

Report by the Supervisory Board to the shareholders

Financial statements and dividend proposal

We hereby present the 2005 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 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 proposal to the General Meeting of Shareholders on 3 May 2006 is to adopt a dividend for the 2005 financial year at €2.00 (2004: €1.55) in cash per ordinary share. A cash dividend of € 1.8543 per share will be paid on the convertible financing preference shares. A cash dividend of € 1.9173 per share will be paid on the non-convertible Class F preference shares.

Composition of the Supervisory Board

On 9 May 2005, the General Meeting of Shareholders reappointed Mr A. Baar and Mr H. van Rompuy to the company's Supervisory Board.

In 2006, Mr R.J.N. Abrahamsen will resign by rotation as a member of the Supervisory Board, in connection with the end of his term of appointment.

If the General Meeting of Shareholders does not submit nominations, the Supervisory Board intends to put forward the following candidates.

The Supervisory Board intends to nominate Mr Abrahamsen for reappointment to the company's Executive Board by the General Meeting of Shareholders. Mr Abrahamsen possesses a great deal of financial expertise and experience leading an internationally operating enterprise.

The Central Works Council has announced that it does not wish to exercise its right to recommend a candidate to be nominated for appointment to the Supervisory Board in connection with Mr Abrahamsen's resignation.

The Supervisory Board also intends to nominate Mr W. van Vonno, who resigned from the company's Executive Board on 1 January 2006 upon his retirement, for appointment by the General Meeting of Shareholders as a member of the company's Supervisory Board. Mr Van Vonno possesses a great deal of know-how and experience concerning the company and the sector in which the company operates.

The reinforced right of appointment as laid down in Section 158(6) of Book 2 of the Netherlands Civil Code applies to this nomination. The Central Works Council has announced, with reference to that right, that it wishes to recommend Mr Van Vonno to be nominated for appointment to the Supervisory Board.

During the 2005 financial year, the Supervisory Board consisted of six members. The envisioned appointment of Mr Van Vonno will bring this number to seven. In the Supervisory Board's view, a number of either six or seven members can be qualified as suitable in the present circumstances, considering the Group's size and international character.

There is a profile for the Supervisory Board, which shareholders may examine at the company's office and that is published on the company's website, www.bam.nl. This profile was discussed with the shareholders at the General Meeting of Shareholders on 9 May 2005, in connection with the recommendations set out in the Dutch corporate governance code ('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 company 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. Among the other 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 has also been 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 26 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. The shareholders' meeting on 9 May 2005 adopted an annual remuneration for the members of the Supervisory Board of €40,000 for the chair, €35,000 for the deputy chair and €30,000 for the other Board members, with a bonus of €5,000 for each member serving on one 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 proposition not to place the remuneration of the members of the Supervisory Board on the agenda for shareholders' meetings unless any proposals are submitted to adjust this remuneration.

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; all the Supervisory Board members are considered independent within the meaning of the Code. With the envisioned appointment of Mr Van Vonno, the company will have 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

Mr W. van Vonno stepped down as chairman of the Executive Board on 1 October of the financial year, and on 1 January 2006 he also resigned as a member of the Executive Board. Mr J.A.P. van Oosten, member of the Executive Board, was appointed chairman of the Executive Board on 1 October 2005. The Supervisory Board wishes to express its gratitude for Mr Van Vonno's tremendous dedication and involvement in Royal BAM Group's fortunes and misfortunes. The members of the Supervisory Board have the greatest possible appreciation for the manner in which Mr Van Vonno interpreted his chairmanship of the Executive Board and the way in which he led the substantial growth of the group in recent years.

During the financial year, the Executive Board consisted of five members. With Mr Van Vonno's resignation, the Executive Board had four members on 1 January 2006. As matters stand, this number is deemed suitable, in light of the present circumstances, and considering the Group's size and international character. The Supervisory Board annually assesses the performance of the Executive Board and of the individual members of that Board. In the past year, it was again established that the Executive Board had performed excellently. This also applies to the individual members of the Executive Board. Under the Executive Board's guidance, Royal BAM Group once more realised a solid annual result.

In accordance with the Code, members of the Executive Board are appointed for a period of four years and will step down following 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 predating the Code's entry into force will be respected; their appointments are indefinite.

The employment contracts of members of the Executive Board are for an indefinite period of time. That will also be the case for future members of the Executive Board. The resignation schedule for the Executive Board is shown on page 29 of this annual report, and has also been published on the company's website.

These rules have been approved by the Supervisory Board and can be found on the company's website.

The remuneration of the members of the Executive Board is presented on page 25 of this annual report.

The members of the Executive Board are not members of the Supervisory Board 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 seven 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 the 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. Other topics addressed were the Group's strategy, public-private partnerships, the 2004 annual report and financial statements and the 2005 quarterly reports, the policies for reserves and dividends and the proposed dividend for the year 2004, corporate governance and the resulting amendment to the company's Articles of Association, the implications of the introduction of IFRS, the situation of the operating companies in Germany, the Group's financial position and solvency, the available compensable losses within the Group, the settlement of the irregularities in the construction industry and the principal claims and judicial 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 2006 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.

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 has adopted the remuneration report compiled by the Remuneration Committee.

At its quarterly meetings, as per 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 include 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 connections at the meetings of the Supervisory Board are discussed elsewhere in this report, including on page 40.

Other matters discussed were the developments on the markets in which the Group operates, the Group's organisational structure, management development and the quality of management.

The Supervisory Board took cognizance of the reports of the external auditor and the 2004 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. In addition, the Supervisory Board also assessed the relationship with the external auditor.

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.

The Supervisory Board gave its approval for the acquisition by Belgian operating company Galère SA of the company Balteau SA, also established in the French-speaking part of Belgium.

On several occasions, the Supervisory Board and the Executive Board discussed the acquisition of AM NV's housing development business and accompanying land bank. The Supervisory Board gave its approval for a public takeover bid to be issued for AM NV aimed at acquiring AM Wonen and AM Grondbedrijf, and approved the funding for that acquisition. The public takeover bid was issued on 21 December 2005 and successfully completed early in 2006.

The Supervisory Board had a number of discussions with the Executive Board about the progress of preparations for the introduction of the IFRS and about the consequences of the IFRS for the balance sheet and the result.

In connection with Mr Van Vonno's resignation, the Supervisory Board approved a revised division of the Executive Board's duties. In addition, the Supervisory Board approved the 2005 BAM Regulations on the possession of and trade in securities, which regulations replace the 2003 regulations in light of the introduction of the Dutch Market Abuse Act (*Wet marktmisbruik*).

The Supervisory Board, together with the Executive Board, visited Irish firm Ascon in September of the 2005 financial year, and took the opportunity to exchange views with the management of that operating company. The Supervisory Board visits one of the Group's operating companies every year, while working visits are also occasionally made to current projects.

The Supervisory Board exchanged views with the Executive Board on several occasions concerning the company's financial position and the Group's solvency and how to strengthen the Group's capital ratios, partly because of the introduction of the IFRS. The Supervisory Board granted its approval for the exercise of the option granted by ING Bank in 2004 to purchase 1.57 million non-convertible preference shares in the company's own capital. The Supervisory Board also attached its approval to the conclusion of a new subordinated loan, serving in part to replace the existing subordinated loan. The Supervisory Board also gave its approval for an issue of ordinary shares, whose revenues were to be used to acquire shares in AM NV, by issuing a public takeover bid.

At several meetings, the Supervisory Board and the Executive Board discussed the settlement of the irregularities in the construction industry in the Netherlands. The Executive Board reports on this settlement in detail on page 45 of the annual report. The Supervisory Board is well aware that the Dutch construction industry has been in a period of serious crisis in more recent times. The sector will have to work with complete conviction on building a new future. The settlement reached with government clients contributes to regaining our clients' and society's trust in the sector. Members of the Supervisory Board will monitor the company's continued support of this development.

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 2005.

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 subjects that are the committees' responsibility and in preparing the Supervisory Board's decisions regarding those subjects. 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 and Wiechers, 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 plans;
- the application of ICT equipment;
- Group financing; and
- the financial and administrative organisation.

The Committee met four times during the year, with the external auditor present every time. 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 2004 annual figures and the 2005 quarterly figures, the 2004 management letter, the follow-up to the external auditor's recommendations, the risks and risk management and control systems, including those concerning property development and public-private partnerships, the Group's dividend policy and tax planning, the activities and fee of and the relationship with the external auditor, the 2005 audit plan, the 2006 operational plan, the Group's funding and solvency, the issue of ordinary shares, the available compensable losses within the Group, the financial and administrative organisation and the preparations for and implications of the introduction of IFRS.

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 Kramer and Baar, with the latter 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 that meeting. The Committee members consulted with each other a number of times outside of the context of a formal meeting. The Remuneration Committee discussed the conditions attached to the remuneration of the management of the various operating companies and central directors and submitted a proposal to the Supervisory Board regarding the remuneration of the members of the Executive Board.

The Remuneration Committee also presented a proposal for the company's remuneration policy. In early 2006 the Committee also drew up the remuneration report, which contains the main points of the remuneration policy and can be found on the company's website. The remuneration report is also on page 23 of the Annual Report.

The Selection and Appointment Committee consists of Mr Kramer and Mr Baar, with Mr Kramer acting as chair.

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.

The Committee also monitors the Executive Board's policy on selection criteria and appointment procedures for senior management.

During the financial year, the Selection and Appointment Committee discussed the change in the chairmanship of the Executive Board and the appointments and reappointments to the Supervisory Board arising in 2006. These issues were also discussed by the Supervisory Board without the Executive Board being present.

Corporate governance

The company has ensured that its corporate governance rules correspond to the Dutch corporate governance code wherever possible. 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 discussed. The Articles of Association were amended shortly thereafter.

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 2004 annual figures and its discussion of the 2005 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 are based and that he had been given the opportunity to react to that information. The external auditor was present at the General Meeting of Shareholders on 9 May 2005.

As part of its consideration of the 2005 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. As the audit of the 2004 financial statements constituted the seventh consecutive year for which the partner responsible had audited the Group's financial statements on behalf of the external auditor, the external auditor appointed a different partner in 2005 to be responsible for auditing the Group's financial statements.

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 3 May 2006 that PricewaterhouseCoopers Accountants N.V. be re-appointed as external auditor, responsible for auditing the Group's 2006 financial statements.

The Supervisory Board is very pleased with the Group's operating results for the 2005 financial year. These favourable results were in part thanks to the efforts of many people within the Group. The Supervisory Board – partly in view of the dedication and commitment of those in charge – has every confidence in the future of the Group.

The Supervisory Board would like to express its considerable appreciation for the work of the Group's Executive Board, managers and employees with regard to the results achieved during the year.

Supervisory Board

Bunnik, Netherlands, 22 March 2006