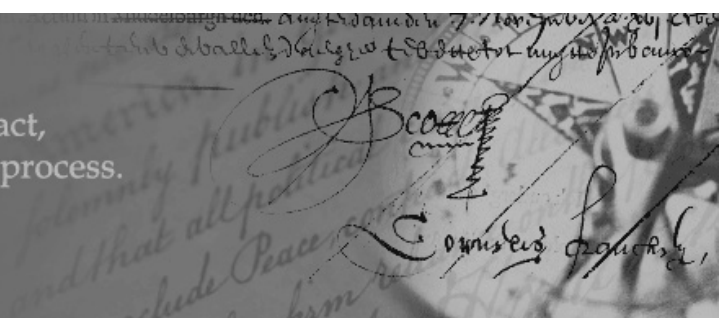


The Governance Platform








Newsletter n°3 - Second Half-Year 2009

The choice of a common stock is a single act,
its ownership is a continuing process.

The background of the bottom section features a faded, grayscale image of a historical document. The document contains handwritten text in cursive, including the words 'Public', 'and that all political', and 'include Peace'. A prominent signature is visible on the right side of the document.

Activity Report Second Half-Year 2009

In 2009, the Governance Platform is in dialogue with 19 blue chip organisations, of which 8 are listed on the AEX and 11 are companies established in a range of European countries.

	Aegon, Akzo Nobel, KPN, Philips, Reed Elsevier, Shell, TNT, Unilever
	Alstom, Total
	Nestlé, Roche, UBS
	Bayer, Daimler, Siemens
	Enel
	British Sky Broadcasting
	Telefonica

Extension of engagement from “G” to “ESG”

At the proposal of the Executive Board, the Governance Platform decided to broaden the scope of engagement from an exclusive focus on governance to a full ESG (Environment, Social & Governance) approach from 2008 onwards. After having drawn up an inventory of all relevant policy instruments, the Investor Circle resolved to make a start in 2008 with five selected companies: Alstom, Bayer, Daimler, Nestlé and Total.

This means that full attention is now systematically paid to all aspects of corporate social responsibility for each of these companies.

However, whenever justified or required by current developments, some of the E&S issues may also be raised in the dialogue with the other companies. This will take place either on the initiative of the Platform itself, or at the request of its members.

Overview of involvement for the period between July 2009 en December 2009

The following overview shows the specific activities undertaken in connection with the

Platform’s engagement with each company during the second half-year of 2009. For each listed company the Platform relied on an action plan including a certain number of objectives, which was regularly updated. With the majority of companies, engagement consisted of one or more discussions, generally at board and/or management level. In several cases, these personal visits were followed by an exchange of letters in which additional questions were asked, suggestions made or progress sought.

The E&S approach is based on a preliminary examination of publicly available information about the guidelines and policies displayed by the company in question in this connection (and is thus not confined to the information supplied by the company itself).

The issues raised include violations of human rights, child labour, corruption, discrimination, damage to the environment, breaches of competition or anti-trust legislation, the impact of activities on local communities, etc.

The Platform starts by analysing the quality and quantity of the information (or the lack of it) provided by the company (in some cases in the

form of an annual report such as a sustainability report). The Platform then analyses the way in which corporate social responsibility is taken into account by the company in (1) its internal management structure (including reporting and

monitoring), (2) its activities and/or investment decisions, and (3) relations with the different stakeholders (investors, suppliers, customers, partners in joint investments or projects, local authorities, etc.).

Overview engagement July 2009 - December 2009

The following activity report relates to engagement up to and including 31 December 2009.

	Action plan Update	Discussion	Letter Other communication
Aegon			
Akzo-Nobel			
Bayer			
Daimler			
Enel			
KPN			
Nestlé			
Reed Elsevier			
Shell			
Siemens			
TNT			
Total			
UBS			
Unilever			

Issues covered as part of the Governance Platform engagement

The engagement agenda for each company is determined by the Investor Circle and reflects topical issues, recent developments or areas requiring long-term attention. This agenda naturally differs from one company to the other. The following general issues were raised with each company:

	Strategy Results Communication	Cash/debt management M&A policy	Board Composition Organisation	Chairman CEO	Shareholder rights	Remuneration	Dividend shares buybacks	Takeover Defences	Corporate social responsibility
Aegon	●		●		●	●			
Akzo Nobel	●	●	●			●	●		
Bayer								●	
Daimler	●		●		●	●		●	
Enel			●		●	●			
KPN	●		●			●			
Nestlé	●	●			●	●			
Reed Elsevier	●		●	●		●			
Shell						●			
Siemens	●		●		●	●	●		
TNT	●	●	●			●		●	
Total			●	●	●	●		●	
UBS	●		●	●	●	●		●	
Unilever	●					●		●	



Engagement results and achievements during the period between July 2009 and December 2009

While the Governance Platform publishes the list of companies with which it is in dialogue, it usually does not disclose the contents of the dialogue to third parties except where it is part of the Action Plan or communicated by the company itself. Consequently, the following provides to a large extent an update on engagement with companies without necessarily mentioning the identity of the companies. There are however some exceptions.

1. Remuneration policy of Shell and other companies

As reported in our previous newsletter (Newsletter no. 2), the Platform has been in discussion with Shell for a number of months over amendments to the oil group's remuneration policy. This discussion had already been initiated before the shareholders' meeting at which the remuneration report was rejected by the shareholders.

During the summer, the Governance Platform put forward a number of suggestions concerning several aspects of the remuneration policy. Instead of confining itself to generalities, the Platform chose to provide an in-depth and detailed list of possible amendments. Although much of the criticism had mainly resulted from the use of discretionary powers with regard to long-term variable remuneration (Long-Term Incentive Plan), it was our opinion that there was also room for improvement in several other aspects of the remuneration policy. For instance, a mandatory reinvestment of (part of) the annual cash bonus in Shell shares could help better align the interests of the management with the long-term interests of the shareholders.

Later in 2009, the Platform renewed contacts with the remuneration committee of Shell. Once

again, the tone of the discussion was good with the Platform constantly adopting a constructive attitude which undoubtedly had a positive impact on the discussion.

Apart from Shell, the Platform has also been in discussion with several other companies about their remuneration policy. We believe that the remuneration policy has to be consistent with the company's (1) business profile (sector), (2) its strategy and (3) quantified objectives. As a general rule, the remuneration policy has to promote long-term sustainable value creation. In terms of providing concrete details on these priorities, the Platform is of the opinion that there is not just one right remuneration structure (one size does not fit all). However, this does not mean that best practices cannot be identified and used as a reference or example for other companies. Obviously, the current social debates have also influenced the content of our dialogue (particularly where financial groups such as Aegon and UBS are concerned).

In addition to the remuneration structure, two other priorities which are often highlighted are: (1) the transparency of (the implementation of) remuneration policies; (2) "say on pay" (prior shareholder approval).

The issue with disclosure is that sometimes too much or not enough useful information is reported. We feel that there is little point in disclosing a whole host of details and figures on the implementation of the remuneration policy if the logic behind it and the structure of the remuneration itself have not been detailed and explained in clear terms. On the other hand, a remuneration report which only contains general information is bound to lead to misunderstandings and a flood of shareholder questions. Therefore, a suitable balance needs to be struck. The Platform aims to help companies to achieve this balance.

As for prior shareholder approval, we are still often confronted with legal obstacles.

In countries where shareholder approval is required by law, there should not be a problem in principle (in this instance, the focus tends to be more on the correct implementation of the law). In some other countries, however, shareholder approval (whether or not binding) may sometimes not be (legally) possible or has no legal force. In the latter case, the Platform, nevertheless, maintains its view that, from a corporate governance perspective, it is important for shareholders to be given a say. It is then the fiduciary duty of the board to take the outcome of the vote into consideration.

2. Discussion with Bayer about environmental protection and the precautionary principle

The Governance Platform has initiated an interesting and technical discussion with Bayer about the concrete implementation of its sustainability commitments, using a number of examples as a basis for this discussion.

Bayer has contributed to this dialogue by providing (written) answers to the different questions we asked them, which demonstrates the quality of our relationship and the importance Bayer attaches to its involvement in this constructive discussion with the Platform.

The discussion is currently focused on the implementation of the precautionary principle. The Platform has studied the (international) standards referred to by Bayer (Rio Declaration on Environment and Development, and the Commission's Communication on the Precautionary Principle), allowing us to set the discussion at an objective and concrete level. We feel that greater credibility is gained by basing our constructive exchange of views on Bayer's sustainability policy on these standards and references.

3. Engagement with other companies

The principal purpose of a good and efficient

corporate governance structure is to enable the realisation of the company's strategic objectives and to achieve these objectives in line with stakeholder and shareholder interests. Consequently, it is crucial for the **company's strategy** to be correctly identified and set out first so that shareholders can establish whether the company has an appropriate governance structure.

Many aspects such as the composition of the executive committee and the board (board of directors/supervisory board with the required expertise), the remuneration policy, the dividend policy or the acquisition policy are determined by the chosen strategy. For this reason, it is essential to always submit major strategic changes and/or developments (mergers, acquisitions, etc) for shareholder approval.

In this context, it is not the purpose of our dialogue to question the strategy itself (at least not in the first instance) but rather to ensure that (1) the company has a well-chosen strategy in place, (2) the board and executive committee can justify this strategy, (3) they communicate about it in clear terms, and (4) the strategy can be translated into quantified objectives. In the last few months, the Platform has asked many companies to pay more attention to this.

As far as the strategy is concerned, the Platform also continues to push for an efficient **composition of the board**, both from a quality and quantitative point of view, particularly at the level of the non-executive directors (one-tier structure) or the members of the supervisory board (two-tier structure). The different corporate cultures we come across play an important role in this. As a starting point, we generally want to learn more about, and gain a better understanding of, the selection process for candidate-directors. In this respect, the internal procedure of a group such as Daimler could be considered as an interesting example. Another useful tool is the publication of a (general) profile of the board of directors/supervisory board.

Despite the fact that the procedure concerned is most often of a confidential nature, it is our opinion that companies should at the very least provide information about the general process of this procedure (without mentioning names).

Another strategic point, besides the composition of the board of directors/supervisory board, is the **selection of the CEO and the Chairman**. The executive committee and the board essentially have a collegial dimension. This collegiality will suffer if one person has or gains too much influence. On the other hand, a collegiate body without a leader runs the risk of performing inefficiently or chaotically (or sometimes even failing to perform at all). An additional challenge, therefore, is to find a balance between collegiality and leadership. The personality of the Chairman and CEO plays a deciding role in this. For this reason, our dialogue does not just focus on the selection of these two top positions as a point of particular interest, but also on their succession or replacement. A number of companies we are in dialogue with have had to deal with this recently (UBS, Bayer, Reed Elsevier, Unilever) or face having to deal with this in the short or medium term.

As a result of the financial and economic crisis, several companies have had to turn to the financial markets (Aegon, Reed Elsevier, UBS) and/or the government (Aegon, UBS) to strengthen their capital position. Companies which raised capital in the financial markets usually did so by means of an “ordinary” share issue via the authorised share capital. In this case, the Platform looked into whether the **delegated authority to issue new shares** and exclude existing shareholders’ subscription rights had been exercised in line with the interests of the existing shareholders (dilution, etc). Where companies had received government support, the emphasis was more on how this had affected governance: does the government now have (too much) control over the activities and further development of the company as a result? If so, have sufficient guarantees been given to protect the (private)

shareholders?

Assuming that the current economic crisis will not go on forever, we could soon (or in the medium or long term) start to see economic recovery. Such recovery is generally characterised or even preceded by M&A activity, with some (large) takeovers having already been launched recently (for instance Cadbury/Schweppes). As mentioned before, the final decision on such matters should lie with the shareholders. Not just with the shareholders of the acquiring company (has the acquisition been submitted for approval?) but also with those of the target company. As far as the target company shareholders are concerned, the question is whether their power of decision is not restricted by **anti-takeover protections**. In the Netherlands, there are still some companies which have such protective measures in place, in the form of preference shares, associations, foundations or voting trusts (TNT, Unilever, Aegon). Elsewhere, these protective measures take on many (different) forms, the most common being voting right restrictions (Telefonica and Total) or multiple voting rights.

As part of our dialogue, we are pushing for greater transparency about why these measures exist and how they work. Moreover, we are also asking for guarantees to limit the (potentially) negative consequences of such measures (if it turns out that it is not - yet - possible to simply abolish them).

As for **corporate responsibility**, this is a subject which is being discussed at different levels: internal organisation, reporting and concrete case studies. In terms of reporting, the adoption of general and objective reporting standards (e.g. Global Reporting Initiative) has become an increasingly important point for discussion in our dialogue. The risk is that every company develops its own reporting framework which would be detrimental to objectivity and completeness. The Platform is of the opinion that a Sustainability Report is

not a marketing document and that information about sustainability forms an integral part of the general duty of companies to publish financial and non-financial reports.

What is The Governance Platform?

Established in 2005, the Governance Platform is a collaborative initiative among a number of pension funds, asset managers and other professionals in the market for investment in listed securities, all of which are leaders in their segments, in terms of both size and professionalism. The members of The Governance Platform combine their strengths to provide listed companies with a recognisable, powerful and expert discussion partner.

By participating in the Governance Platform, these institutional investors aim to pursue a structured, ongoing, high-quality, proactive investment policy promoting good corporate governance and social responsibility. They consider this a concrete and effective way of giving substance to the Tabaksblat Code (the Dutch corporate governance code) and ensuring good, caring stewardship in the broadest possible meaning of the word.

Mission and operation of the Governance Platform

The Governance Platform has a clearly defined mission: promoting the quality of corporate governance through constructive, ongoing dialogue with listed companies. Social responsibility standards for business and investment are also increasingly taken into account, enabling Platform members to enhance the long-term risk/return ratio of their investments in these listed companies. After all, responsible investment is far more than voting at shareholder meetings. Regular exchanges with companies and early discussion of topical issues are likely to improve shareholder value and minimise risks.

The Platform's face-to-face talks tackle such issues as strategy, dividend policy, shareholder communication, board composition, management remuneration, shareholder rights, takeover defences, environmental policy, social policy, sustainable development, etc.

A dialogue does not just involve asking questions.

The Governance Platform is a sounding board, offering advice and making concrete proposals. Every year, the members approve a list of companies. Before entering into a dialogue, the members approve an action plan with priorities based on in-depth research.

The Investor Circle regularly discusses action plans, updates and meeting reports. The Investor Circle consists of all members. General governance policy and key dialogue priorities are laid down by the Supervisory Board.

Supervisory Board and Investor Circle activities are prepared by the Executive Board, which is also responsible for implementing action plans. The Governance Platform outsources management, organisation and dialogue to Deminor, a consultancy firm. The Executive Board is accordingly made up of Deminor managers (Charles Demoulin and Bernard Thuysbaert).



Members

- APG Asset Management
- Algemeen Pensioenfonds KLM
- Grafische Bedrijfsfondsen
- MN Services Vermogensbeheer
- Insinger de Beaufort (BNP Paribas Private Banking)
- Pensioenfonds KLM Cabinepersoneel
- Pensioenfonds KLM Vliegend Personeel
- Robeco
- SNS Asset Management
- TKP (on behalf of the pension funds / company pension funds of KPN and TNT)
- Pensioenfonds Vervoer

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