

Remuneration Report 2006

The Remuneration Report contains Nuon's remuneration policy, a description of the execution of the policy and a look-ahead towards 2007 and beyond.

The Selection, Appointment and Remuneration Committee consists of Mr H. Zwarts (Chairman), Mrs J.B. Irik and Mr W. Meijer. Among the matters relating to remuneration discussed by the Committee in 2006 were: the adoption of the variable remuneration for 2005, the short-term variable remuneration objectives for 2006, the long-term variable remuneration objectives for 2006-2008, as well as the discussion regarding the progress made in relation to the various objectives and the development of the remuneration. In addition the Selection, Appointment and Remuneration Committee discussed the company's management development policy, the applied performance management system and the retention of the top of the organisation.

The Selection, Appointment and Remuneration Committee periodically assesses the remuneration policy and, where necessary, makes a proposal to the Supervisory Board for material adjustment of this policy which is then submitted for adoption to the General Meeting of Shareholders.

In order to determine the development of the emoluments of the Chairman and members of the Management Board, market data are also used as one of the sources of information. External advice is also sought in this connection.

In accordance with the agreements made in the General Meeting of Shareholders of 25 April 2005, intensive consultation took place in 2005 and early 2006 with representatives of shareholders. This consultation led to the adjustment and adoption of the remuneration policy in the General Meeting of Shareholders of 24 April 2006.

The remuneration report consists of four parts:

- 1 A summary of Nuon's remuneration policy;
- 2 A description of the execution of the remuneration policy in 2006, also in a comparison with 2005;
- 3 A summary of the remuneration of the members of the Supervisory Board;
- 4 A look-ahead towards 2007 and beyond.

Nuon's remuneration policy and remuneration report comply with the Dutch Corporate Governance Code. Where this is not the case, the departures are highlighted and explained.

1 Remuneration policy

Nuon's remuneration policy is aimed at creating conditions conducive to recruiting, motivating and retaining talented executives in order to enable the company achieve its long-term objectives. Nuon's specific remuneration policy is geared to the median of the relevant executive compensation market and includes the fixed and results-dependent components associated with that market. The relevant executive compensation market is defined as the Dutch employment market for the Management Boards of companies with comparable turnover, staff levels and complexity. The composition of the group of companies in this market was discussed in the shareholders' meeting of 25 April 2005. In addition, in conformity with the decision of the General Meeting of Shareholders of 24 April 2006, it was decided to apply the levels of the short-term variable income and the long-term incentive, as laid down in the company policy, as the maximum level. With a performance below 95% of the envisaged level, no variable remuneration whatsoever will be paid out. In special circumstances, the Supervisory Board may, at its discretion, deviate from the new policy. In this case, the representatives of shareholders shall be informed in advance.

Though formally not applicable, it is noted that the company's remuneration policy also meets the demands set for the remuneration policy of government-owned or controlled companies. The basic assumptions are:

- 1 The size of the separate remuneration elements and the award criteria must be available and clear to the shareholders;
- 2 The remuneration policy must be balanced and based on sound arguments;
- 3 the remuneration level will not exceed the median of the peer group;
- 4 The pension must be based on an average pay scheme, with pension entitlement being built up on the base salary.

The remuneration of the Management Board consists of the following elements:

- a The annual base salary;
- b The short-term variable salary (focused on achievement of objectives for the current year);
- c A long-term incentive (focused on the achievement of objectives over a three-year term and also intended as a retention tool);
- d Pension benefits (average pay);
- e Other emoluments from the remuneration package.

Re (a) Annual base salary

The objective for the annual base salary of the Chairman and members of the Management Board is based on the median of the relevant executive compensation market. This market is defined as the Dutch employment market for Management Boards of companies with comparable turnover, staff levels and complexity.

In this connection, comparisons were also made with the current remuneration levels as applied within the Dutch energy sector and with the customary remuneration practices of government-owned or controlled companies (including Nederlandse Spoorwegen, Luchthaven Schiphol, Connexxion and others). These comparisons also confirm that Nuon pursues a prudent and fair remuneration policy in relation to the base (and variable) salary.

Re (b) Short-term variable salary

The variable short-term part of the salary is dependent on achieving challenging objectives for the current year. The maximum of this variable salary is 30% (35% for the Chairman of the Management Board) of the annual base salary. The objectives to be achieved by the Chairman and members of the Management Board in this framework are formulated each year by the Supervisory Board. The objectives to be realised for 2006 concerned: financial objectives (50% of the total), customer objectives (30% of the total) and staff commitment (10% of the total), supplemented with specific aspects deserving special attention in that year (10% of the total).

Progress is carefully monitored throughout the year. After the end of the year the extent to which the objectives have been achieved is determined by the Supervisory Board on the recommendation of the Selection, Appointment and Remuneration Committee. Use is made in this connection of the annual report and of measurements performed by external independent bodies (including the Office of Energy Regulation – DTe). The results achieved are assessed at the end of the measurement period for each objective and, in so far as relevant, the averages are measured over the year and in relation to the general trend. The same approach is adopted for the company's other senior management members.

Re (c) Long-term incentive

The long-term incentive in the remuneration package is a long-term cash scheme geared to the achievement of medium-term objectives (three years). The scheme is also intended as a tool to retain the services of the individuals concerned. The maximum of the long-term variable remuneration for each LTI period of 3 years is 30% (for the Chairman of the Management Board 35%) of the gross annual base salary.

Various criteria must be satisfied in order to qualify for this part of the remuneration. For example, the Board member concerned must still be working for the company at the time of the payment and the established objectives must be achieved. The objectives for the long-term incentive 2004–2006 have been set by the Supervisory Board for financial performance, customer satisfaction and staff commitment (a third of the total for each component). Objectives for the long-term incentive 2005–2007 and 2006–2008 will, in conformity with the arrangements made with shareholders, focus in particular on creation of shareholder value (60% of the total) and on market share (40% of the total).

Re (d) Pension benefits

The company's policy is that members of the Management Board participate in the staff pension scheme, which is currently transferred to the ABP pension fund. Since 1 January 2004, this has been a full average pay scheme, with a retirement age of 65. Early retirement is a possibility. In accordance with current practice in the industry, pension entitlement is built up on the gross annual base salary. Members of the Management Board pay an individual contribution for membership of the pension scheme.

Re (e) Other emoluments

Besides the emoluments described above, members of the Management Board are also entitled to a contribution for health insurance, an expense allowance and a company car.

Contracts of employment

As a matter of company policy, contracts of employment with members of the Management Board are entered into for a fixed term (generally four years), after which they can be renewed. If a Management Board member's contract of employment is terminated by the company, it is company policy that this member receives a severance payment equal to his or her gross annual base salary. In certain circumstances, this lump sum may also be paid if a member of the Management Board resigns owing to a change in the control of the company or to an irreconcilable difference of opinion regarding company policy.

The remuneration policy described above which was applied for 2006 was adopted by the General Meeting of Shareholders of 24 April 2006.

2 Execution of the remuneration policy

From 1 January 2006, Mr Ø. Løseth was appointed member of the Management Board, with specific responsibility for Sourcing & Trading, Belgium and Germany. In this connection, the existing contract of employment for an indefinite term with Mr Ø. Løseth was converted into a contract for a term of four years. In line with the policy described above, his payment upon termination of his contract of employment by the company is now limited to one gross annual base salary. The existing arrangements in relation to the variable income have been honoured. These concern 50% for the short-term variable income and 40% for the long-term incentive (half of which is guaranteed). Mr Ø. Løseth's gross annual base salary for 2006 remained unchanged relative to 2005 and amounts to € 350,000. In view of his special (expatriate) situation, Mr Ø. Løseth receives a defined pension contribution of € 80,000 per year.

From 1 May 2006, Mr D.G. Vierstra has been appointed as member of the Management Board in the position of Chief Financial Officer. The remuneration of Mr D.G. Vierstra was determined in conformity with the policy formulated in this report.

Reporting on the basis of the IFRS

This Remuneration Report has been drawn up in accordance with IFRS as used for the preparation of financial statements. This means that the report on the variable elements of the remuneration relate to the year in which the elements were earned, regardless of the time of payment.

Development of annual base salary

The development of the annual base salary for the members of the Management Board has been set at 3% from 1 January 2006. This percentage is in line with the pay rise for the company's staff on the basis of the applicable collective labour agreement 2005–2006.

The base salaries were adjusted by this percentage from 1 January 2006. Mr P.H.F. Erich's salary has been raised to the norm level as considered appropriate for his position; accordingly, alongside the aforementioned adjustment of 3%, his salary was raised by an additional 4%. A study of Bedet & Partners concluded that the current remuneration level is modestly positioned compared to the reference market mentioned in the adopted remuneration policy. Partly due to the absence of adjustments in the three years prior to 2006, the base salaries are increasingly lagging behind this market and are currently below the median of the relevant compensation market. The developments in the market in relation to executive compensation will be monitored in order to continue assessing whether the remuneration package is in line with the market.

Overview of base salary		
In thousands of euros	Base Salary	
	2006 ¹	2005 ¹
Name		
L.M.J. van Halderen	427	415
P.H.F. Erich	335	313
J.M. Henderson (from 1 October 2004 to 1 April 2006)	95	370
Ø. Løseth (from 1 January 2006)	350	
D.G. Vierstra (from 1 May 2006)	247	
Total	1,454	1,098

¹ Concerns actual payment per year, without amounts accrued for other remuneration elements.

Short-term variable salary

For the year 2006:

The short-term variable salary under the performance contracts for 2006 has been determined at 90% of their maximum percentage for all members of the Management Board. This is based on the achievement of

the financial objectives, customer-related objectives and other objectives. It should be noted that the defined financial performance objectives were exceeded. The customer-related objectives were virtually achieved, while the objective in relation to staff commitment (as measured by an external research agency) was fully attained.

Overview of short-term variable salary charged to income		
In thousands of euros	Short-term variable salary	
	2006 ¹	2005 ²
Name		
L.M.J. van Halderen	135	131
P.H.F. Erich	90	84
J.M. Henderson (from 1 October 2004 to 1 April 2006)	28	100
Ø. Løseth (from 1 January 2006)	158	
D.G. Vierstra (from 1 May 2006)	67	
Total	478	315

¹ This concerns the short-term variable salary as earned over 2006

² This concerns the short-term variable salary as earned over 2005. Payment took place in 2006.

Long-term incentive

The long-term variable salary is linked to objectives over a 3-year period. The objectives for the long-term incentive 2004–2006 were defined by the Supervisory Board in relation to financial performance, customer satisfaction and staff commitment (one third of the total for each component); objectives for the long-term incentives 2005–2007 and 2006–2008 are aimed in particular at creation of shareholder value (60% of the total) and at market share (40% of the total).

A time-proportionate accrual is recognised for each long-term incentive period on the basis of payment of the target level. Payment of the accrued amounts will not occur until the extent to which the predetermined objectives have actually been achieved has been established.

For the year 2006:

The long-term incentive (LTI) to be paid in 2007 for the 2004–2006 period has been determined at 85% of the maximum according to the policy. This reflects the achievement of the financial objectives, customer and other objectives. As regards the financial objectives, including shareholder value, the company performed well in relation to the predetermined targets; the realised improvements measured over the three-year period from 2004 to 2006 were considerable. The objectives in terms of customer satisfaction were partly achieved, while the objective in relation to staff commitment was realised.

Overview of long-term variable salary charged to income		
In thousands of euros	Accrued for long-term variable salary	
	2006	2005
Name		
L.M.J. van Halderen	129 ¹	167 ³
P.H.F. Erich	86 ¹	108 ³
J.M. Henderson (from 1 October 2004 to 1 April 2006)		
Ø. Løseth (from 1 January 2006)	47 ²	
D.G. Vierstra (from 1 May 2006)	25 ²	
Total	287	275

- 1 The reported amounts for 2006 concern the time-proportionate amounts accrued for the LTI periods 2004-2006, 2005-2007 and 2006-2008. LTI 2004-2006 is adjusted for the realisation percentage of 85%
- 2 The reported amounts for 2006 concern the time-proportionate accrued amounts for the LTI period 2006-2008
- 3 The reported amounts concern the long-term variable salary paid out in 2006 over the LTI period 2003-2005.

The amounts accrued for Mr J.M. Henderson have been released to income. No payments to Mr J.M. Henderson have been made under this scheme.

The overview below summarises the remuneration elements described above.

Overview of total salary charged to income										
In thousands of euros	Base salary		Short-term variable salary		Accrued for long-term variable salary		Special one-off remunerations		Total income earned	
	2006 ¹	2005 ¹	2006 ²	2005 ²	2006 ³	2005 ⁴	2006 ⁵	2005 ⁶	2006	2005
Name										
L.M.J. van Halderen	427	415	135	131	129	167			691	713
P.H.F. Erich	335	313	90	84	86	108			511	505
J.M. Henderson (from 1 October 2004 to 1 April 2006)	95	370	28	100				370	123	840
Ø. Løseth (from 1 January 2006)	350		158		47				555	
D.G. Vierstra (from 1 May 2006)	247		67		25		100		439	
Total	1,454	1,098	478	315	287	275	100	370	2,319	2,058

- 1 Concerns actual payment per year, excluding amounts accrued for other remuneration elements
- 2 Reported amount is the short-term variable salary as accrued in the relevant financial year in relation to that financial year (payment is made in the following financial year)
- 3 For Messrs Van Halderen and Erich the amounts reported for 2006 concern the time-proportionate amounts accrued for the LTI periods 2004-2006 (adjusted for the realisation percentage of 85%), 2005-2007 and 2006-2008. For Messrs Løseth and Vierstra the amounts stated for 2006 concern the time-proportionate amounts accrued for the LTI period 2006-2008
- 4 Reported amount is the long-term variable salary as earned over the LTI period 2003-2005 and paid out in 2006
- 5 This is the one-off remuneration paid to Mr D.G. Vierstra as compensation for the loss of the option scheme, as well as for other differences in conditions of employment compared to the previous employer
- 6 In 2006, a severance payment of € 200.000 was paid to Mr J.M. Henderson, member of the Management Board, who left Nuon on 1 April 2006. In addition, it was agreed with Mr J.M. Henderson that he would be available in the period after 1 April 2006 for finalising a number of specific files under his management. An amount of € 170.000 was paid for this availability

Pension benefits

The pension costs concern the payment of the regular pension contributions. These are levied on the annual base salary. Messrs Van Halderen, Erich and Vierstra participate in the ABP pension scheme applicable to the company. This is an average pay scheme with a retirement age of 65. Until 1 January 2006, a flexible pre-pension scheme was also applicable to the staff. The decrease

in the 2006 pension contributions is the consequence of changes in the ABP scheme. In view of his special (expatriate) situation, Mr Ø. Løseth receives a defined pension contribution of € 80,000 per year. A defined pension contribution scheme was applied to Mr J.M. Henderson, in which the costs chargeable to the company are equal to those that would have been incurred if he had been a participant in the ABP scheme.

Overview of pension contributions		
In thousands of euros	Pension contribution	
	2006	2005
Name		
L.M.J. van Halderen	79	98
P.H.F. Erich	52	74
J.M. Henderson (from 1 October 2004 to 1 April 2006)	16	112
Ø. Løseth (from 1 January 2006)	80	
D.G. Vierstra (from 1 May 2006)	41	
Total	268	284

Social security charges and other emoluments

In addition to the social security contributions normally paid by the company, this item concerns the health insurance contribution payable by the employer and the expense allowance. Until 1 January 2006, Messrs Van Halderen and Erich participated in the IZR collective health insurance plan. Until 1 January 2006, Mr J.M. Henderson received an employer's contribution equal to 50% of the premium for private health insurance. The

difference between this contribution and the (higher) employer's contribution under the IZR insurance applicable until 1 January 2006 is made available by the company as defined contribution for payment into Mr J.M. Henderson's pension scheme (and is accounted for as a pension contribution). In view of his special (expatriate) situation, Mr Ø. Løseth receives an allowance of € 45,000 for, among other things, housing and health insurance for himself and his family.

Overview of social security charges and other emoluments		
In thousands of euros	Social security charges and other emoluments	
	2006 ¹	2005
Name		
L.M.J. van Halderen	6	31
P.H.F. Erich	8	25
J.M. Henderson (from 1 October 2004 to 1 April 2006)	2	9
Ø. Løseth (from 1 January 2006)	55	
D.G. Vierstra (from 1 May 2006)	4	
Total	75	65

¹ Decrease compared to 2005 as a result of the implementations of the new Dutch Health Care System. As a result income-related premiums borne by the employer are no longer due.

No loans, advances or guarantees have been provided by the company for members of the Management Board or Supervisory Board.

Contracts of employment

Each member of the Management Board has a contract of employment with the company. Mr L.M.J. van Halderen's contract of employment, which was due to expire on 1 February 2007, was extended until 1 February 2010. The contract of employment with Mr J.M. Henderson was terminated on 1 April 2006. The contract of employment with Mr P.H.F. Erich was entered into for an indefinite term*. The contract of employment with Mr Ø. Løseth was concluded with effect from 1 January 2006 for a term of four years. The contract of employment with Mr D.G. Vierstra was concluded with effect from 1 May 2006 for a term of four years.

If his contract of employment is terminated by the company, Mr L.M.J. van Halderen is entitled to a supplementary payment sufficient to raise his flexible retirement benefit to the level of his last-earned gross annual base salary until he reaches the age of 65. If his contract of employment is terminated by the company, Mr P.H.F. Erich is entitled to a severance payment equal to 150% of his annual base salary*; in such a situation Messrs Vierstra and Løseth are entitled to a severance payment equal to 100% of their annual base salary. Under certain circumstances, this severance payment is also paid if a member of the Management Board resigns owing to a change in the control of the company or to an irreconcilable difference of opinion regarding company policy.

* indicates that this practice is not in line with the policy or with the Netherlands Corporate Governance Code. This arrangement was concluded before the Code took effect; Nuon's policy is to honour existing arrangements.

3 Remuneration of the Supervisory Board 2006

The Chairman of the Supervisory Board receives a remuneration of € 35,000. Members of the Supervisory Board who are also a member of the Audit Committee and/or Selection, Appointment and Remuneration Committee receive a remuneration of € 28,000. The other members receive € 23,500.

In connection with special additional tasks performed by several members of the Supervisory Board in 2005, the General Meeting of Shareholders awarded in 2006 an additional remuneration to Messrs Zwarts (€ 20,000) and Koopmans (€ 10,000).

In connection with their additional work relating to the preparation of the merger between Essent and Nuon, an additional remuneration for the members of the Strategy Committee will be proposed to the General Meeting of Shareholders in 2007, namely: € 20,000 for Mr P. Bouw and € 15,000 each for Messrs Schraven and Ybema. Finally, an additional remuneration of € 15,000 for the Chairman of the Selection, Appointment and Remuneration Committee is proposed in connection with the additional work in 2006.

Remuneration of the Supervisory Board			
In thousands of euros	2006	2005	
Name			
W. Meijer (Chairman)	35.0	35.0	
P. Bouw (from 24 April 2006 Chairman of Audit Committee)	26.5	23.5	
D.J. Haank	28.0	28.0	
P.F. van der Heijden	23.5	23.5	
A.M.C.A. Hooijmaijers	23.5	23.5	
B.J.J.M. Huesmann	23.5	23.5	
Mrs. J.B. Irik (Vice-Chairman)	28.0	28.0	
L. Koopmans	38.0	28.0	
M. Minderhoud (until 24 April 2006)	8.9	28.0	
R.A.M. van der Sande (until 24 April 2006)	7.8	23.5	
J.H. Schraven	23.5	23.5	
G. Ybema (from 25 April 2005)	23.5	16.1	
H. Zwarts	48.0	28.0	
Total	337.7	332.1	

4 A look-ahead towards 2007 and beyond

The annual base salaries of the members of the Management Board will be adjusted during 2007 by a percentage that is in line with what was agreed in the framework of the current collective labour agreement negotiations.

In addition, further steps will be taken, as agreed, to involve shareholders more closely in the process of determining challenging ambition levels for variable salary. Shareholders have suggested that the way in which the agreed targets are achieved are to be taken into account. Not only the end result should be taken into account, but also (where relevant) the average picture over the measurement period and the general trend. This suggestion has been adopted. In addition, and also upon the request of shareholders, sustainability will be added as a criterion for the short-term variable salary.

Members of the Selection, Appointment and Remuneration Committee:

Mr H. Zwarts (Chairman)

Mrs J.B. Irik

Mr W. Meijer