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## Remuneration report



Sydney Opera House

## Introduction

In accordance with our articles of association, the remuneration of the members of the Board of Management is the responsibility of the Supervisory Board. The remuneration of the individual members of the Board of Management (including equity-based compensation) has to be in compliance with the remuneration policy. The remuneration policy is adopted by the annual general meeting of shareholders. The remuneration committee is appointed by our Supervisory Board to assess and propose the remuneration policy for members of the Board of Management and the proposal for the remuneration for the individual members of the Board of Management.

The remuneration committee is made up of at least three members of the Supervisory Board and is chaired by the vice-chairman of the Supervisory Board. In 2004 the remuneration committee comprised J.M.T. Cochrane (chairman), V. Halberstadt and R.W.H. Stomberg. None of the members of the remuneration committee is a member of the management board of another Dutch listed company and none of the members of the remuneration committee is member of the audit committee. During 2004, the remuneration committee met five times. The chief executive officer was invited for all meetings except the meeting where his own terms or conditions were discussed. The secretaryship of the committee is filled by our corporate human resources department.

The remuneration committee used professional advice from the following independent external advisors:

- Allen & Overy provided legal advice on employment related matters,
- Towers Perrin and Hewitt Associates advised on remuneration market practice and equity based compensation and provided the valuations used for the long-term incentives,
- Petercam Bank Nederland B.V. advised on our total shareholder return performance compared to our peer group, and
- Ernst & Young provided tax advice relating to the employment of the US –based members of the Board of Management.

This report sets out the policies on the remuneration of the members of the Board of Management and the members of the Supervisory Board. For the disclosure of the remuneration paid to individual members of the Board of Management, see note 17 of the consolidated financial statements.

### REMUNERATION POLICY FOR THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is currently based on a base compensation and a variable compensation linked to attendance of the meetings of the committees of the Supervisory Board. The members of the Supervisory Board do not receive any performance- or equity-related compensation and do not accrue any pension rights with our company. The members of the Supervisory Board do not receive any severance payments in the event of termination.

The current remuneration scheme was introduced in 1998 when TPG was demerged from Royal PTT Nederland NV and the

Supervisory Board of TPG was first formed. The remuneration structure has not been reviewed until now. In the annual report over 2003 we reported that there is a discrepancy between market practice and the current remuneration of the Supervisory Board. Benchmark studies by Towers Perrin and HayGroup have made clear that the current remuneration of the members of the Supervisory Board is below European market practice and does not reflect the increase in involvement resulting from regulatory and Corporate Governance developments over the last few years. The following remuneration scheme for the Supervisory Board is designed to reflect these developments.

### Remuneration Supervisory Board

Supervisory Board	Base fee	Committee		Per meeting fee
Chairman	60,000	Audit & Remuneration	Chairman	2,500
Member	45,000	Nomination & Public Affairs	Member	1,500
			Chairman	1,500
			Member	1,000

### REMUNERATION POLICY FOR THE BOARD OF MANAGEMENT

The remuneration policy for the members of the Board of Management set forth below is drawn up by the Supervisory Board and will be submitted to the annual general meeting of shareholders on 7 April 2005.

In the following sections the remuneration policy has been revised compared to 2004:

- Short term incentive:  
Non-financial targets related to our mission have been added to the existing financial performance targets for short term variable pay for the Board of Management.
- Long term incentive:  
The normal grant of options for 2005 is replaced with an equivalent value performance share grant for the Board of Management under the existing plan rules of the Performance Share plan.

Please refer to the appropriate sections below for information on the policies.

### Term of appointment and employment contracts

The members of the Board of Management appointed before September 2003 have been appointed for an indefinite term. As of September 2003, new members of the Board of Management are appointed for a period of four years. On expiry of the four-year term, a member of the Board of Management may be re-appointed for successive terms of four years per term. In case of a proposed re-appointment the performance of the candidate as a member of the Board of Management is taken into account. The Supervisory Board has agreed with the members of the Board of Management that as of 2004, each year a board member will step down and be eligible for re-appointment for a new four-year term according to the following re-appointment plan:

	Employed with us since	Term of employment	Date of appointment as Board member / CEO	Eligible for re-appointment
Harry Koorstra	1 Oct 1991	Indefinite	1 Jul 2000	2005
Jan Haars	1 Aug 2002	Indefinite	1 Aug 2002	2006
Dave Kulik	4 Sep 2000	Four years	1 Sep 2003	2007
Marie-Christine Lombard	15 Dec 1998	Four years	1 Jan 2004	2008
Peter Bakker <sup>1</sup>	14 Oct 1991	Four years	1 Nov 2004	2008

1. Peter Bakker was appointed CFO of the Board of Management effective 28 June 1998.

### Objective of remuneration

The objective of the remuneration policy is to attract, motivate and retain qualified members of the Board of Management of the highest calibre, with an international mindset and background essential to the successful leadership and effective management of a large global company and to reward them accordingly based on performance. The remuneration structure for the Board of Management is therefore designed to balance short-term operational performance with the longer term objectives of the company. Total remuneration is benchmarked against the relevant market.

### Remuneration elements

The remuneration for members of our Board of Management comprises of the following elements: a base salary and other periodically paid compensation, a short-term incentive component, a share-matching scheme, a long-term incentive component and pension arrangements. Only the periodically paid compensation is fixed, all other components are linked to performance.

Total compensation is set at a medium level for total compensation relative to the European reference market for executive directors of multinational companies. The European market is defined as the composite market of the Netherlands, the United Kingdom, Germany, France, Belgium, Switzerland and Italy:

Country	Reference market
The Netherlands	AEX
United Kingdom	FTSE 100
Germany	DAX 30
France	CAC 40
Belgium	BEL 20
Switzerland	SMI 25
Italy	MIB 30

This reference market reflects companies with comparable revenue, number of employees and international character.

### Base salary

The base salary for members of the Board of Management is set at a median level relative to the European reference market for executive directors of multinational companies as set out above. For the base salary of members of the Board of Management the remuneration level of the country of residence is benchmarked

against the average European market. In case the remuneration level in the country of residence exceeds the European market then the base salary is set against the reference market of the country of residence.

### Other periodically paid compensation

Members of the Board of Management benefit from other periodically paid compensation or benefits in kind. These compensation elements can comprise elements based on historic contractual benefits or compensation elements based on local practice. Typical examples are a company car or an allowance for medical insurance.

### Variable compensation

We consider variable compensation an important part of the remuneration package for the members of the Board of Management. The bonus targets and performance conditions reflect the key drivers for value creation and medium to long-term growth in shareholder value. Therefore, a considerable part of the total compensation consists of variable compensation, depending on performance measures.

Consistent with the above principles, approximately half of the total compensation of a member of the Board of Management is performance linked when at target performance is achieved.

The members of the Board of Management have the same schemes and opportunity for earning variable compensation with the exception of the long-term incentive grant size for the CEO and an additional special cash incentive for the Group Managing Director Logistics. The total long-term incentive grant for the CEO is twice the size of the grant for the other members of the Board of Management. This is based on the practice in our reference market and our aim to have approximately half of the total compensation linked to performance relative to his higher base salary.

In addition, the Group Managing Director Logistics can receive a special additional reward for achieving a higher than budgeted performance for the logistics division.

### Short-term incentive: cash bonus

The cash bonus plans for the Board of Management consist of the mission related short-term incentive plan for all members of the Board of Management and the special incentive for the Group Managing Director of Logistics.

All members of the Board of Management are eligible to participate in a short-term incentive programme that provides

an annual bonus for the achievement of predetermined targets. These targets are agreed and set by our Supervisory Board at the beginning of each financial year. The at-target bonus level is 60% of base salary with an additional 15% available for over-achievement towards a stretched target.

The performance challenge for the Board of Management is to achieve sustainable performance on both the short term and the long term. Our mission is aimed at achieving this by continuously exceeding the expectations of our customers, leading the industry by instilling pride in our people, creating value for our shareholders and by sharing responsibility for our world.

Starting 2005, the short term incentive programme for the Board of Management reflects the accountability for our mission by rewarding both for the financial and non-financial performance required for sustainable results.

The financial targets for the chief executive officer and the chief financial officer are set in terms of earnings per share growth from continuing operations. This target was continued because it best reflects our commitment to create value for our shareholders. The targets for a divisional member of the Board of Management consist of targeted earnings per share growth from continuing operations of the company as a whole and of internal targeted economic profit of the relevant division. The divisional members of the Board of Management have these two targets to illustrate their responsibility towards our company as a whole as well as towards a profitability of their own division. Both targets are measured independently and the realisation of these targets can independently lead to bonus payments.

The non-financial targets are related to the elements of our mission that do not directly impact our financial performance in the short term but are crucial to the continued success of the company in the long term by engaging our people, exceeding the

expectations of our customers and sharing responsibility for the world around us.

For each member of the Board of Management specific non-financial targets are agreed with the Supervisory Board on the following elements of the Mission:

- Instilling pride in people: Continuous improvement in engaging our people which can be measured through employee satisfaction surveys
- Exceeding customer expectations: Continued improvements in our relations with customers, which can be measured through customer satisfaction surveys and by assessing the relationship with our customers in person.
- Responsibility for the world: Making a difference to our environment which can be accounted for by our global initiatives as a company such as our involvement with the World Food Programme on a global scale and local initiatives to improve the direct environment we live in. The Supervisory Board will designate specific projects and initiatives to each member of the Board of Management for which the individual member will be personally responsible.

The “at target” bonus consists for 70% of reward for financial performance and 30% of reward for non-financial performance to reflect the importance of financial performance. The three non-financial targets described above, each contribute 10% to the “at target” bonus. The 70% of “at target” bonus for the CEO and CFO is set on targeted earnings per share growth from continuing operations. For the Group Managing Directors 50% is set on targeted earnings per share growth from continuing operations and 20% is set on internal targeted economic profit of the relevant division.

The bonus as percentage of base salary at different performance levels is set out below:

	Financial targets						Non financial targets	Total range
	Earnings per share growth target			Economic profit target				
	At minimum	At target	At stretch	At minimum	At target	At stretch		
Peter Bakker	32%	42%	57%	-	-	-	18%	0% - 60% - 75%
Jan Haars	32%	42%	57%	-	-	-	18%	0% - 60% - 75%
Harry Koorstra	23%	30%	41%	9%	12%	16%	18%	0% - 60% - 75%
Dave Kulik	23%	30%	41%	9%	12%	16%	18%	0% - 60% - 75%
Marie-Christine Lombard	23%	30%	41%	9%	12%	16%	18%	0% - 60% - 75%

The bonus based on earnings per share growth performance will be calculated using a sliding scale between the minimum performance and the stretch performance. Below the minimum required performance, the bonus for financial performance is zero.

The same sliding scale between minimum and stretch is also applicable for the determination of the part of the bonus for the divisional members of the Board of Management based on the divisional economic profit results.

The bonus for non-financial performance does not have a sliding scale. The Supervisory Board allocates the non-financial bonus to the achievement of individual targets of the Board of Management and determines the associated pay-out.

As a result, the bonus for the members of the Board of Management is zero when the financial performance is below minimum and the non-financial targets are not met and 60% when all financial and non-financial targets are met. The stretch pay-out of 75% can only be achieved through stretch performance on financial targets.

The additional special incentive for the Group Managing Director Logistics is awarded when at least 150% of the cumulative target EBITA after three years is achieved. The award amounts to 90% of the base salary after three years for at target performance up to 180% of base salary for achieving stretch performance. The performance is determined at the end of the three year period as a cumulative performance versus the cumulative annual EBITA target.

#### SHARE-MATCHING SCHEME

Any bonus payable under the short-term incentive scheme described above will be paid 75% in cash and 25% in our shares at the then current market value with an accompanying right on matching shares. The number of bonus shares involved is calculated by dividing the 25% of the bonus by the share price on the day of grant. The day of grant is the day following the announcement of the first quarter results. If at least 50% of the shares are retained for a period of at least three years, the company will match the amount of shares earned under the short-term incentive scheme on a one-to-one basis. In compliance with the Corporate Governance Code, the members of the Board of Management will not sell their matching shares before the earlier of five years from the date of grant or the end of the employment. Any sale of shares for the purpose of using the proceeds for the tax relating to the grant of these shares is exempted from this practice.

#### Long-term incentives: share options and performance shares

The option grant for 2005 is replaced by an equivalent grant under the existing Performance share plan. This will increase the share ownership of the members of the Board of Management, whilst aligning their reward closely to the future development of the share price and the resulting value creation for our shareholders and strengthen the commitment of the Board of Management to the company and its objectives.

We consider options to be less effective in aligning the interest of the Board of Management to the interests of the shareholders than performance shares. Performance shares more accurately reflect the share price development that creates value for our shareholder.

The conversion of the option grant to a performance share grant will not affect the remuneration value of the Long term incentive compensation. A conversion factor is applied that ensures an equal accounting cost for the performance share grant in return for the option grant, based on the IFRS2 accounting rules which apply to both the option plan and the performance share plan starting 2005.

In 2005 we will grant in addition to the normal performance share grant, one additional performance share for every 2.5 options under the normal option grant policy.

Below we will continue to disclose both the share option and performance share plan since the option plan is still in effect for the option grants made until 2004. We will not convert any of the past grants under the option plan.

The long-term incentive for the members of the Board of Management comprises of two elements: the TPG share option

scheme and the TPG performance share scheme. Both long-term incentives were designed to focus Board of Management members on the growth of long-term sustainable value for shareholders. These incentive schemes operate under a performance schedule and compensate Board of Management members for improved shareholder performance over a three-year financial period.

Under the share option scheme, share options were awarded to the Board of Management members until 2004. The options' exercise price equals the average market price on Euronext Amsterdam on the day following the announcement of first quarter results. The share options are exercisable after three years. Please refer to the paragraph on the TPG option scheme for more information.

Under the performance share scheme, rights on our shares are awarded to Board of Management members, which are exercisable after three years. The number of shares is calculated by dividing the available amount by the share price on the day following the announcement of first quarter results. Please refer to the paragraph on the TPG performance share scheme for more information.

The total grants to the members of the Board of Management under the long-term incentive scheme are benchmarked on a yearly basis against market practice using the same reference market as described earlier. The market practice developments in this respect are derived from periodic reports prepared by Towers Perrin. Based on the outcome of this benchmark the grants under the long-term incentive scheme to the members of the Board of Management might be adjusted to reflect the medium to third quartile total compensation position we want to maintain.

Both long-term incentive schemes operate on the basis of the same performance schedule. The vesting of options and performance shares is conditional on the achievement after three years of certain targeted levels of total shareholder return when compared against two benchmarks: (a) the AEX index of Euronext Amsterdam and (b) a peer group of direct competitors. Total shareholder return is defined for this purpose as "the return to shareholders from investing in shares, in terms of both share price appreciation and dividends", assuming reinvestment of dividends. Under this performance schedule 0% - 150% of the base allocation of the share options and 0% - 120% of the base allocation of the performance shares might vest depending on our relative total shareholder return performance during the three financial years starting with the year of grant.

During the vesting period, the total shareholder return data are compiled by the bank Petercam Nederland B.V. based on the information from objective data providers (Bloomberg) and reported quarterly. After the three-year vesting period, the remuneration committee will advise the Supervisory Board on the vesting of performance shares and share options.

The previous option grants and all grants of performance shares are divided into two equal parts. The two parts will vest as follows:

- The vesting of 50% of the share options and performance shares will be determined by reference to the relative position of our total shareholder return after three years in the peer group consisting of other Euronext Amsterdam listed companies.
- The vesting of the remaining 50% of the share options and performance shares will be determined by reference to the

relative position of our total shareholder return after three years in the peer group of international direct competitors.

#### 1. AEX PEER GROUP

Half of the options or performance shares will vest by reference to our relative position in the AEX index of Euronext Amsterdam as calculated in accordance with the following ranking table.

TSR performance against the Euronext Amsterdam peer group			
TSR ranking after performance period within AEX peer group	TSR ranking in quartiles	Proportion of the base allocation vesting	Vesting of share options / performance shares <sup>1</sup>
1 - 6	1st quartile	75% / 60% <sup>2</sup>	750 / 600 <sup>2</sup>
7 - 12	2nd quartile	50%	500
13 - 18	3rd quartile	25%	250
19 - 25	4th quartile	0%	0

1. Calculated using a base allocation of 1000 option/shares.

2. Share options 75%, performance shares 60%.

#### 2. DIRECT COMPETITION PEER GROUP

The remaining half of the previous share options and all performance shares will vest by reference to our relative position in the international direct competition peer group as calculated in accordance with the following ranking table. For this purpose, our peer group of direct competitors consists of UPS, FedEx, DPVW and Exel. For the grant in 2004 the Supervisory Board has decided to not replace Hays by a new peer group company after they had sold their logistics divisions. None of the existing companies in the logistics and/or express mail industry were

considered to be comparable enough as a company in our peer group. The calculation of quartiles of TSR performance allows for a smaller peer group.

The first table below shows how our relative TSR performance is calculated versus the direct competition peer group including Hays for the grants in 2002 and 2003. The second table shows the calculation of relative TSR performance versus the peer group excluding Hays for the grants in 2004.

TSR performance against direct competitors (DC) 2002 and 2003			
TSR ranking after performance period within DC peer group	TSR ranking in quartiles	Proportion of the base allocation vesting	Vesting of share options / performance shares <sup>1</sup>
1	1st quartile	75% / 60% <sup>2</sup>	750 / 600 <sup>2</sup>
2 - 3	2nd quartile	50%	500
4 - 5	3rd quartile	25%	250
6	4th quartile	0%	0

1. Calculated using a base allocation of 1000 options/shares.

2. Share options 75%, performance shares 60%.

TSR performance against direct competitors (DC) 2004			
TSR ranking after performance period within DC peer group	TSR ranking in quartiles	Proportion of the base allocation vesting	Vesting of share options / performance shares <sup>1</sup>
1	1st quartile	75% / 60% <sup>2</sup>	750 / 600 <sup>2</sup>
2 - 3	2nd quartile	50%	500
4	3rd quartile	25%	250
5	4th quartile	0%	0

1. Calculated using a base allocation of 1000 options/shares.

2. Share options 75%, performance shares 60%.

Shares granted to our Board of Management via our equity plans without financial consideration must be retained for a period of at least five years after grant or until at least the end of employment, if this period is shorter, unless it can be demonstrated to our corporate secretary that their sale is prompted by required tax payments with respect to these shares.

#### Pension

Our pension policy is that pension arrangements should be in line with local practice in the country of residence of the Board members and the pension benefits provided should be consistent with those provided by other multinational companies in those countries. The pension policy for the members of the Board

of Management aims at a retirement age between 60 and 65 with a benefit commensurate with benefits for members of the Board of Management of comparable companies in the country of residence. The pension arrangements for all Board members include entitlement to a pension in the event of ill health or disability and a spouse's/ dependant's pension on death. We have closely followed the discussions on pensions in the Netherlands and in Europe. We are aware of the development towards career average pensions and will review how this could impact the pensions for the existing members of the Board when these developments would require that.

#### **Severance**

In relation to contracts with new members of the Board of Management we aim to set the severance payments at one-year of base salary. Contracts entered into before 2004 will remain unaltered. For members of the Board of Management, who are not a resident of the Netherlands, we follow local market practice for the severance for a portion of the base salary. This portion of the salary is earned in the country of residence and the severance on that part would be applied based on local practices.

#### **Loans**

We do not grant personal loans to any of our Board of Management and Supervisory Board members. In connection with the grant of share options in 1999, loans were offered to the Board of Management to pay the Netherlands tax arising from the grant, which was levied at the time the grant was made. The current members of the Board of Management have repaid their loans to the company as reported in the annual report over 2003. The company decided not to request the former members of the Board of Management repayment of the loans that were associated with the tax paid on grant of the 1999 management options that expired in 2004. The severance payments in 2004 relate to the waiver of these loans to former members of the Board of Management (John Fellows, Carel Pauwe, Bert van Doorn).