

# Report by the Supervisory Board

## Strategic observations

Throughout 2007 the Supervisory Board devoted considerable time and attention to the monitoring of the Company's strategic progress.

Progress on the execution of the 'Attack, Defend and Exploit' strategy as launched in early 2005 was reviewed. The Supervisory Board strongly endorses the efforts to pursue a proactive approach in dealing with the changing technological landscape. It is felt that establishing a secure position in IP based services is a key component of the strategic direction of the Company even if it is at the expense of short term revenues from traditional services and even if the full benefits of eliminating legacy systems are more medium term. Amidst the radical transformation of the Company, the Supervisory Board keeps a close watch on the Company's ability to maintain excellent operational performance standards throughout the ongoing change process. In addition, the Supervisory Board monitors the interest of a broad constituency of stakeholders in the transformation, notable examples are customers and employees but also of other players such as competitors, which use parts of the Company's infrastructure. In this respect, and, among others, customer satisfaction data and employee motivation reviews, provide important insights.

In 2007 the Supervisory Board was satisfied with the smooth implementation of the new customer centric organization structure, which came in the place of the erstwhile product centric (fixed/mobile) organization. The Supervisory Board believes that the integrated customer approach contributed and will continue to contribute to the execution of the Company's strategy significantly.

The ramp up of the consumer market VoIP product 'InternetPlusBellen' proved to be more challenging and required time and attention from the Supervisory Board. Fortunately, as the year progressed, the initial breakdown of execution standards was overcome. The events took their toll on customer satisfaction data, but these gradually improved back to previous levels. Meanwhile, it was satisfactory to see that other key strategic milestones were achieved smoothly, in particular, the amalgamation of the Telfort network, the roll out of the Digital Video Broadcasting network and the conclusion of agreements with alternative DSL operators on dealing with the All-IP implications of shared facilities. The Supervisory Board was kept abreast of developments but none of these projects required special attention or intervention.

In respect of the strategy going forward, a number of meetings took place. In the early part of 2007 it was discussed and agreed that the Company needed to build and acquire new capabilities in the business to business ICT market, in particular, in workspace management. Later in the year it was agreed that the best way to achieve this objective was to acquire Getronics. In the second half of 2007, a number of sessions took place on how to best take the Company forward. 'Simplification' emerged as a key theme so as to achieve both improved execution standards and a structurally lower cost base.

## Organization of the Supervisory Board

For a description of the organization and structure of our Supervisory Board, see 'Corporate Governance'.

### Composition of the Supervisory Board

The composition of the Supervisory Board changed at the 2007 Annual General Meeting of Shareholders. Mr. Halberstadt stepped down after having served three consecutive terms of four years and was therefore not available for re-appointment in accordance with best practice provision III.3.5 of the Dutch Corporate Governance Code. Upon nomination by the Supervisory Board, the General Meeting of Shareholders appointed Mrs. Colijn-Hooymans as member of the Supervisory Board. The nomination was subject to the enhanced right of recommendation of the Company's Central Works Council that supported the nomination. As a new member Mrs. Colijn-Hooymans attended an introduction program in which the Company, its activities and its governance as well as the tasks and responsibilities of a Supervisory Board member were explained. Mr. Bischoff and Mr. Streppel stepped down, as they had reached the end of their four-year term of office. Upon nomination by the Supervisory Board, the General Meeting of Shareholders reappointed Mr. Bischoff and Mr. Streppel for a second term of four years.

#### Composition of the Supervisory Board in 2007

| Name                            | Date of birth       | Start of term                      | End of term | Committees  |
|---------------------------------|---------------------|------------------------------------|-------------|---|
| A.H.J. Risseeuw<br>(Chairman)   | November 9,<br>1936 | May 2, 2001,<br>April 12, 2005*    | 2009        | Chairman Nominating and<br>Corporate Governance<br>Committee;<br>Member Remuneration and<br>Organizational Development<br>Committee |
| D.G. Eustace<br>(Vice-chairman) | July 3,<br>1936     | April 27, 2000,<br>April 15, 2004* | 2008        | Chairman Audit Committee  |

#### Composition of the Supervisory Board in 2007

| Name                 | Date of birth    | Start of term                   | End of term | Committees  |
|----------------------|------------------|---------------------------------|-------------|---|
| M. Bischoff          | April 22, 1942   | May 12, 2003, April 17, 2007*   | 2011        | Member Audit Committee  |
| C.M. Colijn-Hooymans | August 28, 1951  | April 17, 2007                  | 2011        | Member Audit Committee  |
| D.I. Jager           | April 30, 1943   | April 25, 2002, April 11, 2006* | 2010        | Chairman Remuneration and Organizational Development Committee;<br>Member Nominating and Corporate Governance Committee |
| M.E. Van Lier Lels   | October 19, 1959 | May 2, 2001, April 12, 2005*    | 2009        | Member Remuneration and Organizational Development Committee;<br>Member Nominating and Corporate Governance Committee   |
| J.B.M. Streppel      | October 11, 1949 | May 12, 2003, April 17, 2007*   | 2011        | Member Audit Committee  |

\* Reappointment

In 2008, Mr. Eustace is due to step down from the Supervisory Board, as he will reach the end of his four-year term of office and has decided not to stand for reappointment at the 2008 Annual General Meeting of Shareholders. The Supervisory Board expresses its warm gratitude for the contribution that Mr. Eustace has given to the Supervisory Board and to the Company in general, over the past 8 years.

The vacancy that has arisen following the resignation of Mr. Eustace is to be filled in line with the Profile of the Supervisory Board. In consultation with the Board of Management and the Central Works Council and based on an evaluation of its composition the Supervisory Board considers the nomination of a candidate for appointment at the 2008 Annual General Meeting of Shareholders.

Brief résumés of all members of the Supervisory Board are provided at the end of this Chapter. The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, The Netherlands.

#### Meetings of the Supervisory Board

The Supervisory Board met on 10 occasions in 2007, of which seven were regularly scheduled meetings and the remaining three were ad hoc meetings (by telephone) on specific topics that required urgent attention. Most meetings were held jointly with the Board of Management. The Company's Chief Legal Officer and Company Secretary, Mr. Van Rooij, acted as the Supervisory Board's secretary. Throughout the year, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer, and the Chairman of the Audit Committee was in close contact with the Chief Financial Officer.

The attendance of Supervisory Board meetings was 97.2% (98% for regularly scheduled meetings, 95% for ad hoc meetings). No member attended fewer than 90% of the meetings. On certain occasions, in line with the Articles of Association of the Company, the Supervisory Board took resolutions outside of a meeting, if this was required due to urgency or the matter did not require discussion in a meeting.

#### Independence

Throughout the year, all members of the Supervisory Board were independent from the Company within the meaning of the Dutch Corporate Governance Code: the composition of the Supervisory Board was such that the members were able to act critically and independently of one another and of the Board of Management and any particular interests. See 'Related Party Transactions'.

#### Activities of the Supervisory Board

During its meetings and contacts with the Board of Management, the Supervisory Board discussed the results achieved and plans for next periods, strategic decisions that required the approval of the Supervisory Board, the functioning and remuneration of the Board of Management and all other relevant matters brought to its attention. In reviewing proposals, the Supervisory Board discussed with the Board of Management the business case for the proposal, the risks involved and possible alternatives to the proposal.

The financial performance of the Company was extensively discussed at the Supervisory Board meetings preceding the publication of the quarterly and annual results. In this discussion,

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the Audit Committee, that had already reviewed the financial performance prior to the meeting, advised the full Supervisory Board on the most relevant matters. The Company's external auditor, as well as relevant members of senior management, attended these discussions. The auditor presented its findings over the preceding quarter.

The Supervisory Board discussed various acquisition opportunities. The acquisitions of Getronics and Tele2/Versatel Belgium received Supervisory Board approval.

The extension of the employment contract with the Company's Chairman of the Board of Management and CEO until July 1 2011 was approved by the Supervisory Board. The proposed long term incentive was approved by the General Meeting of Shareholders on November 6. In this respect, the Supervisory Board and in particular its Remuneration and Organizational Development Committee thoroughly assessed the alignment of the proposed long term incentive with the principles of the Company's remuneration policy.

The Supervisory Board furthermore discussed and approved various matters related to the financing of the company, such as the update of the EUR 10 billion Global Medium Term Note Program, a EUR 1.25 billion backstop Credit facility and the tender for and new issuance of bonds in November as replacement thereof, the granting of both a full year dividend (February) and interim dividend (August), and the additional buy back of shares in September.

The Supervisory Board is regularly updated on important technical, societal and regulatory developments through experts in the relevant topics, and through visits to the Company's operations and other organizations it cooperates with. Members of the Supervisory Board attended meetings of the Central Works Council.

In its December meeting, the Supervisory Board evaluated its own performance and the performance of the Board of Management.

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## Committees of the Supervisory Board

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As set out in 'Corporate Governance', the Supervisory Board has three Committees: the Audit Committee, the Remuneration and Organizational Development Committee and the Nominating and Corporate Governance Committee. All three Committees met separately throughout the year. Their main considerations and conclusions were shared with the full Supervisory Board.

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### Audit Committee

In 2007, the Audit Committee consisted of four Supervisory Board Members, Mr. Eustace (Chairman), Mr. Bischoff, Mr. Streppel and Mrs Colijn-Hooymans (as of July). Both Mr. Eustace and Mr. Streppel are considered to be financial experts within the meaning of the Dutch Corporate Governance Code and Rule 10 A-3 of the Securities Exchange Act of 1934, as amended. The Audit Committee held six meetings, all of which were also attended by the CFO and most of which also by the internal and external auditor. The Committee also met separately with the external auditor.

The Audit Committee reviewed and discussed in particular all financially relevant matters that were presented to the Supervisory Board. These items included the Annual Report and Form 20-F, the quarterly results, reports by the internal and external auditor as well as the Disclosure Committee, the Company's budgets and projections and the Company's financing policy.

Furthermore, the Audit Committee paid specific attention to the internal control framework and risk management systems of the company, as well as the completion of the implementation of the Sarbanes Oxley Act (SOx). The implementation was closely monitored and the 404 certification was extensively looked at. The Audit Committee received an update on SOx in each meeting.

The Committee also discussed other topics that were in its scope of attention, most notably compliance, fraud management, taxation and IT. In December, the Audit Committee evaluated its own performance and effectiveness.

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### Remuneration and Organizational Development Committee

The Remuneration and Organizational Development Committee currently has three members, Mr. Jager (Chairman), Mr. Risseeuw and Ms. Van Lier Lels. During 2007, the committee met five times. The committee reviewed the remuneration packages of the Board of Management and established bonus targets and criteria for long term and short term incentives for 2007. The committee prepared changes in the composition of the peer group and the proposal for the adjustment of the long term incentive for the Company's Chairman of the Board of Management and CEO. It discussed talent development issues for senior management. Throughout 2007, the Committee continuously monitored the remuneration of the members of the Board of Management in relation to the developments in this field at the Company's peers. Further details on the activities of the Remuneration and Organization Development Committee are provided in the 'Remuneration Report'.

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## Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently has three members: Mr. Risseeuw (Chairman), Mr. Jager, and Ms. Van Lier Lels. The purpose of the Nominating and Corporate Governance Committee is to recommend individuals to the Supervisory Board for nomination as members of the Board of Management, to support the Supervisory Board in adopting high standards and practices for the corporate governance structure, to lead the Board of Management in its periodic review of its performance, and to oversee the Company's activities in the areas of environmental and corporate responsibility.

The Nominating and Corporate Governance Committee met three times during 2007. It prepared the extension of the employment contract of the Company's Chairman of the Board of Management and CEO. It discussed compliance and integrity issues with senior management and reviewed the performance of the individual members of the Board of Management. The compliance with the Dutch Corporate Governance Code and particularly the reasons for the small number of deviations thereto were reviewed in 2007. For a description of these deviations and the explanation thereof, refer to the chapter titled 'Corporate Governance'. The chairman presided an integrity workshop, which was organized for the Company's senior management.

## Changes in the Board of Management

Besides of the extension of the employment contract of the Company's Chairman of the Board of Management and CEO in November, there were no changes in the Board of Management in 2007.

For an overview of all members of the Board of Management, see 'Corporate Governance'.

## Financial Statements

The Financial Statements for the year ended December 31, 2007 were prepared by the Board of Management and approved by the Supervisory Board. The Report of Independent Auditors of PricewaterhouseCoopers Accountants N.V. is included in Financial Statements.

The Supervisory Board recommends to the Annual General Meeting of Shareholders to adopt these Financial Statements, as well as the proposed cash dividend of EUR 0.54 per share.

Finally, the Supervisory Board would like to thank all shareholders for their trust in the Company and all employees and management for their dedication and effort.

The Hague, March 5, 2008

A.H.J. Risseeuw  
D.G. Eustace  
M. Bischoff  
C.M. Colijn-Hooymans  
D.I. Jager  
M.E. van Lier Lels  
J.B.M. Streppel

## Members of the Supervisory Board

The current members of the Supervisory Board are:

### A.H.J. Risseeuw (1936)

Mr. Risseeuw was first appointed as member of the Supervisory Board on May 2, 2001, and he is the Chairman of the Supervisory Board since September 10, 2001. His current (second) term expires in 2009. Mr. Risseeuw chairs the Nominating and Corporate Governance Committee and is a member of the Remuneration and Organizational Development Committee. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is Chairman of the Supervisory Boards of Groeneveld Groep B.V. and Intergamma B.V. and member of the Supervisory Board of Blokker Holding B.V. and a member of the Advisory Council of Deloitte The Netherlands. Mr. Risseeuw is a Dutch citizen.

### D.G. Eustace (1936)

Mr. Eustace was first appointed as member of the Supervisory Board on April 27, 2000, and he is the Vice Chairman of the Supervisory Board since September 10, 2001. His current (second) term expires in 2008. Mr. Eustace is the Chairman of the Audit Committee.

Mr. Eustace is the former Vice Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V. He currently is the Chairman of the Supervisory Board of AEGON N.V. and VNU Group B.V., and a member of the Advisory Council of Rothschild. In 2006 he stepped down as Chairman of the Board of Smith & Nephew Plc. Mr. Eustace is a British and Canadian citizen. In January 2007, Mr. Eustace was appointed member of the Supervisory Board of Stork N.V.

### **M. Bischoff (1942)**

Mr. Bischoff was appointed as member of the Supervisory Board on May 12, 2003 and his current (second) term expires in 2011. He is a member of the Audit Committee. Mr. Bischoff, a former member of the Management Board of DaimlerChrysler, is currently Chairman of the Supervisory Board of Daimler AG. Furthermore, he is a member of the Supervisory Boards of Fraport AG, SMS GmbH and Voith AG and a non-executive member of the Board of Directors of Nortel Networks Corp., Nortel Networks Ltd., and Unicredit. Mr. Bischoff is a German citizen.

### **C.M. Colijn-Hooymans (1951)**

Mrs. Colijn-Hooymans was appointed as member of the Supervisory Board on April 17, 2007 and her term expires in 2011. She is a member of the Audit Committee. Mrs. Colijn-Hooymans is a member of the Management Board of TNO and a member of the Supervisory Board of Rabobank Vallei en Rijn. Furthermore, she is a member of the Board of the Radboud Foundation (Radboud University and Radboud University Medical Centre) and a member of the Dutch government's Advisory Council for Science and Technology. Mrs. Colijn-Hooymans is a Dutch citizen.

### **D.I. Jager (1943)**

Mr. Jager has been a member of the Supervisory Board since April 25, 2002 and his current (second) term expires in 2010. Mr. Jager is the Chairman of the Remuneration and Organizational Development Committee, and a member of the Nominating and Corporate Governance Committee. He held various management positions at Procter & Gamble in Europe, Asia and the United States and was Chairman of the Board, President and/or Chief Executive Officer from January 1995 through June 2000. Mr. Jager currently is an independent consultant and private investor. He is Chairman of the Supervisory Board of Royal Wessanen N.V. and serves on the Boards of Chiquita Brands International Inc. and Polycom Inc. as a non-executive board member. Mr. Jager is both a US and Dutch citizen and resides in the United States.

### **M.E. van Lier Lels (1959)**

Ms. Van Lier Lels was first appointed as member of the Supervisory Board on May 2, 2001 and her current (second) term expires in 2009. She is a member of the Remuneration and Organizational Development Committee, as well as the Nominating and Corporate Governance Committee. Ms. Van Lier Lels has held various management positions with Dutch international companies and is the former Chief Operating Officer of Schiphol Group. She is a member of the Supervisory Boards of Getronics N.V., USG People N.V., Connexxion Holding N.V., TKH Group N.V. and Maersk B.V. and the chairman of the Supervisory Board of Slavenburg Holdings B.V. She is a member of the Audit Committee of the Algemene Rekenkamer and a member of the Advisory Council for Science and Technology. Ms. Van Lier Lels is a Dutch citizen.

### **J.B.M. Streppel (1949)**

Mr. Streppel was appointed as member of the Supervisory Board on May 12, 2003 and his current (second) term expires in 2011. He is a member of the Audit Committee. Mr. Streppel is a member of the Board of Management and Chief Financial Officer of AEGON N.V. and a member of the Supervisory Board of Van Lanschot N.V. He is a member of the Committee of Listed Companies of Euronext (Amsterdam), Chairman of the Shareholders Communication Channel, a member of the Monitoring Committee Corporate Governance Code and Chairman of the Board of Duisenberg School of Finance and Holland Financial Center. Mr. Streppel is a Dutch citizen.