

4.2 Report of the Supervisory Board to shareholders

The year under review was one of transformation. The execution of the Back in Shape programme, developed to face further headwind and ensure that the company is ready for future growth, started expeditiously in the second half of 2014 and was further rolled out in 2015. The Supervisory Board acknowledges with satisfaction that the goals set in the third quarter of 2014 have been achieved by the end of 2015; the cost base of the company has been reduced with €105 million on an annual basis, the trade working capital has been reduced to -8.1 per cent of revenue and in 2015 assets have been sold for a total amount of €95 million. The cost reduction has almost completely been achieved by adjusting and simplifying the organisational structure, allowing the Group to operate much more as one firm, capturing the synergy potential based on the special capabilities available in the Group. The establishment of a Management Board including management of the operating companies will help in developing and implementing a common strategy and aligned policies for the Group.

In addition a carefully crafted stage gate tendering process has been introduced and implemented throughout the organisation. Supported by digital tools and accumulated business data, tenders are being followed and strict controls and checks have been implemented. This will lead to a better approach on tendering and therefore reducing risks in project execution.

The Executive Board, together with the Management Board and the rest of the organisation have vigorously pursued the goals set and the outcome offers confidence for the future. However, given the late cyclical character of the construction industry and the (albeit shrinking) backlog of projects with low margins and high risks taken on in the recent economic crisis, caution is still necessary.

In order to prepare the company further for the future, the strategy has been reviewed, leading to a corporate strategy to be announced in February 2016. Global technological developments, market trends and the economic outlook have been included in a programme that will allow Royal BAM Group to add value for its stakeholders.

The above topics and other work performed by the Supervisory Board are addressed in more detail in this report.

The Supervisory Board's activities

Strategy and operational plan

In the Group strategy 2013-2015, which was formulated in 2012, the central focus is on achieving operational improvement and targeted growth initiatives in services, multidisciplinary projects and international niche markets, all geared towards positioning BAM as a 'best in class' construction company.

In 2015 this strategy was reviewed taking into account the continuing economic crisis, developments in the construction industry and market and the new operating model that was developed in 2014. The measures taken as part of the Back in Shape programme will support the new strategy to be announced in 2016. The Supervisory Board was involved closely in the process and has held several dedicated meetings and discussions on the subject.

The Supervisory Board also approved the 2016 Operational Plan, which sets out the Group's financial targets, the strategy aimed at achieving these targets and the parameters used for this strategy. This operational plan takes into account the new group strategy as much as possible. The consequences of this new strategy for the individual operating companies will be further included in the 2017 Operational Plan.

Healthy order-intake

The need to avoid major loss-making projects and reduce the financial consequences these projects may have remained one of the main items of discussion between the Supervisory Board and the Executive Board. A material part of the Back in Shape programme is geared towards improved project control. For this reason the new stage gate tendering process with stage gate controls has become the backbone of this control mechanism. In addition the Operational Audit function was further strengthened with the appointment of a dedicated and experienced director. The Management Board established in 2014 has also contributed to improved project control by sharing knowledge and best practices and identifying and implementing operational improvements. The introduction of more centrally organised management and control functions and increased attention to governance and compliance forms the final pillar of the efforts taken.

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

Financial position

During the financial year, the Supervisory Board and the Executive Board regularly discussed the Group's financial position and the way in which the Group should be financed. The Supervisory Board also exchanged views on several occasions with the Executive Board regarding the working capital, cash flow and the liquidity performance in relation to the current financing covenants, the Group's solvency level and the Group's financing requirement for the longer term.

Late 2015 the company has extended its credit facilities with one year, leading to a subordinated loan of €108 million, available until 30 July 2018 and a revolving credit facility of €412.5 million, available until 30 January 2018. The Supervisory Board is pleased to note that the Group remained well within the agreed financing covenants.

The financial position of the company has been improved in 2015 on the back of the successful execution of the Back in Shape programme.

Risk profile

The Supervisory Board's regular meetings included a discussion on the course of business and prospects for both the Group as a whole and for the respective segments and individual operating companies. These discussions covered the main risks involved in the business, the internal management and control systems and the assessment of these systems by the Executive Board. The implications of the matters addressed in these meetings are discussed elsewhere in the Report, including on page 24 and onwards.

The Supervisory Board has noted that the Group has internal risk management and internal control systems, financial reporting manuals and procedures for drawing up financial reports, as well as an established monitoring and reporting system. The Supervisory Board also established that the Executive Board has further improved its ability to monitor the operational activities of the Group. The establishment of a new organisational structure in 2014, leading to the reduction from 26 to 10 operating companies in two business lines and the establishment of a Management Board, all contributed to increased transparency and awareness in a more efficient and effective BAM organisation with uniformed systems and procedures. Problematic projects are being monitored even closer with regular updates on operational and financial progress.

Over the past years, the risk management of the Group has been strengthened. The Supervisory Board obtained information from the corporate risk manager and the director of operational audit about their activities and the progress that has been made. Both functions have been strengthened as part of the Back in Shape programme in order to further support the goal to reduce risks and improve control in the project business.

The financial audit process is carried out by an independent audit firm that is assisted by the executive officers of the Group and by the Group systems. Also during 2015, the collaboration between PricewaterhouseCoopers and the BAM employees involved in the audit was constructive and satisfactory.

Corporate Social Responsibility

The Supervisory Board discussed the importance of an approach towards corporate social responsibility ('CSR') with the Executive Board and agreed with the list of CSR factors identified by the Executive Board as being most relevant for BAM. One of these aspects concerns integrity. Following the introduction of a new Group-wide Code of Conduct in 2014, which is supported by dedicated management attention and individual e-learning tools, the company is now in the process of revitalising its compliance framework. Enabling employees to report misconduct will be further supported by the introduction of an anonymous reporting portal in 2016 and an improved reporting system.

The Supervisory Board was pleased to note that the Group continues to excel in CSR. Royal BAM Group has been identified as a global leader for its actions and strategies in response to climate change and has been awarded a position on The Climate A List by CDP, the international not-for-profit organisation that drives sustainable economies. 113 companies appear on this A list, which has been produced at the request of 822 investors who represent more than a third of the world's invested capital.

The Supervisory Board approved the company's approach on corporate social responsibility and the targets set in this respect. Also the pro-active consultation of partners, clients and suppliers in the stakeholders dialogues is supported and stimulated by the Supervisory Board.

Safety

Safety continued to be a focus area for the Supervisory Board and the company. Safety performance again improved last year (from 5.0 (IF) in 2014 to 4.5 (IF) in 2015). BAM regrettably had to record two fatal incidents on the Group's projects, which were evaluated elaborately in the meetings with the Executive Board. Together with the Executive Board, the Supervisory Board considers the achievement of a higher safety level to be an important challenge for the Group. The Supervisory Board fully supports and encourages the Executive Board's approach to further increase management's dedication to safety.

Other activities

Each of the Supervisory Board's meetings featured a report on what had been discussed in meetings of the Board's 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 they face, each report being based on the operational plan for the relevant financial year. Other matters discussed in 2015 included the Annual Report and financial statement for 2014, the half-yearly report and interim statement for 2015, the reserve and dividend policy and the dividend proposal for 2014, corporate governance, the various effects of International Financial Reporting Standards



Reversing rail track, Elst, the Netherlands. BAM Infra.

(IFRS) on the Group's financial reports, management development and the quality of management, and the most important claims as well as legal proceedings involving parts of the Group.

During the annual visit to a number of the Group's operating companies over several days in September 2015, the Supervisory Board and the Executive Board exchanged views with the management teams of the Dutch operating companies. The directors gave presentations on their companies, their markets and the challenges they currently face. The Supervisory Board also met with a number of employees throughout the company.

In 2015 a delegation of the Supervisory Board met with the Central Works Council on several occasions in order to discuss the position of the employees in general and more specifically the consequences of the Back in Shape programme. In addition the annual meeting of the Supervisory Board and the Executive Board with the Central Works Council was held on 19 August 2015.

Performance of the Supervisory Board

In 2015 the Supervisory Board assessed its performance with the support of an external expert who held extensive meetings with each individual Supervisory Board member as well as the

members of the Executive Board. The expert has laid down his observations and recommendations as well as the input from the individual members of the Supervisory Board in a report that was presented to and reviewed by the Supervisory Board. Based on this thorough process the Supervisory Board concluded that the individual members of the Board, as well as the Board as a whole, are functioning satisfactory.

The observations and recommendations, among other things, regarded the importance to periodically monitor and review the profile of the Supervisory Board in order to ensure sufficient attention to diversity, international background and expertise in the industry in which BAM is active. After having focused in the past period on operational excellence, cash and costs, the Supervisory Board noted the importance to pay more attention to management development. Finally the Supervisory Board recognised the value of ample time for deliberations in executive sessions.

Remuneration

The Supervisory Board has approved the remuneration report prepared by the Remuneration Committee. The Remuneration report is included on pages 99-105 of the report as part of the Report by the Supervisory Board. Following a review with



National Graphene Institute at the
University of Manchester.
Architect: Jestico+Whites.
Contractor: BAM Construct UK.

external support of the total remuneration package for senior management, including the Executive Board, the remuneration policy has been amended. The amended remuneration policy was approved by the General Meeting in 2015 and is explained in more detail on pages 99 of the report and further.

Meetings

In the year under review, the Supervisory Board met on eight occasions in the presence of the Executive Board. Six of these meetings were regular meetings. The other meetings were held to discuss and approve large projects and to discuss the progress of the strategy update process. The general attendance at the meetings in 2015 was 98 per cent.

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

The Supervisory Board's committees

The Supervisory Board has three permanent committees, being an Audit Committee, a Remuneration Committee and a Nomination Committee. It is the task of these committees to support and advise the Supervisory Board concerning items under the committees' responsibility and to prepare the Supervisory Board's decisions regarding those items. The Supervisory Board as a whole remains responsible for the way in which it performs its tasks and for the preparatory work carried out by the committees. The committees submitted reports on their meetings to the Supervisory Board.

The Audit Committee

In the financial year the Audit Committee was composed of Messrs Scheffers (Chairman), Hansen and Wester.

The composition of the Audit Committee is in line with the provisions of the Dutch corporate governance code. The Audit Committee supports the Supervisory Board in the performance of its tasks, especially as regards financial and accounting matters.

The Committee met four times over the past financial year. The independent auditor was present at all of these meetings. The Chairman and the Chief Financial Officer of the Executive Board also attended all the Audit Committee's meetings. The Committee resolved that the director operational audit will also attend every meeting.

In addition to its regular tasks and responsibilities, the Audit Committee addressed the following specific matters in 2015:

- audit plan for 2015;
- the 2016 operational plan;
- the operational audit charter;
- material legal proceedings;
- development of working capital;
- development of cash;
- key projects;
- transition of audit responsibilities to the new independent auditor in 2016.

In 2015 special attention was also given to the execution of the Back in Shape programme and the introduction of the stage gate tender procedure.

The Audit Committee was briefed by the independent auditor on relevant developments in the audit profession, especially those related to the changed independent auditors and assurance report. The transition of audit responsibilities to EY as per 2016 was discussed with both the current and the new auditor. As part of this transition process, the new auditor attended one of the meetings of the Audit Committee. The committee met with the independent auditor on one occasion without the Executive Board being present and reported to the Supervisory Board on the relationship with the independent auditor. The Audit Committee believes that the relationship with the independent auditor is sound.

Remuneration Committee

In the financial year, the Remuneration Committee was composed of Mrs Mahieu (Chairwoman), Mr Elverding and Mr Noy. The composition of the Remuneration Committee is in line with the provisions of the Dutch corporate governance code.

One of the tasks of the Remuneration Committee is to make proposals to the Supervisory Board with regard to the remuneration policy, the terms of employment of members of the Executive Board and the remuneration of the members of the Supervisory Board and Executive Board.

Early 2015 the Remuneration Committee evaluated the current remuneration policy of the Executive Board with the assistance of an external advisor as a result of which a proposal for amendment of this policy was submitted for approval to the Supervisory

Board and, subsequently, the general meeting in 2015. More information on the remuneration policy can be found in the remuneration report.

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 addition, the Remuneration Committee prepared a remuneration report on the way the remuneration policy has been implemented in practice. Also the developments with regard to the different pension schemes in the company were reviewed. In the financial year, the Committee consulted the Chairman of the Executive Board about the policy on terms and conditions of employment for directors of operating companies and executive officers of equivalent rank, and the Committee was also involved in the development of the new performance share plan.

The Remuneration Committee met three times during the past financial year. The Chairman of the Executive Board was present during parts of these meetings. The Committee members consulted with each other a number of times outside the context of a formal meeting. In addition a number of teleconferences were held. The Committee held individual performance evaluation interviews with the members of the Executive Board as part of the assessment of the Executive Board.

Nomination Committee

During the financial year, the Selection and Appointment Committee was renamed Nomination Committee in order to align the name with practices in the market. The committee was composed of Mr Elverding (Chairman), Mrs Mahieu and Mr Noy.

One of the tasks of the Nomination Committee is to make proposals to the Supervisory Board regarding selection criteria and appointment procedures, and regarding the size, composition, appointments and reappointments to and assessment of the performance of the Supervisory Board and the Executive Board. The Committee also monitors the Executive Board's policy on selection criteria and appointment procedures for senior management and holds annual appraisals with the individual members of the Executive Board.

The Nomination Committee met three times in the past financial year. The end of the terms of Mr Elverding, Mr Wester and Mrs Mahieu at the annual General Meeting in 2015 were discussed and a proposal for reappointment was submitted to the Supervisory Board.

Composition of the Supervisory Board

During the financial year, the Supervisory Board was composed of six members. According to schedule, there were three re-appointments.

Diversity

The Supervisory Board has five male members and one female member (16.7%). One member of the Supervisory Board has the Belgian nationality. The Executive Board, whose members all have the Dutch nationality, has two male members and one female member (33.3%). As such the Group complies with the diversity targets set by law as far as the Executive Board is concerned but has not yet reached the desired target figure in the Supervisory Board.

Both the Supervisory Board and the Executive Board agree with the importance of diversity in the Group's managerial bodies. In order to further emphasise this, the profile of the Supervisory Board, which was last discussed with the shareholders in the General Meeting in 2009, was updated in 2015 and a 30 per cent target for female board members was included. The new profile was discussed with the Central Works Council and the General Meeting after which it was formally adopted by the Supervisory Board.

Independence

In the opinion of the Supervisory Board, the requirements of the Dutch corporate governance code with regard to independence have been met. In 2015 the Supervisory Board members did not have any other relationships of a business nature with the company. None of the Supervisory Board members had more than five memberships of Supervisory Boards at Dutch listed companies or other large institutions.

With regard to the selection process for the new independent auditor Mrs Mahieu refrained from participating in the discussion and decision-making given her affiliation with a member of the board of one of the candidate parties. Other than that, the Supervisory Board is not aware of any conflicts of interest between the company and members of the Supervisory Board, or between the company and natural persons or legal entities that hold at least 10 per cent of the shares in the company.

Composition of the Executive Board

During the financial year, the Executive Board was composed of three members. There were no mandatory re-appointments.

The Supervisory Board concluded that none of the members of the Executive Board holds more than two Supervisory Board positions of large corporations and no position of chair of a supervisory body was held. This is in line with the Management and Supervision (Public and Private Companies) Act and the Code.

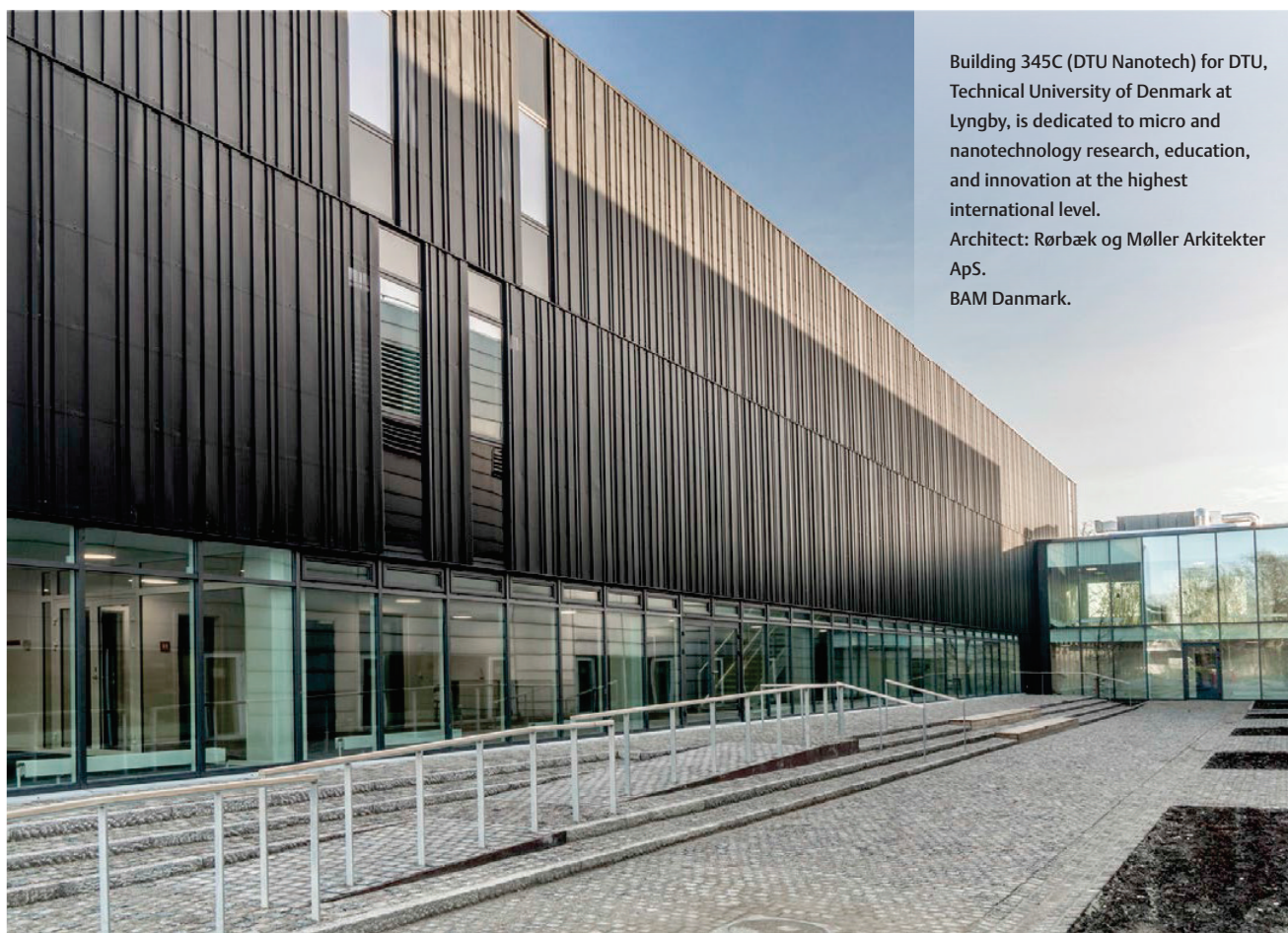
The Supervisory Board has no evidence of any conflicts of interest between the company and members of the Executive Board.

Shareholders and investor relations

The Annual General Meeting was prepared and the meeting was evaluated afterwards. The Supervisory Board was very pleased with the constructive dialogue with shareholders at the meeting but noted a low level of attendance, which will be given extra attention in the next year.

The Supervisory Board reviews the Group's investor relations activities and shareholder base on a regular basis. With regard to contact with shareholders, the Supervisory Board believes that this contact should primarily take place in shareholders' meetings. However, it is recognised that contact between the company and shareholders outside of shareholders' meetings can also be important – for both the company and the shareholders. The Supervisory Board will ensure that the company accepts shareholders' requests for talks in those cases where talks are considered important. The company itself can also take the initiative and request talks with a shareholder. The company has a general policy on bilateral contacts with shareholders, investors, analysts and the press. This policy is published on the company's website.

BAM proposes a dividend of 2 eurocents per ordinary share, in line with its dividend policy to pay out 30 to 50 per cent of the net result for the year. This will be paid in cash, with a scrip alternative. In 2014 BAM reported a negative net result for the year and hence paid no dividend.



Building 345C (DTU Nanotech) for DTU, Technical University of Denmark at Lyngby, is dedicated to micro and nanotechnology research, education, and innovation at the highest international level.

Architect: Rørbæk og Møller Arkitekter ApS.
BAM Danmark.

Independent auditor

During its review of the 2014 full year results and the 2015 half year results, the Supervisory Board met with the independent auditor to discuss his report. The Board established that the independent auditor had received the financial information on which the interim statements, the half year results, the annual results and other financial reports were based. The independent auditor also had been given the opportunity to discuss the information provided with BAM officers and the Executive Board.

The Supervisory Board has taken note of the reports and management letters as prepared by the independent auditor. These documents were discussed with the independent auditor and the Executive Board. The Supervisory Board also discussed the follow-up to the independent auditor's findings with the Executive Board.

The independent auditor attended the General Meeting of 22 April 2015 and was available to answer any questions.

As part of its consideration of this report and the 2015 financial statements, the Supervisory Board assessed the relationship with the independent auditor, based on reports from the Executive Board and the Audit Committee.

In order to comply with upcoming legislation that required stock listed companies as of 1 January 2016 to change its independent auditor periodically, the Supervisory Board nominated Ernst & Young Accountants LLP as independent auditor for the financial years 2016, 2017 and 2018, which was approved by the General Meeting on 22 April 2015.

Corporate governance

The company's corporate governance structure and its compliance with that structure were discussed with the shareholders in the General Meeting on 21 April 2009. The Supervisory Board and the Executive Board reviewed the corporate governance structure during the financial year and decided that there was no reason to change it, other than the amendment of the profile of the Supervisory Board in order to clearly reflect the company's dedication to diversity.

The Supervisory Board and the Executive Board are convinced that Royal BAM Group's corporate governance is up to standard. Please refer to the corporate governance statement from page 81 of the Integrated Report concerning the company's compliance with the Code.

The 2015 financial statements, duly prepared by the Executive Board, will be submitted to the General Meeting for adoption. The financial statements have been audited by the independent auditor, PricewaterhouseCoopers Accountants N.V.; the unqualified auditor's report is included on page 199 of the Report. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the independent auditor and agrees with them. The Supervisory Board is of the opinion that the financial statements, the report by the Supervisory Board and the report by the Executive Board provide a solid basis on which to hold the Executive Board accountable for the management policies pursued and the Supervisory Board accountable for its supervision of the management policies pursued. The members of the Supervisory Board have signed the financial statements in accordance with their statutory obligations under Article 2:101, paragraph 2 of the Dutch Civil Code.

The Supervisory Board believes that this report is presented in accordance with the International Integrated Reporting Framework.

Final comments

Looking back on the financial year 2015, the Supervisory Board acknowledges and appreciates the substantial steps being made in order to make the company more resilient and successful. The vigorous execution of the Back in Shape programme, including the unavoidable restructuring measures that form an inseparable parts of it, has stretched the organisation as well as its employees. Partly the results of these joint efforts will only become visible in the years to come. The Supervisory Board is grateful for the contribution of each individual employee to the major efforts that have been made.

Although the economic markets in Europe and abroad have improved in 2015, the construction market remains difficult due to the late cyclical nature of this industry. Also the imbalance in the distribution of risks and opportunities between contractors and clients remains worrying. The – albeit shrinking – backlog of projects taken on in the economic crisis requires continued attention and monitoring. With the publication of the new company strategy for the period 2016-2020 in February 2016, the Supervisory Board feels that a clear path has been set to further improve the competitive position and performance of the company.