

Report by the Supervisory Board to the shareholders

Financial statements and dividend proposal

We hereby present the 2007 financial statements, duly prepared by the Executive Board, to the General Meeting of Shareholders for approval.

The financial statements have been audited by the Group's external auditor, PricewaterhouseCoopers Accountants NV; the auditor's unqualified report is included on page 159 of the annual report. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the external auditor. The Supervisory Board is of the opinion that the financial statements and the report by the Executive Board provide a true and fair picture of the state of affairs within the Group and form a good basis on which to hold the Executive Board accountable for the management policies pursued and the Supervisory Board accountable for its supervision of the management policies pursued.

The General Meeting of Shareholders to be held in Amsterdam on 7 May 2008 will be invited to declare a dividend for 2007 of €0.90 (2006: €0.45) in cash per ordinary share. A cash dividend of €0.37086 per share will be paid on the convertible financing preference shares. A cash dividend of €0.38346 per share will be paid on the non-convertible Class F preference shares.

Composition of the Supervisory Board

On 8 May 2007, the General Meeting of Shareholders reappointed Mr W.K. Wiechers to the company's Supervisory Board. After the Chairman of the Supervisory Board, Mr G.-J. Kramer, stepped down on 8 May 2007, the Supervisory Board appointed Mr W.K. Wiechers as Chairman and Mr A. Baar as Vice-Chairman of the Board.

In 2008, it is the turn of Mr J.A. Dekker to resign by rotation as member of the Supervisory Board, in connection with the end of his terms of appointment. In the absence of any nominations from the General Meeting of Shareholders, the Supervisory Board intends to propose Mr Dekker for reappointment by the General Meeting of Shareholders as one of the company's supervisory directors. As the former director of a major company, Mr Dekker has a great deal of experience and expertise relevant to management, board membership and organisation. His technical background is also well suited to a company like BAM. For instance, Mr Dekker is very well acquainted with the construction sector and with this company in particular.

The Central Works Council has announced that it does not wish to exercise its right to recommend individuals for appointment to the Supervisory Board in connection with the vacancy caused by Mr Dekker stepping down from the Board.

During the 2007 financial year, the Supervisory Board consisted firstly of seven members, and then of six from the beginning of May 2007 onwards. The Supervisory Board takes the view that around six to seven members is an appropriate number in the present circumstances, given the size and the international nature of the Group.

There is a profile of the Supervisory Board, which shareholders may examine at the company's office and that is also published on the company's website, www.bam.nl.

This profile was discussed with shareholders at the General Meeting of Shareholders on 9 May 2005 in the context of the recommendations of the Dutch corporate governance code (hereafter the Code). In the Board's assessment, its composition is balanced and in line with its profile. The members possess the experience that is needed to function effectively in a large construction group with international operations, as well as being able to assess the main points of overall policy, act critically and independently with regard to the other members of the Supervisory Board and the members of the Executive Board, perform the tasks of the Supervisory Board as laid down by law and by the company's Articles of Association, and provide the Executive Board with solicited and unsolicited opinions as well as advice. The Board has among its members a financial expert with experience of both finance and accounting in a listed company. Other, specific criteria applied by the Board to its composition are a general, broad-based understanding of business, knowledge of the construction industry, experience in the management of large, preferably international companies and expertise relating to issues with a social dimension and concerning society at large.

The retirement schedule for the members of the Supervisory Board is shown on page 27 of the annual report, and is also published on the company's website.

In accordance with the Code, Supervisory Board members can in principle serve a maximum of three four-year terms of office. Their reappointment for another term of office will obviously be put forward to shareholders on each occasion.

The particulars of the members of the Supervisory Board are shown on page 27 of the annual report, and constitute part of the Supervisory Board's report.

The remuneration of the Supervisory Board members does not depend on the company's results, or on any change of control in the company. The shareholders' meeting on 9 May 2005 set the annual remuneration of the members of the Supervisory Board at €40,000 for the chair, €35,000 for the deputy chair and €30,000 for the other members of the Board, with a bonus of €5,000 for each member who is on any of the Committees set up by the Supervisory Board, with a maximum of one bonus per member. The shareholders' meeting also approved the company's proposal not to place the remuneration of the members of the Supervisory Board on the agenda for shareholders' meetings unless any proposals were submitted to adjust this remuneration.

The Supervisory Board intends to propose to the General Meeting of Shareholders to be held on 7 May 2008 that the annual remuneration for members of the Supervisory Board should be increased by €10,000 with effect from 1 January 2008. The bonus mentioned above will not be changed. The Supervisory Board has discovered that a comparison with businesses of a similar size to the company shows scope for an increase in remuneration for the members of the Supervisory Board. The Supervisory Board also considers that the growth achieved since 2005 and expected over the next few years also justifies an increase in the remuneration for the members of the Supervisory Board.

The Supervisory Board members do not have any other relationships of a business nature with the company. In the opinion of the Supervisory Board, the requirement of the Code with regard to independence is met. In the person of Mr Van Vonno, as former Chairman and former member of the Executive Board, the company has one member of its Supervisory Board who is not independent in the meaning of the Code, which does not present any conflicts with the Code.

None of the Supervisory Board members is a member of the Supervisory Board of more than five Dutch listed companies.

The Supervisory Board is not aware of any conflicts of interest between the company and members of the Supervisory Board, or between the company and natural persons or legal entities that hold at least 10 percent of the shares in the company.

Executive Board

During the financial year, the Executive Board consisted of four members. As matters stand, this number was deemed suitable, in light of the present circumstances, and considering the Group's size and international character.

Mr A.J.D. Franklin has retired with effect from 8 May 2007 and has resigned as a member of the Executive Board. On 7 May 2008, Mr J. Ruis, Chief Financial Officer and member of the Executive Board, will step down as a member of the Executive Board on the expiry of his four years' term of membership. The Supervisory Board, having consulted with the members of the Executive Board, confirms that Mr Ruis is an outstanding CFO with substantial knowledge of financial matters and the construction sector. The Supervisory Board therefore proposes to re-nominate Mr Ruis as CFO and member of the Executive Board for a period of four years.

The Supervisory Board is proposing to appoint Mr R.P. van Wingerden as a member of the company's Executive Board for a period of four years with effect from 7 May 2008. Mr Van Wingerden joined Royal BAM Group in 1988 and has fulfilled a number of managerial positions at the Group's operating companies. He currently chairs the management board at BAM Woningbouw. Mr Van Wingerden has a great deal of management experience in the construction industry, gained both at home and abroad.

The appointment of Mr Van Wingerden will bring the number of members of the Executive Board to five for the time being. An Executive Board consisting of four or five members is regarded as appropriate in today's climate, certainly in light of the Group's size and international nature. We will consider over the next few years whether persisting with an Executive Board of five members seems correct.

During the financial year 2007, the Supervisory Board has again assessed the performance of the Executive Board and of the individual members of that Board. The Supervisory Board considers that the Executive Board performed well in 2007, which is also apparent from the company's excellent financial results for the 2007 financial year.

This also applies to the individual members of the Executive Board.

Members of the Executive Board are appointed for a period of four years. They retire after the conclusion of the first Annual General Meeting of Shareholders to be held in the fourth year after the year in which they were appointed. The contractual agreements with members of the Executive Board who were appointed before the Code came into effect will be honoured; their appointment is for an indefinite period.

The retirement schedule for the members of the Executive Board is shown on page 28 of the annual report, and is also published on the company's website.

The Executive Board rules are published on the company's website.

The remuneration of the members of the Executive Board is presented on page 22 of this annual report.

The members of the Executive Board are not members of the Supervisory Boards of any listed companies.

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

The Supervisory Board's activities

The Supervisory Board held eight meetings in the year under review, in the presence of the Executive Board. The Supervisory Board also met a number of times without the Executive Board being present. The meetings were almost always fully attended. Each of the meetings of the Supervisory Board featured a report on what had been discussed in meetings of the Board's committees. In addition, the Executive Board reported in each case on the state of affairs, the financial situation and market developments for the operating companies and the risks that they face, each report being based on the operating plan for the relevant financial year. Matters also discussed included the financial statements for 2006, the quarterly statements for 2007, reserve and dividend policy and the dividend proposal for 2006, corporate governance, the situation relating to the operating companies in Germany, the various effects of IFRS (International Financial Reporting Standards) on the Group's financial reports, the Group's existing anti-takeover measures, compensable losses available within the Group and the most important claims and legal proceedings involving parts of the Group.

Preparations were also made for the Annual General Meeting of Shareholders, and the AGM was discussed after it had taken place.

The Supervisory Board gave its approval for the 2008 operational plan, which sets out the Group's financial targets, the strategy aimed at realising those targets and the preconditions to be observed in connection with that strategy.

In line with the 2007-2009 strategic agenda, which was discussed and approved during the 2006 financial year, the Supervisory Board turned its attention to a number of aspects of this agenda, including the portfolio, synergy and the future structure of the Group. An explanation of the Group's strategic agenda can be examined at page 8 of the annual report.

The meetings in the absence of the Executive Board were devoted to the operation of the Supervisory Board itself (both as a whole and the individual members), the composition and profile of the Supervisory Board, its relationship to the Executive Board, the Executive Board's composition and performance (both as a whole and the individual members) and the remuneration of the members of the Executive Board (including determination of the variable portion). The Supervisory Board finalised the remuneration report compiled by the Remuneration Committee.

The remuneration report is included on page 22 of the annual report as part of the report by the Supervisory Board.

At its quarterly meetings, as usual, the Supervisory Board discussed the course of business and prospects of the Group as a whole and of the respective sectors and the individual operating companies, on the basis of written reports and accompanying presentations. Areas of attention included the risks attached to the enterprise, the internal management and control systems, and the results of the appraisal of the Executive Board in light of these systems. The implications of the matters addressed in these contexts at the meetings of the Supervisory Board are discussed elsewhere in this report, including on page 24.

The Board has satisfied itself that the Group has internal risk management and internal control systems, financial reporting manuals and procedures for drawing up such reports and an established monitoring and reporting system.

During the financial year, both the Executive Board and the external accountant in particular kept the Supervisory Board up to date on the course of business at BAM Deutschland. This involved closely monitoring whether the measures adopted at the end of 2006 and the start of 2007, in relation to the losses sustained by Wayss & Freytag Schlüsselfertigbau during the 2006 financial year, were having the required effect. The Supervisory Board discussed the conclusions of the reports on the losses prepared at the company's request by PricewaterhouseCoopers and Ernst & Young. The Supervisory Board is convinced that the measures adopted have proven adequate and that control over the organisation of the residual part of the former Wayss & Freytag Schlüsselfertigbau, now incorporated within BAM Deutschland, has been restored.

The developments on the markets in which the Group operates, management development and the quality of management were also discussed.

The Supervisory Board again considered extensively during this financial year on developments in the Group's PPP activities. The discussions covered a range of issues, including how the Group is involved in facility management and the desirable level of investment in PPP activities. The Board also discussed the opportunities for transferring currently operating PPP projects to investors. In this context, the Supervisory Board took note of the staged transfer of BAM's holding in four SPEs in the United Kingdom to a joint venture set up with Dutch Infrastructure Fund.

There were also regular discussions with the Executive Board on the desired risk policy for assets invested in real estate.

The Supervisory Board was informed about the reorganisation of a number of business units within BAM Woningbouw, i.e. Villaforte, Houtskelctbouw and the Betonfabriek (concrete factory).

The Supervisory Board took cognizance of the reports of the external auditor and the 2006 management letter and discussed these documents with the external auditor and the Executive Board. The Supervisory Board also discussed the follow-up to the external auditor's findings with the Executive Board. The Supervisory Board also considered the relationship with the external auditor and prepared the proposal to the general meeting of shareholders to charge PricewaterhouseCoopers with the audit of the financial statements for the financial year 2007.

The Supervisory Board exchanged thoughts with the Executive Board at a number of meetings regarding progress with the proposed sale of the operating company Flatiron in the United States. The Supervisory Board gave its approval to the outcome of the negotiations regarding this sale. Flatiron was transferred to the new owner early December. The Supervisory Board also approved the acquisition of the Belgian project development company Kairo and the Belgian civil engineering company Betonac.

The Supervisory Board, together with the Executive Board, spent several days visiting a number of Dutch operating companies in September 2007, and took the opportunity to exchange views with the management of those companies. The Supervisory Board visits some of the Group's operating companies every year, while working visits are also occasionally made to current projects. Thus, a visit was made to the St. Jobsveem project in Rotterdam in February 2007, where a discussion took place with the project management team.

The Supervisory Board exchanged views with the Executive Board on a number of occasions concerning liquidity levels, the equity position and the Group's capital ratios. In this context, the Supervisory Board discussed refinancing the Group with the Executive Board. The Supervisory Board approved refinancing by means of a senior facility agreement in the amount of €550 million and a €50 million increase in the existing subordinated loan to €200 million, as well as the security guarantees to be issued in this regard by Royal BAM Group and a number of the operating companies.

The Supervisory Board also approved the amendment of the company's Articles of Association to enable the use of electronic media for communicating with shareholders. The General Meeting of Shareholders on 8 May 2007 approved the amendment of the company's Articles of Association. The Articles of Association were subsequently amended on 16 May 2007.

The Board also approved an amendment to the BAM Regulations 2005 in connection with the holding of and trade in shares, this amendment being required as a result of the Dutch Financial Supervision Act coming into effect.

Delegations from the Supervisory Board, consisting of different members on each occasion, again took part in two consultation meetings with the Central Works Council. The usual informal annual meeting of the Supervisory Board and the Executive Board with the Central Works Council was held in September 2007.

The Supervisory Board rules and committees

The Supervisory Board has a set of rules, governing the composition, duties and procedures of the Board and its dealings with the Executive Board, the General Meeting of Shareholders and the Central Works Council. The rules of the Supervisory Board and those of the Supervisory Board committees mentioned below, as well as the composition of those committees, can be found on the company's website.

The Supervisory Board has three permanent committees, namely an Audit Committee, a Remuneration Committee and a Selection and Appointments Committee. It is the task of these committees to support and advise the Supervisory Board concerning the activities that are the committees' responsibility and in preparing the Supervisory Board's decisions regarding those activities. The Supervisory Board as a whole remains responsible for the way in which it performs its tasks and for the preparatory work carried out by the committees. The committees submitted reports of all their meetings to the Supervisory Board.

The Audit Committee consists of Messrs Abrahamsen, Dekker, Van Vonno (with effect from May 2007) and Wiechers (until May 2007), with Mr Dekker being the Chairman. The composition of the Audit Committee is in line with the provisions of the Code.

The Audit Committee supports the Supervisory Board in the performance of its tasks and drafts proposed decisions of the Supervisory Board in respect of a number of matters, which include:

- the operation of the internal risk management and control systems;
- the provision of financial information on the company's part, including the financial statements, the quarterly figures and the process through which this information is generated;
- compliance with recommendations and follow-up to comments from the external auditor;
- the external audit process and the audit plan;
- the relationship with the external auditor;
- the process through which the company monitors compliance with laws and regulations and with its own code of conduct;
- policy in respect of tax planning;
- the application of ICT;
- Group financing; and
- the financial and administrative organisation.

The Committee met four times during the year with the external auditor present (for part of the meeting) on each occasion. The Chairman and the Chief Financial Officer from the Executive Board were also invited.

The principal topics addressed at these meetings were the financial reporting on the 2006 annual figures and the 2007 quarterly figures; the 2006 management letter; the follow-up to the external auditor's recommendations; the risks and risk management and control systems, including those concerning property development, public-private partnerships and the developments at the German operating companies; the Group's dividend policy and tax planning; the activities and fee of and the relationship with the external auditor; the audit plan for 2007; the 2008 operational plan; the ICT policy; the Group's funding and solvency; the movement of the liquidity level; the available compensable losses within the Group, particularly in Germany; the financial and administrative organisation, the forensic investigation at Wayss & Freytag Schlüsselfertigbau and any impact of IFRS on financial reporting, including the method of accounting for goodwill on acquisitions.

The Audit Committee also held discussions with the Executive Board about the Group's refinancing, which was completed during 2007.

The audit committee met with the external auditor on one occasion without the Executive Board being present, and reported to the Supervisory Board on the relationship with the external auditor.

The Remuneration Committee consists of Messrs Baar, Kramer (until May 2007) and Wiechers (with effect from May 2007), with Mr Baar being the Chairman. The composition of the Remuneration Committee is in line with the Code.

One of the tasks of the Remuneration Committee is to make proposals to the Supervisory Board with regard to company remuneration policy, as well as the remuneration structure, the level of remuneration and the terms of employment of the members of the Executive Board and the remuneration of the members of the Supervisory Board. The Committee also consults the Chairman of the Executive Board about the policy on terms of employment for operating company managers and executives of equivalent rank. The Remuneration Committee also proposes a remuneration report on the way in which remuneration policy has been implemented in practice.

The Remuneration Committee met three times during the past financial year. The Chairman of the Executive Board was present at these meetings. The Committee members consulted with each other a number of times outside of the context of a formal meeting.

The Remuneration Committee made a proposal regarding company remuneration policy for 2007 and subsequent years. The Committee prepared a proposal for the Supervisory Board for amendment of the remuneration of the members of the Supervisory Board. The Remuneration Committee also discussed conditions relating to the remuneration of operating company management teams and staff directors. The Committee submitted a proposal to the Supervisory Board relating to the remuneration of members of the Executive Board, and criteria for the variable remuneration in 2008. The Remuneration Committee also prepared the remuneration report. The Remuneration Committee did not use external advisers during the financial year.

The Selection and Appointment Committee consists of Messrs Baar, Kramer (until May 2007) and Wiechers (with effect from May 2007), with Mr Kramer acting as chair until May 2007 and Mr Wiechers acting as chair with effect from 2007. One of the tasks of the Selection and Appointments Committee is to make proposals to the Supervisory Board with regard to:

- selection criteria and appointment procedures with regard to members of the Supervisory Board and members of the Executive Board;
- the size and composition of the Supervisory Board and the Executive Board and a profile of the Supervisory Board;
- assessment of the performance of individual members of the Supervisory Board and members of the Executive Board;
- (re-)appointment of members of the Supervisory Board and members of the Executive Board;
- an Executive Board member's acceptance of membership of the Supervisory Board of a listed company;
- possible conflicts of interest arising in connection with the acceptance of other positions by members of the Supervisory Board.

During the financial year, the Committee discussed the current and future size and composition of the Supervisory Board and the Executive Board. The Supervisory Board also discussed these issues without the Executive Board being present.

The Committee prepared the reappointment of one member of the Supervisory Board and the appointment of one member of the Executive Board during the financial year.

The Committee also held separate (assessment) meetings with each member of the Executive Board.

Corporate governance

The company's corporate governance structure was discussed with the shareholders during the General Meeting of Shareholders on 9 May 2005, at which meeting the proposals to bring the company's Articles of Association into line with the Code were also approved. The Articles of Association were amended shortly thereafter.

The Supervisory Board made a further study of the company's corporate governance structure during the financial year 2007. This also included consideration of the corporate governance views of some institutional investors. None of this led to any substantial amendments to the company's corporate governance structure. It was satisfying to note that the company would score outstandingly well in any comparable investigation relating to this topic in the Netherlands.

The Supervisory Board and Executive Board are convinced that Royal BAM Group's corporate governance is well organised, not least because of the application of the corporate governance code.

Please refer to the explanation provided on page 35 of the annual report concerning the company's compliance with the Code.

External auditor

Both in its discussion of the 2006 annual figures and its discussion of the 2007 semi-annual figures, the Supervisory Board – as is usual – called on the external auditor to provide additional information. The Board noted that the external auditor had received the financial information on which the quarterly figures, the interim results, the results and the other interim financial reports were based and that he had been given the opportunity to respond to that information.

The external auditor was present at the General Meeting of Shareholders on 8 May 2007.

As part of its consideration of the 2007 annual report and financial statements, the Supervisory Board assessed the relationship with the external auditor based on a report from the Executive Board and the Audit Committee.

Given the Board's good experience with the external auditor and the external auditor's expertise with regard to the construction industry in general and the Group in particular, the Supervisory Board sees no reason to propose to the shareholders that the external auditor be changed. A proposal will therefore be put to the shareholders' meeting on 7 May 2008 that PricewaterhouseCoopers Accountants N.V. be re-appointed as external auditor, responsible for auditing the Group's 2008 financial statements.

The Supervisory Board has established to its satisfaction that the measures adopted within BAM Deutschland have had the desired effect. One of the consequences of these measures is that the Group's result for 2007 recovered well compared to the result for 2006. As anticipated, BAM Deutschland achieved a break-even result for the financial year. The position with the German operating companies will continue to receive our full attention during 2008. Once again, the operating results from the rest of the Group for the 2007 financial year were at a good level. In light of these positive developments and also due to the dedication and commitment of so many people within the Group, the Supervisory Board therefore has every confidence in the future of Royal BAM Group.

The Supervisory Board would like to express its considerable appreciation to the Group's Executive Board, managers and employees with regard to their efforts during the year under review.

Bunnik, Netherlands, 20 March 2008
Supervisory Board

