

Management and Supervisory Board

Subject: Spearheads 2008
Ref: 2007.98
Schiphol, 8 november, 2007

Dear members of the management board and supervisory board,

Eumedion, the corporate governance platform for institutional investors, annually sends what is known as its spearheads letter to the 75 largest Dutch listed companies for the next season of annual reports and shareholders' meetings. The spearheads letter contains important subjects that the members affiliated to Eumedion would like to draw attention to and which they may address in their contributions at the various shareholders' meetings. In the interest of improving the streamlining of the dialogue during the shareholders' meeting, we would like to request you to provide us with any comments on these spearheads as quickly as possible, and certainly no later than 1 March 2008.

In the past two years Eumedion has focused on the organization of the general meeting of shareholders, which included asking the companies for the agenda and documents for the meeting to be sent sooner (at least four weeks before the date of the shareholders' meeting), to bring forward the registration date, to indicate more clearly whether points on the agenda are being put to a vote, and to establish rules on the speaking time for individual shareholders. Eumedion has concluded to its satisfaction that substantial improvement has been made in all these aspects and this subject is no longer a spearhead for the 2008 season as a consequence.

Eumedion has formulated a spearhead and a point of attention for the 2008 season. The spearhead and the point of attention continue to extend Eumedion's evaluation of the past season of annual reports and shareholders' meetings¹. The spearhead relates to the business strategy and risk management of the listed companies. The point of attention relates to the structure of remuneration policy. These subjects will be explained in more detail below.

¹ Can be downloaded from the Eumedion website: www.eumedion.nl.

1. Spearhead: business strategy and risk management

Entrepreneurs should continue to undertake business opportunities. Risk-taking is inseparable part of these opportunities. Shareholders ask for a clear and convincing business strategy and for transparency of the business opportunities, the risks that the company is facing and how these risks are managed. In brief, shareholders want answers to the following questions:

- i) what is the medium term and long term strategy?;
- ii) what are the business opportunities?;
- iii) what are the business risks, what chance is there that these risks materialize and what would the impact of this be on shareholders' equity and result? Institutional investors would appreciate a review of perhaps the five most important risks, instead of the naming of every conceivable risk;
- iv) what risk management and control mechanisms are in place and what are the basic principles/characteristics of these?;
- v) which modifications and improvements are implemented in the previous financial year and which will be implemented in the current financial year? Which deficiencies are remaining and which priority action will be taken?

From this point of view, shareholders have more need of a "broad" risk paragraph than of a general statement by the management board regarding the management of the financial reporting risks, which is what has developed in the last few years. Eumedion has observed that the internal risk management and control systems relating to the most important (strategic and operational) risks are not described informatively, or that a description of any kind is completely lacking. Experience has taught that it was in fact these same strategic and operational risks which caused bankruptcies, near-bankruptcies and strategic failures of companies in the past decades which emphasises the importance of transparency of these risks. In addition, Eumedion has observed that the risks, including the financial ones, are only quantified in a limited number of cases and that the reports on the risks and the risk management are spread throughout the annual report.

Eumedion would be pleased to see the inclusion of an informative and readily comprehensible "broad" risk paragraph in annual reports for 2007, comprising *all* information relating to risks and risk management (i.e. concentrated under a single heading in the annual report).

It should be absolutely clear that, where Eumedion members are concerned, this information is more important than the statement prepared by the management board on the effectiveness and adequacy of the internal risk management and control systems relating to the financial reporting.

2. Point of attention: the structure of the remuneration policy

At the end of 2006 Eumedion published a set of recommendations on a good structure for a remuneration policy ("Recommendations on executive remuneration" of 25 October 2006)². Eumedion can well imagine that the thought process concerning the substance of the remuneration policy has not been completed in one year, which is why Eumedion believed it would be wise to bring these recommendations to your attention once more. It should be absolutely clear, however, that Eumedion is not so much interested in the amount of the remuneration received by executives, as in realizing an effective structure for the remuneration policy for the management board.

The Eumedion members are principally concerned with the most important principles in the recommendations, which are as follows.

1. Alignment of the remuneration policy with the long-term objectives of the company.
2. In normal circumstances, the long-term bonus should constitute a greater part of the total remuneration package than the annual (short-term) bonus.
3. Investors have a preference for (relative) *total shareholder return* (TSR) as a performance criterion for the long-term bonus. If TSR is applied as the performance criterion, Eumedion would like to suggest to the listed companies that the outcome within the peer group should be measured on the basis of the average share prices in at least a number of financial years. Any peaks in share price, as a consequence of a public bid for example, would be averaged out in this way.
4. If the relative TSR is applied as a performance standard for share and/or option schemes, in our opinion the conditional share and/or option allocation should lapse when company performance is under the median for the peer group.
5. If the amount and components of the remuneration for executives are determined in part by the remuneration policies of a certain group of companies (referred to as the labour market peer group; distinguished from the so-called TSR (or: performance) peer group), the membership of this peer group has a significant effect on the final outcomes. Cautious use should be made of companies from the United States in the labour market peer group, in view of the completely different remuneration philosophy and structure prevailing there³. In addition, caution is appropriate with regard to the inclusion of companies that are in financial distress. Companies whose continuity is not at issue should ideally only be allowed to include going concerns in their peer group.
6. There have been several instances in the past year of discretionary bonuses being granted to executives on the basis of negotiating performances in the event of a major split-off or

² Can be found on the Eumedion website: www.eumedion.nl

³ The TSR peer group consists of the company's direct competitors and this peer group may explicitly include the competing companies from the United States.

takeover. Eumedion is not in favour of such arrangements. An exceptional short-term performance should in our opinion be rewarded via the short-term bonus. The short-term bonus may conceivably be above target in a case of this kind, but inside the range as laid down by the general meeting.

If the current remuneration policy of your company does not yet reflect these core principles, Eumedion would like to ask you to take the core principles referred to above into consideration in any evaluation of remuneration policy.

We are naturally available for any further clarification of this letter that you might require.

Yours faithfully,



Rients Abma
Executive Director