 2020. There were sharp declines in revenue in Ireland (-62%) and Belgium (-22%) where site activity had to stop for a period. Revenue in the United Kingdom grew, mainly driven by government contracts for rail and highways.

In the first half year the adjusted result before tax declined to -€70.2 million (2019 H1: -€19.1 million). In the Netherlands, the disappointing performance included provisions recognised for two long-term maintenance contracts. The Dutch infrastructure market remains competitive. The contribution of the activities in the United Kingdom sharply improved by €10.1 million, which is partly explained by the slow start in 2019 in combination with some positive claim settlements in the first half of 2020. The result in Belgium was negatively impacted by an adjusted view on the settlement of a larger project. The result in Germany includes the €36 million loss for the settlement of the Cologne metro claim. BAM International reported an adjusted loss before tax of €14.5 million.

Trade working capital efficiency improved to -8.1 per cent, also due to more favourable cash profiles on new projects.

The order book increased by 17 per cent to €7.4 billion in the first half of the year. The order book in the United Kingdom reported a 24 per cent increase, mainly due to BAM's participation in HS2 and in the SMART Motorways programmes. The Fehmarnbelt project, which was originally awarded in 2016, was included in the order book for around €800 million in the first half of 2020 due to the client issuing the Commencement Notice. This is reflected in the growth in the order backlog in Germany of 33 per cent and in the Netherlands of 7 per cent. The order backlog in Belgium and Ireland was stable.

Market outlook. In the Netherlands, markets remain competitive and the uncertainty regarding nitrogen legislation and PFAS continues. BAM continues discussions with public sector clients in order to achieve an improvement in risk/reward balance of future projects. Until that is resolved, BAM remains extremely cautious about tendering for large projects.

In the United Kingdom, the government has stated it will support investment in transport and public services infrastructure, especially work that impacts vital transport arteries where BAM has a strong position. The civil market in Belgium shows a mixed picture, with regional markets slowing due to lower spending of regional public clients and some larger projects in Flanders and Brussels. In Ireland, public sector investments in infrastructure are at a low level. Regarding Germany, the market is subdued but BAM's existing order book is at a high level.

BAM PPP

(x € million)	1st half-year 2020	1st half-year 2019
Adjusted result before tax	**25.1**	10.8
Invested capital	**62**	78
Number of operational projects	**40**	38
Projects under construction	**9**	9
Total number of PPP projects	**49**	47
Preferred bidder stage	**0**	2

BAM PPP delivered a strong performance, with an adjusted result before tax of €25.1 million (2019 H1: €10.8 million), coming from the existing portfolio in addition to the positive impact of €13.6 million from the partial transfer of 21 investments to PGGM, reducing BAM's interest in these projects from 20 per cent to 10 per cent. There were no transfers in the comparable period of 2019. All the operational projects have remained available throughout Covid-19 to date.

The portfolio. In 2020 H1, as previously announced, financial close was reached on the Dendermonde prison project in Belgium. The N25 New Ross Bypass in Ireland and the Antwerp tram project are expected to reach their construction completion later in 2020. At 30 June 2020 BAM had 40 operational projects, of which 35 with an equity stake, and also 9 projects under construction. The PPP portfolio also provides recurring operations and maintenance revenues of approximately €150 million per year for other BAM companies.

Market outlook. The pipeline of prospects and active bids remains healthy, with two committed bids and their preferred bidder decisions expected later in the year. Longer term, BAM expects a global increase in government use of PPP/ private finance models to stimulate economies and develop infrastructure assets. This provides opportunities in new markets, an important element of the discussion between BAM PPP and PGGM to extend their long-term partnership.

At end-June 2020, invested capital by BAM PPP totalled €62 million (31 December 2019: €80 million), the principal movement being due to the partial transfer of 21 investments to PGGM.

The portfolio value is based on the discounted expected shareholder cash flows. These cash flows include dividends, interest and principal repayments. A sensitivity analysis of BAM PPP's shareholder cash flows at different discount rates is presented in the table below, adjusted for expected divestments to joint venture partners. BAM PPP's business activities (bidding, operations and asset management) are not included. The table shows values as at 30 June 2020, after the partial transfer of 21 investments to PGGM.

(x € million) Discount rate	Portfolio valuation (DCF)	Invested capital*	Unrealised cash value (DCF**)
11%	**119**	58	61
9%	**137**	58	79
7%	**161**	58	103
5%	**193**	58	135

* *Invested capital includes injected share capital and subordinated loans granted by BAM. Header changed in 2020 from 'book value' to 'invested capital' since this is more accurate IFRS terminology.*

** *DCF based portfolio valuation and unrealised cash value differ significantly from IFRS carrying amount and unrealised accounting profits.*

Outlook 2020

Clearly, Covid-19 will also impact the second half of 2020. At the same time, BAM's operational efficiency is approaching 90 per cent as per mid-August and the order book is strong. BAM's management has implemented tangible actions, including cost reductions and initiatives to improve the risk profile, with a strong focus on cash. Based on current market and Covid-19 conditions and the strong order book, BAM expects a positive adjusted result before tax for the second half of 2020.

Financial review

Cash flow [1]

(in € million)	1st half-year 2020	1st half-year 2019	Full year 2019
Group: net cash result [2]	-17	38	137
Investments (in)tangible assets	-71	-84	-170
Trade working capital [3]	23	-138	177
Net investment			
Property	-7	-11	-1
PPP	44	-1	14
Other changes in working capital	106	-48	-16
Business cash flow	**78**	**-244**	**141**
Dividend	0	-19	-19
Restructuring	-1	-3	-5
Pensions (additional)	-3	-5	-9
RCF	400	-	-
Other	-45	-24	2
Increase/decrease in cash position	**429**	**-295**	**110**

[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, DTA write-off, 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.*

In the first half of 2020, BAM reported a strong business cash flow, in contrast to the normal seasonal cash outflow. The draw-down of the RCF at €400 million further strengthened the total cash flow. Business cash flow was supported by various factors: optimal use of Covid-19 governmental support schemes; focus of management on cutting costs and non-business critical expenditure; and close attention to improving working capital. Trade working capital efficiency improved from -10.3 per cent at the end of the first quarter 2020 to -12.1 per cent.

The main items affecting the Group's cash position in the first half year were as follows:

- Group net cash result was €17 million negative due to the loss reported over the first half year;
- Investments (in)tangible assets declined by €13 million to €71 million compared to the first half of 2019. In March, as a response to Covid-19, all non-essential capital expenditure in property, plant and equipment and intangible assets was put on hold;
- Cash flow from trade working capital improved compared to the same period last year. BAM continued its strong focus on the collection of receivables. Also supportive was more favourable cash profiles on new projects and the effect that some governments showed more flexibility regarding milestone settlements. At the same time, payables also declined while BAM continued to fully respect its payment term commitments to the supply chain;
- Net investment in property was €7 million. Planned divestments of commercial property will take somewhat longer due to Covid-19 uncertainty;
- Net investments in PPP resulted in a cash inflow of €44 million, and includes the partial transfer of 21 investments to PGGM (€39 million);
- Other changes in working capital contributed €106 million to cash flow in the first half of the year. This is primarily explained by approximately €120 million of deferred payments. These consist of around €110 million of delayed VAT and salary tax payments;

- Other cash flow included the effect related to the Cologne metro settlement and exchange rate differences.

Overall, the cash position improved by €429 million in the first half year to €1,283 million versus €854 million at the end of 2019.

Financial position

(x € million)	1st half-year 2020	Full year 2019	1st half-year 2019
Cash position	**1,283**	854	449
Interest-bearing debt	**-675**	-271	-288
Net (debt) / cash before lease liabilities	**608**	583	161
Lease liabilities	**-305**	-312	-283
Net (debt)/cash	**303**	271	-122
Shareholders' equity	**451**	628	549
Capital base	**573**	749	668
Balance sheet total	**5,084**	4,540	4,436
Capital ratio	**11.3%**	16.5%	15.1%
Capital employed	**1,714**	1,537	1,478
Return on average capital employed	**-6.6%**	3.4%	0.9%

Compared to the first half of 2019, BAM's cash position increased substantially to almost €1.3 billion. As a precautionary measure in response to Covid-19, the RCF was fully drawn in March, which contributed €400 million. The positive development of trade and other working capital of €130 million, including the deferred payments of approximately €120 million, also supported the cash position.

Mid-year, BAM's capital ratio declined to 11.3 per cent versus 16.5 per cent at 2019 year end. The decline is the result of a €176 million lower capital base in combination with a €544 million increase in the balance sheet total. The following elements explain the movement of shareholder's equity of the Group in the first half of 2020:

- The reported loss in the first half of €235 million;
- PPP related items, with a combined positive effect of €60 million;
  - From Q2 2020 onwards, PPP subordinated loans are excluded from the accounting concept of 'net investment' as defined by IFRS. With this exclusion, any negative hedge reserve no longer reduces the carrying amount of the subordinated loans on BAM's balance sheet. This provides improved transparency by better reflecting the investments in the balance sheet, will reduce the volatility of shareholder's equity of the Group in response to future interest rate changes and is in line with industry peers. The partial transfer of 21 investments to PGGM further validated the solid track record of the debt service and level of maturity of these subordinated loans, supporting this change. This change had a positive effect on equity of €86 million;
  - The development of the interest rate had a negative effect of €36 million on the valuation of interest rate hedges;
  - The partial transfer of 21 investments to PGGM resulted in a €10 million credit to equity due to the recycling of the related interest rate hedges.
- The weakening of the British pound against the euro had a negative impact of €28 million;
- Pension liabilities, results on assets in the UK and Ireland higher than the deterioration due to lower discount rates, had a positive effect €25 million.

At the same time, the balance sheet total was increased by €544 million, mainly due to the drawdown of the RCF (€400 million) and the temporary insurance funds receivable as part of the Cologne metro settlement (€156 million) which was finalised in August. Drawing down the RCF and the Cologne metro settlement had a negative impact to the capital ratio of approximately 1.4 per cent.

The capital ratio is expected to partly recover in the second half of the year, driven by the foreseen improvement of the operational performance.

As announced on 10 August, the Group has obtained a waiver from the providers of the RCF for the recourse interest ratio and for the recourse leverage ratio. As per 30 June 2020, due to Covid-19 and the performance of the Group in the first half of the year, both ratios were below the threshold as agreed with the RCF lenders. The waiver for the two new financial requirements is applicable for four quarters as of 30 June 2020. The Group will pay a waiver fee of 25 basis points. The margin increases by 25 basis points for these four quarters as long as Recourse EBITDA is not less than zero. If Recourse EBITDA is below zero then the margin shall be 2.75 per cent per annum as part of the original margin grid.

The waiver is accompanied with two financial requirements applicable for four quarters as of 30 June 2020:
- Consolidated net recourse borrowings: €703 million negative (requirement: not exceed €0); and
- Recourse EBITDA: -€4 million (requirement: not less than €25 million negative).

Recourse solvency is 19.1% (requirement: ≥ 15%).

At 30 June 2020, considering the waiver, the Group complies with all financial covenant requirements.

Risks and uncertainties

As indicated in the annual report for the 2019 financial year, there is a Group-wide focus on risk management in the primary process, in order to improve predictability and performance. The Group's risk management system does not imply avoidance of all risks. Instead it aims to identify opportunities and threats and manage them. 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 2019 financial year. Other risks, especially regarding the Covid-19 pandemic, or 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.

Executive Board, Royal BAM Group nv

Frans den Houter, CFO / interim CEO

Live audio webcast

The Executive Board of Royal BAM Group will present the results of the first half of 2020 on 20 August 2020 during an (English) analyst meeting at 10.00 a.m. CET. The meeting can be followed via live audio webcast (www.bam.com).

Key dates

24 August 2020	Extraordinary general meeting
5 November 2020	Trading update first nine months 2020
18 February 2021	Publication of annual results 2020

Further information

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Regulated information

This press release contains information that qualifies or may qualify as inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

Forward looking statements

This press release contains 'forward-looking statements', based on currently available plans and forecasts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future, and BAM cannot guarantee the accuracy and completeness of forward-looking statements.

These risks and uncertainties include, but are not limited to, factors affecting the realisation of ambitions and financial expectations, exceptional income and expense items, operational developments and trading conditions, economic, political and foreign exchange developments and changes to IFRS reporting rules.

BAM's outlook, in line with these forward-looking statements, merely reflects expectations of future results or financial performance and BAM does not make any representation or warranty in that respect. Statements of a forward-looking nature issued by the company must always be assessed in the context of the events, risks and uncertainties of the markets and environments in which BAM operates. These factors could lead to actual results being materially different from those expected, and BAM does not undertake to publicly update or revise any of these forward-looking statements.

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, 19 August 2020

1. Interim condensed consolidated income statement

(x € million)	1st half year 2020	1st half year 2019	Full year 2019
Revenue	**3,108.4**	3,454.4	7,209.1
Operating result before depreciation, amortisation and impairment charges, restructuring costs and share of result of investments in associates and joint ventures	**-32.0**	**49.5**	**220.8**
Depreciation and amortisation charges	**-30.3**	**-29.8**	**-59.9**
Depreciation right-of-use assets	**-48.9**	**-49.3**	**-99.7**
Impairment charges	**-65.5**	**-10.3**	**-18.5**
Restructuring costs	**-1.5**	**-0.9**	**-5.0**
Share of result of investments in associates and joint ventures	**-22.0**	**2.1**	**14.6**
Operating result	**-200.2**	-38.7	52.3
Finance income	**11.4**	7.7	17.5
Finance expense	**-11.7**	-7.4	-19.2
Total finance income and expense	**-0.3**	0.3	-1.7
Result before tax	**-200.5**	-38.4	50.6
Income tax	**-34.4**	-14.3	-38.7
Net Result	**-234.9**	-52.7	11.9
Attributable to:			
Non-controlling interests	**-0.4**	-0.3	0.1
Shareholders of the Company	**-234.5**	-52.4	11.8
	-234.9	-52.7	11.9
Earnings per share:			
Net result attributable to shareholders of the company (basic)	**-0.86**	-0.19	0.04
Net result attributable to shareholders of the company (diluted)	**-0.86**	-0.19	0.04

2. Interim condensed consolidated statement of comprehensive income

(x € million)	1st half year 2020	1st half year 2019	Full year 2019
Net result for the period	**-234.9**	-52.7	11.9
Items that may be reclassified to the income statement, net of tax			
Cash flow hedges*	**59.9**	-29.1	-30.8
Exchange rate differences	**-28.4**	2.3	23.0
Items that will not be reclassified to the income statement, net of tax			
Remeasurements of post-employment benefit obligations	**25.1**	-65.2	-68.1
Other comprehensive income	**56.6**	-92.0	-75.9
Total comprehensive income, net of tax	**-178.3**	-144.7	-64.0
Attributable to:			
Non-controlling interests	**-0.4**	-0.4	0.2
Shareholders of the Company	**-177.9**	-144.3	-64.2
	-178.3	-144.7	-64.0

*see note 13

Other comprehensive income in the first half year 2020 was influenced by positive movements in remeasurements of post-employment benefit obligations due to remeasurement of the plan assets partly offset by lower discount rates. Furthermore, Cash flow hedges are impacted by change in accounting judgement (see note 13). Exchange rate differences include the translation of foreign companies as a result of the weakening of the pound sterling against the euro.

3. Interim condensed consolidated statement of changes in equity

(x € million)	1sth half year 2020	1st half year 2019	Full year 2019
As at 1 January	**633.9**	734.9	734.9
Net result for the period	**-234.9**	-52.7	11.9
Cash flow hedges*	**59.9**	-29.1	-30.8
Remeasurements of post-employment benefit obligations	**25.1**	-65.2	-68.1
Exchange rate differences	**-28.4**	2.3	23.0
Other comprehensive income net of tax	**56.6**	-92.0	-75.9
Total comprehensive income	**-178.3**	-144.7	-64.0
Dividends paid (including non-controlling interests)	**-0.1**	-19.4	-20.0
Other changes	**0.4**	-16.3	-17.0
Total change	**-178.0**	-180.4	-101.0
Position as at period-end	**455.9**	554.5	633.9

* see note 13

Last year, the other changes were predominantly influenced by repurchase of shares.

4. Interim consolidated statement of financial position

(x € million)	30 June 2020	30 June 2019	31 December 2019
Property, plant and equipment	**269.8**	285.6	277.1
Right-of-use assets	**305.3**	280.1	312.2
Intangible assets	**328.9**	395.0	400.1
PPP receivables	**68.9**	84.4	73.7
Investments in associates and joint ventures	**138.6**	120.4	135.0
Other financial assets	**108.4**	121.2	109.7
Employee benefits	**77.1**	60.5	68.9
Deferred tax assets	**98.5**	154.8	136.5
Non-current assets	**1,395.5**	1,502.0	1,513.2
Inventories	**564.5**	547.1	545.9
Trade and other receivables	**1,817.3**	1,923.0	1,612.1
Income tax receivable	**14.3**	7.1	5.8
Derivative financial instruments	**-**	0.2	0.7
Cash and cash equivalents	**1,283.6**	448.6	854.0
Current assets	**3,679.7**	2,926.0	3,018.5
Assets held for sale	**8.5**	8.5	8.5
Total assets	**5,083.7**	4,436.5	4,540.2
Share capital and premium	**839.3**	839.3	839.3
Reserves	**-152.0**	-191.6	-183.7
Retained earnings	**-236.3**	-98.8	-27.2
Equity attributable to the shareholders of the Company	**451.0**	548.9	628.4
Non-controlling interests	**4.9**	5.6	5.5
Total equity	**455.9**	554.5	633.9
Borrowings	**88.0**	238.4	193.8
Lease liabilities	**218.4**	193.6	221.4
Derivative financial instruments	**9.6**	10.0	9.7
Employee benefits	**104.6**	136.9	128.2
Provisions	**142.8**	178.4	163.4
Deferred tax liabilities	**20.9**	27.5	18.5
Non-current liabilities	**584.3**	784.8	735.0
Borrowings	**588.4**	48.9	77.7
Lease liabilities	**86.3**	89.9	90.2
Trade and other payables	**3,216.6**	2,843.8	2,882.5
Derivative financial instruments	**2.4**	0.8	0.8
Provisions	**141.2**	103.8	111.7
Income tax payable	**8.6**	10.0	8.4
Current liabilities	**4,043.5**	3,097.2	3,171.3
Total equity and liabilities	**5,083.7**	4,436.5	4,540.2
Capital base	**573.0**	667.8	748.9

5. Interim condensed consolidated statement of cash flows

(x € million)	1st half year 2020	1st half year 2019	Full year 2019
Net result for the period	**-234.9**	-52.7	11.9
Adjustments for:			
Income tax	**34.4**	14.3	38.7
Depreciation and amortisation charges	**30.3**	29.8	59.9
Depreciation of right of use assets	**48.9**	49.3	99.7
Impairment charges	**65.5**	10.3	18.5
Result on sale of PPP projects	**-13.6**	-	-1.1
Result on sale of property, plant and equipment	**-0.8**	-0.9	-2.8
Share based payments	**0.3**	0.4	-
Share of result of investments in associates and joint ventures	**22.0**	-2.1	-14.6
Finance income and expense	**0.3**	-0.3	1.7
Interest received	**8.7**	4.9	12.0
Dividends received from investments in associates and joint ventures	**6.6**	12.5	26.8
Changes in provisions and pensions	**38.7**	1.6	-23.0
Changes in working capital (excluding cash and cash equivalents)	**126.2**	-186.5	169.4
Cash flow from operations	**132.6**	-119.3	397.1
Interest paid	**-8.8**	-9.5	-21.6
Income tax received / (paid)	**-5.7**	-7.5	-16.4
Net cash flow from ordinary operations	**118.1**	-136.3	359.1
Investments in PPP receivables	**-12.2**	-9.2	-21.3
Repayments of PPP receivables	**15.5**	12.9	27.6
Net cash flow from operating activities	**121.4**	-132.6	365.4
Investments in non-current assets	**-74.1**	-85.1	-152.2
Disposals and repayments of non-current assets	**21.7**	5.8	34.9
Sale of PPP projects	**38.6**	-	13.1
Net cash flow from investing activities	**-13.8**	-79.3	-104.2
Proceeds from borrowings	**418.1**	36.4	56.2
Repayments of borrowings	**-12.8**	-32.1	-93.5
Repayments of principal amount of lease liabilities	**-51.6**	-47.1	-98.4
Dividends paid (including non-controlling interests)	**-0.1**	-19.4	-20.0
Repurchase of shares	**-**	-16.9	-16.9
Net cash flow from financing activities	**353.6**	-79.1	-172.6
Change in net cash and cash equivalents	**461.2**	-291.0	88.5
Cash and cash equivalents at beginning of the year	**854.0**	743.7	743.7
Change in cash and cash equivalents as a result of change in accounting policy	**-**	-	-0.9
Exchange rate differences on cash and cash equivalents	**-32.4**	-4.1	22.7
Net cash position at period-end	**1,282.8**	448.6	854.0
Cash and cash equivalents	**1,283.6**	448.6	854.0
Bank overdrafts	**-0.8**	-	-
Net cash position at period-end	**1,282.8**	448.6	854.0
Of which in joint operations:	**258.3**	176.1	226.5

6. Segment information

(x € million)	1st half year 2020		1st half year 2019	
Results and revenue from continuing operations	**Revenue**	**Result**	**Revenue**	**Result**
Construction and Property	**1,699.5**	**-82.7**	2,048.4	-13.3
Civil engineering	**1,395.5**	**-70.2**	1,429.5	-19.1
Public Private Partnerships (PPP)	**32.7**	**25.1**	18.3	10.8
Eliminations and miscellaneous	**-19.3**	**-**	-41.8	-
Total for continuing operations	**3,108.4**	**-127.8**	3,454.4	-21.6
Group overhead		**1.2**		-0.8
Group interest charge		**-7.0**		-4.8
Adjusted result before tax		**-133.6**		-27.2
Restructuring		**-1.4**		-0.9
Impairment charges		**-65.5**		-10.3
Result before tax		**-200.5**		-38.4
Income tax		**-34.4**		-14.3
Net result for the period		**-234.9**		-52.7
Non-controlling interests		**-0.4**		-0.3
Net result attributable to shareholders		**-234.5**		-52.4

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

(x €1, unless indicated otherwise)	1st half year 2020	1st half year 2019	Full year 2019
Net result attributable to shareholders of the company (basic)	**-0.86**	-0.19	0.04
Net result attributable to shareholders of the company (diluted)	**-0.86**	-0.19	0.04
Cash flow (net result plus depreciation, amortisation and impairment charges)	**-0.33**	0.13	0.69
Equity attributable to shareholders of the company	**1.65**	2.01	2.30
Highest closing share price	**2.73**	4.38	4.38
Lowest closing share price	**1.21**	2.52	2.16
Closing share price at period-end	**1.61**	3.91	2.69
Number of shares ranking for dividend (x 1,000)	**273,296**	273,296	273,296
Average number of shares ranking for dividend (x 1,000)	**273,296**	273,699	273,496
Number of shares ranking for dividend diluted (x 1,000)	**299,158**	299,158	299,158
Average number of shares ranking for dividend diluted (x 1,000)	**299,158**	298,919	299,039

8. Explanatory notes to the half-year 2020 Interim Financial Statement

1. General information

Royal BAM Group nv ('the Company') was incorporated under Dutch law and is domiciled in the Netherlands. These interim financial statements contain the financial data for the first six months of 2020 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 interim condensed consolidated financial statements is reviewed, not audited.

2. Basis of preparation

These interim financial statements for the six months ended 30 June 2020 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 2019, which have been prepared in accordance with IFRS, and the commentary by the Executive Board earlier in this condensed interim report. The interim financial statements have been prepared on a going concern basis, taking into account the developments described in note 8 Covenants.

3. Accounting principles

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019. Certain new accounting standards and interpretations have been published that are not mandatory for these condensed consolidated interim financial statements and have not been early adopted by the Group. These new standards are either not material for the Group and/or not applicable. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the condensed consolidated interim financial statements of the Group.

Exchange rates

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 2020	1st half-year 2019	Full year 2019
Closing exchange rate			
Pound sterling	**0.91399**	0.89847	0.85332
Average exchange rate			
Pound sterling	**0.87458**	0.88496	0.87758

4. Taxes

During the first half year of 2020, the effective tax rate was mainly influenced by tax losses which were no longer recognised, non-deductible impairments of goodwill and exempt results of participations.

Tax losses that were not recognised relate to (i) 2020 operating losses that are deemed not to be available for utilisation in future years, and (ii) an impairment of deferred tax assets for net operating losses in Germany and the Dutch fiscal unity. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits are available against which net operating losses can be utilised. The nature of the convincing evidence did not change significantly compared to 31 December 2019, except for the future taxable profits. The Group's actual results in the first half year of 2020, and the forecasted taxable profits for the years 2020 through 2026 have been seriously affected by underperformance of the German construction, BAM International and Dutch Civil engineering business, the decision to wind down BAM International, the extension of the relationship between BAM PPP and PGGM (see note 13). As a consequence, deferred tax assets for net operating losses were impaired for an amount of €50 million. An amount of €5 million of net operating losses have been capitalised in respect of the German Civil engineering business as future taxable profits can be offset with net operating losses. The remaining carrying amount (after impairment and recognition of net operating losses) of the deferred tax asset is €99 million as at 30 June 2020.

In 2020, the Group made use of the temporary deferral of tax payment (value added tax and wage tax) granted by certain tax authorities which totally amount to approximately €110 million as per 30 June 2020.

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 judgement in the interim financial statements

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, including the current market and Covid-19 conditions. The basis for these estimates remain unchanged compared to those described in the 2019 financial statements, provided that the estimation uncertainty is inherently increased due to the impact of the Covid-19 pandemic. This has especially effect on the estimates made regarding the valuation of goodwill, deferred tax assets, projects, land and building rights and property development. Actual results may differ from these estimates. Further information and considerations with regard to areas of significant judgments and estimates have been disclosed below and in note 4.
The other significant judgements made by management remained the same as those that were applied to the consolidated financial statements for the year ended 31 December 2019, except for the reassessment of subordinated loans in respect of BAM PPP as further described in note 13.

7. Impairments

Goodwill

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential 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.

In 2020, an impairment loss of goodwill of €60 million has been recognised which is related to deteriorated market conditions in respect of Covid-19 and poor performance of certain underlying CGUs to which goodwill is allocated. Following these circumstances and the downturn in future expected cashflows, the Company fully impaired the (remaining) goodwill of BAM International of €22 million, BAM Germany of €12 million and BAM Contractors nv of €17 million and partly impaired the goodwill of Kairos for the amount of €9 million to €7 million, for which latter CGU no headroom remains as the recoverable amount equals the remaining carrying amount. The remainder of the CGUs within the Group, to which goodwill has been allocated, did not reveal any impairment indications as at 30 June 2020.

The used WACC to determine the value in use (recoverable amount) is 8.2 per cent (31 December 2019: 7.9 per cent). The WACC forms a crucial underlying assumption for calculating the recoverable amount of each CGU. If and when this underlying assumption would change in future, this could have significant impact on the CGU's recoverable amount (based on value in use), which might give rise that the recoverable amount would equal the carrying amount of the CGU to which goodwill is allocated. Goodwill decreased by €69 million from €380 million to €311 million of which €60 million is related to impairments and €9 million to foreign currency translation differences.

Inventories and intangible assets
In 2020, the net impairment charges in connection with inventories are related to property developments and land/building rights in the Netherlands. The impairment of €6 million (of which €1 million in joint ventures) relates to several property developments in the Netherlands which have been reported at their net realisable value.
The impairment charge of last year (€10 million) relates to the impairment of the capitalised development cost for the patented Gravity Based Foundations for offshore wind power.

8. Covenants

With regard to the arrangements with the committed revolving credit facility (RCF) lenders, the Group is bound by terms and conditions, both qualitative and quantitative and including financial ratios, in line with the industry's practice.

In 2020, BAM was faced with extraordinary circumstances caused by Covid-19 that amongst other led to BAM's precautionary measure to fully draw the RCF for €400 million. In addition, BAM's performance in the first half year is affected by continued losses at BAM International, the Cologne metro settlement (Waidmarkt) and to a lesser extent by the underperformance of the German construction and Dutch civil engineering business. These developments resulted in higher interest costs and impacted BAM's EBITDA. As per 30 June 2020, the recourse leverage ratio and the recourse interest cover ratio were below the threshold that was agreed with the RCF lenders triggering the reclassification of the RCF from long-term to short-term borrowings.

To avoid a situation of default under the RCF, on 7 August 2020, BAM obtained a waiver from its lenders for the recourse leverage and recourse interest cover. The waiver is applicable with retrospective effect as of 30 June 2020 and applies for four quarters up to the period ending 31 March 2021.
The waiver is accompanied with two financial requirements applicable for four quarters as of 30 June 2020:
- Consolidated net recourse borrowings: -€703 million (requirement: ≤ €0); and
- Recourse EBITDA (based on the last four quarters): -€4 million (requirement: ≥ -€25 million).

The Group will pay a waiver fee of 25 basis points. The margin increases by 25 basis points for these four quarters as long as Recourse EBITDA is not less than zero. If Recourse EBITDA is below zero then the margin shall be 2.75 per cent per annum as part of the original margin grid.

Considering the waiver, as per 30 June 2020, BAM complies with all financial covenant requirements.
The Group performed, considering the waiver obtained, a sensitivity analysis on the covenant requirements for the next four quarters with satisfactory outcome. BAM notes that sensitivity analysis is to a certain extent judgmental and given the uncertainty inherent to forecasts, actual results may differ. BAM continues to closely monitor the development of Covid-19 and to analyse risks for its financial results, position and cash flows and implementing mitigating actions when deemed necessary. Given the high level of uncertainty and the very limited visibility on how this crisis might develop, it is uncertain how BAM's results might get affected in further course of 2020. See note 6 on estimates and assessment in the interim financial statements.
On 24 April 2020, the committed revolving credit facility was extended with one year to 31 March 2024, whereas from 1 April 2023 the committed amount is €360 million.

The Company is evaluating alternatives for the subordinated unsecured convertible bonds which mature in June 2021. As per 30 June 2020, the subordinated convertible bonds amounting to €122 million form part of the short term borrowings.

9. 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. Some proceedings, if decided adversely or settled, may have a material impact on the Group's financial position, operational result or cash flows.

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. 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.
On 29 June 2020, the City of Cologne, Cologne Public Transport (KVB) and the joint venture ('Arge') that constructed a section of Cologne's North/South metro line have reached an agreement to settle all outstanding claims with regard to this project, including damages caused by the collapse of the building of the City archives on 3 March 2009. Under the agreement, each joint venture partner will pay the City of Cologne €200 million, after which the parties will dismiss further claims against each other. A substantial part of Wayss & Freytag Ingenieurbau's share is covered by insurance payments. The remaining obligation is to complete the underground works in the coming years. The Group has recognised in the first half-year of 2020 a total charge of €36 million for the non-insured contribution of the settlement and for its share of cost for the completion of the project. The obligation to complete the project and the obligation to pay to the City amount to €217 million, and the insurance reimbursement of €181 million have been represented in the Share of result of investments in associates and joint ventures in the consolidated income statement for the six month period ended 30 June 2020. An amount of €156 million is included in the Trade and other receivables in the consolidated statement of financial position as at 30 June 2020. One insurer will settle €25 million directly with the City of Cologne.

10. Related party transactions

In the first half year of 2020 no material related party transactions took place.

11. 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 2020, the balance sheet includes derivative financial instruments measured at fair value amounting to €0 million (asset) and €12 million (liability).
As at 30 June 2020, the fair value of the liability component of the subordinated convertible bonds is approximately €124 million (carrying amount €122 million). The fair value of the non-current PPP receivables is approximately €78 million (carrying amount €69 million). The fair value of the other financial assets at amortized cost is approximately €98 million (carrying amount €68 million). The carrying amounts of other financial instruments do not differ significantly from their fair values.

12. Dividend

Given the circumstances around the Covid-19 virus, the dividend proposal 2019 for the Annual General Meeting of 15 April 2020 has been withdrawn. No shares have been repurchased in the first half year of 2020.

13. BAM PPP

As a first step in the partnership extension between PGGM and BAM PPP, that was announced previously, the Group transferred an additional 10 per cent of its invested capital (share capital and subordinated loans invested through the joint venture) in 21 projects to PGGM, reducing BAM's interest in these projects from 20 per cent to 10 per cent. The cash consideration associated with this transaction amounted to €39 million, resulting in a net profit of €14 million. The impact on total equity was €24 million and includes an amount of €10 million negative of cash flow hedge reserves, that were recycled to the income statement (included in the net profit stated above).

In conjunction with the aforementioned transaction the Group reassessed its accounting for subordinated loans granted (and commitments thereto) to PPP projects in joint ventures, the majority of which are granted through the joint venture between PGGM and BAM PPP. Judgment is required to determine if subordinated loans to joint ventures (as long-term interests) form, in substance, part of the net investment for the purpose of applying the equity method of accounting. Evidence to support the likelihood of future settlement of the subordinated loans is an important element in the assessment.

In this respect the Group observes that the portfolio of availability based PPP projects has now reached a sufficient level of maturity, as it shows a stable historical track record on the repayment of subordinated loans, with the first projects now in the final phase of the concession period. The transaction with PGGM on 30 June 2020 provides an external validation of the maturity of the portfolio and the likelihood of settlement. Based on these facts and circumstances the Group concludes that subordinated loans (and commitments thereto) provided to PPP projects in 'investments in associates or joint ventures', should no longer be considered to form part of the net investment for the purpose of applying the equity method of accounting. This change has been accounted for prospectively as of 30 June 2020. As a result, the cash flow hedge reserves recognised in equity changed by an amount of €86 million positive. Of this amount, €17 million is reflected by an increase in Other financial assets (relating to subordinated loans granted to investments in associates and joint ventures), and €69 million is reflected by a decrease in Provisions (relating to commitments to provide subordinated loans). The development of the interest rate had a negative effect of €36 million on the valuation of interest rate hedges in the first half year of 2020. The net result is not affected.

14. Events after the balance sheet date

On 7 August 2020 the Group obtained a waiver from its RCF lenders (see note 8). In July 2020, the Group announced to start the process of winding down BAM International given the lack of positive outlook. The consequential impact on deferred tax assets and goodwill has been disclosed in note 4 and note 7. Dutch pension fund administrator PGGM and Royal BAM Group announced that they are discussing the extension of the current partnership between PGGM and BAM PPP. A first step in the partnership extension was effected on 30 June 2020 when the Group transferred an additional 10 per cent of its share in 21 projects that are currently within the BAM PPP-PGGM joint venture (see note 13).
No further material events after the balance sheet date have occurred.

Independent auditor’s review report

To: the shareholders and the Supervisory Board of Royal BAM Group nv

Our conclusion

We have reviewed the interim condensed consolidated financial information included in the accompanying half-yearly financial report 2020 of Royal BAM Group nv based in Bunnik for the period from 1 January 2020 to 30 June 2020.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information of Royal BAM Group nv for the period from 1 January 2020 to 30 June 2020, is not prepared, in all material respects, in accordance with IAS 34, “Interim Financial Reporting” as adopted by the European Union.

The interim condensed consolidated financial information comprises:

- The interim consolidated statement of financial position as at 30 June 2020;
- The interim condensed consolidated statements for the period from 1 January 2020 to 30 June 2020: the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cashflows;
- The notes comprising of a summary of the significant accounting policies and selected explanatory information.

Basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 2410, “Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit” (Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the Our responsibilities for the review of the interim condensed consolidated financial information section of our report.

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. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Emphasis of matter

The developments around the Covid-19 pandemic have a profound impact on people, society and on the economy. This impacts operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The impact may continue to evolve, giving rise to complexity and inherent uncertainty. Royal BAM Group nv is confronted with this as well. More specifically the complexity and uncertainty are reflected in the development of the construction and property development markets, in which Royal BAM Group nv operates.

The interim condensed consolidated financial information and our review report thereon reflect the conditions at the time of preparation, including the uncertainty and the impact on significant assumptions and estimations. Relating to the significant assumptions and estimations we draw attention to note 8

"Covenants" in the notes to the interim condensed consolidated financial information that describes the uncertainties of the development of Covid-19 for Royal BAM Group nv's financial results and sensitivities on forecasted debt covenant requirements. We further draw attention to note 4 "Taxes"; note 6 "Estimates and judgement in the interim financial statements" and note 7 "Impairments" of the interim condensed consolidated financial information.

Our conclusion is not modified in respect of these matters.

Responsibilities of the Executive Board and the Supervisory Board for the interim condensed consolidated financial information

The Executive Board is responsible for the preparation and presentation of the interim condensed consolidated financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Furthermore, the Executive Board is responsible for such internal control as it determines is necessary to enable the preparation of the interim condensed consolidated financial information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing Royal BAM Group nv's financial reporting process.

Our responsibilities for the review of the interim condensed consolidated financial information

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a review engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with Dutch Standard 2410.
Our review included among others:

- Updating our understanding of Royal BAM Group nv and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the interim condensed consolidated financial information where material misstatements are likely to arise due to fraud or error, designing and performing analytical and other review procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion
- Obtaining an understanding of internal control as it relates to the preparation of interim condensed consolidated financial information
- Making inquiries of the Executive Board and others within Royal BAM Group nv
- Applying analytical procedures with respect to information included in the interim condensed consolidated financial information
- Obtaining assurance evidence that the interim condensed consolidated financial information agrees with, or reconciles to, Royal BAM Group nv's underlying accounting records
- Evaluating the assurance evidence obtained
- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle
- Considering whether the Executive Board has identified all events that may require adjustment to or disclosure in the interim condensed consolidated financial information

- Considering whether the interim condensed consolidated financial information has been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement.

Amsterdam, 19 August 2020

Ernst & Young Accountants LLP

Signed by A.A. van Eimeren