

# 4. REPORT OF THE SUPERVISORY BOARD



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## GENERAL

Euronext N.V. is a Dutch public company with limited liability (naamloze vennootschap) which has its registered office in Amsterdam. Euronext N.V. has subsidiaries in Belgium, France, the Netherlands, Portugal and the United Kingdom (together, "Euronext").

### 4.1 MANAGERIAL STRUCTURE

In accordance with Dutch law, the company has a two-tier governance structure with a Supervisory Board and a Managing Board. The Supervisory Board is a separate body, consisting of independent members. Independence is demonstrated by the requirement that members of the Supervisory Board cannot be a member of the Managing Board or an employee of Euronext.

The Supervisory Board oversees the actions and policies of the Managing Board and the general course of Euronext's business activities, and supervises, assists and advises the Managing Board in performing its managerial duties. As explained in the authorisation schedule adopted by the Supervisory Board in 2001, major decisions require the prior approval of the Supervisory Board. Amongst others, the duties of the Supervisory Board include the adoption of the financial statements, which all members of the Supervisory Board and Managing Board must sign.

In accordance with Dutch law and the company's articles of association, the Supervisory Board appoints all the members of the Supervisory Board and the Managing Board.

The Annual General Meeting determines the remuneration of the members of the Supervisory Board, and the Supervisory Board determines the remuneration of the members of the Managing Board.

The articles of association state that the Supervisory Board has to have at least three and no more than twelve members. Within these limits, the Supervisory Board determines how many members it should have, and appoints members,

taking into account the profile of the existing Supervisory Board and its members. In the event of a vacancy the General Meeting, the Managing Board and the Euronext Amsterdam Works Council may recommend persons for appointment as members of the Supervisory Board. Both the General Meeting and the Euronext Amsterdam Works Council may object to nominations made by the Supervisory Board.

The Managing Board is responsible for managing Euronext's affairs, under the supervision of the Supervisory Board. The Managing Board meets regularly to discuss Euronext's strategy, set policy and implement managerial decisions. The Chief Executive Officer reports to the chairman of the Supervisory Board on a regular basis.

### 4.2 ANNUAL FINANCIAL STATEMENTS

As required under the provisions of the company's articles of association, we present the financial statements for the year 2003, as prepared and agreed by all members of the Managing Board and audited by the company's joint external and independent auditors, Ernst & Young and KPMG. The auditors' report can be found in Chapter 7, § 7.4, of this annual report.

The financial statements were discussed and adopted by the Supervisory Board at its meeting of 18<sup>th</sup> March 2004 in the presence of the external auditors and the Managing Board.

The Supervisory Board recommends that Euronext N.V.'s shareholders approve the 2003 financial statements at the Annual General Meeting to be held on 26<sup>th</sup> May 2004. Based on the proposal of the Managing Board, the Supervisory Board recommends the distribution of a dividend of €0.50 in the same meeting.

As required under the provisions of the articles of association, after the proposal for approval of the financial statements has been discussed and in connection with the annual accounts and any relevant statements, the General Meeting will be asked to discharge the members of the Managing Board in respect of their management and to discharge the members



of the Supervisory Board in respect of their supervisory activities, in the past financial year.

## 4.3 SUPERVISORY BOARD

### 4.3.1 Meetings of the Supervisory Board

The Supervisory Board met seven times in 2003 and all, or nearly all members of the Supervisory Board and Managing Board attended each meeting. One meeting was dedicated to discussing strategy. All meetings of the Supervisory Board were prepared by the chairman of the Supervisory Board and the chairman of the Managing Board. Important items such as the financial and operational performance, business development, IT migration, post merger integration and share price development were on the agenda of most meetings of the Supervisory Board.

Many other topics were discussed during the course of the year, including the completion of the LCH.Cleartnet merger; the 2004 budget, the strategy, the consolidation of international exchanges, and business plans of the company's strategic business units (SBU's). The increasing competition between the European exchanges and the question how Euronext should react to this was another important issue discussed by Supervisory Board and Managing Board in several meetings. In addition, Euronext's corporate governance was discussed. Euronext's position on corporate governance is explained more in detail in chapter 8 of this annual report. That chapter will be discussed under a separate item on the agenda of the Annual General Meeting.

The Supervisory Board also met without the members of the Managing Board being present. In these executive sessions, the Supervisory Board discussed management succession, the composition of the Managing Board and the functioning, remuneration and tasks of each of its members. In its December 2003 meeting, the Supervisory Board also discussed its own functioning and the profile of the Supervisory Board.

### 4.3.2 Composition, rotation schedule, appointments to the Supervisory Board

In 2003 the Supervisory Board consisted of twelve members. In accordance with Dutch law and the company's articles of association each member of the Supervisory Board is required to step down after a term of four years. Members may be re-appointed immediately, taking into account all applicable procedures. To avoid the retirement of too many members at the same time, the Supervisory Board has adopted a rotation schedule. As per such rotation schedule, Mr Jan-Michiel Hessels, Mr Dominique Hoenn and Baron Jean Peterbroeck will retire as members of the Supervisory Board at the Annual General Meeting of 2004. Mr Hessels, Mr Hoenn and Baron Peterbroeck have agreed to stand for re-appointment. The Supervisory Board has announced its intention to re-appoint Mr Hessels, Mr Hoenn and Baron Peterbroeck and has also announced that it will re-appoint Mr Hessels as chairman of the Supervisory Board following his re-appointment as a member of the Supervisory Board.

Mr Jean Blondeau has informed the Supervisory Board that he wishes to relinquish his Supervisory Board membership as per the Annual General Meeting of 2004. The Supervisory Board and the Managing Board wish to express their gratitude to Mr Blondeau, who was also chairman of the Audit Committee until May 2003, for his extensive knowledge of international industry and for his valuable contributions to the deliberations of the Supervisory Board and the Audit Committee.

The Supervisory Board intends to appoint Mr Patrick Houël as member of the Supervisory Board to fill the vacancy created by the retirement of Mr Blondeau. Information on Mr Houël is included in the explanatory notes to the agenda of the Annual General Meeting on 26<sup>th</sup> May 2004.

All proposals for the appointment or re-appointment of members to the Supervisory Board will be put to the Annual General Meeting on 26<sup>th</sup> May 2004. In accordance with Dutch law and the company's articles of association, Euronext Amsterdam's

Works Council has been consulted and indicated that it has no objections to the proposed appointments, nor did it, or the Managing Board of Euronext N.V. recommend other people for appointment as members of the Supervisory Board. Euronext's European Works Council has been informed about the intended appointments.

#### **4.3.3 Committees of the Supervisory Board**

The Supervisory Board has four committees: the Audit Committee, the IT Committee, the Nomination Committee and the Remuneration Committee (the Nomination and Remuneration Committees are combined).

##### **4.3.3.1 Audit Committee**

The Audit Committee consists of three members, Mr Remi Vermeiren, chairman (Mr Vermeiren was appointed as chairman of the Audit Committee in May 2003, replacing Mr Jean Blondeau), Baron Jean Peterbroeck and Mr Rijnhard van Tets (Mr van Tets was appointed as member of the Audit Committee in May 2003, replacing Mr Aad Jacobs).

The Audit Committee assists and advises the Supervisory Board on financial and risk-related issues and reports its findings to the Supervisory Board. An Audit Committee charter, explaining the role and responsibilities of the Audit Committee, was adopted in 2001 and will be reviewed during 2004.

In 2003 the Audit Committee reviewed and discussed various issues, including the 2002 financial statements and the 2003 interim financial statements. Other important issues discussed were currency risks and the need to hedge these risks; the yearly Information and Communication Technology (ICT) review, major transactions like the LCH.Clearent merger and related contracts; risk committee reports and the external auditors' management letter containing their findings and recommendations related to their auditing of the financial accounts. The Audit Committee also reviewed reports and the audit planning from the Internal Audit Department.

The Audit Committee paid particular attention to the independence of the external auditors and assured itself that all the work done by the external auditors was audit or tax related. The Audit Committee also assessed the fees charged by the external auditors.

The Audit Committee met five times in 2003. All meetings of the Audit Committee were attended by the CEO, Mr Jean-François Théodore, the CFO, Mr Serge Harry, the director of the Internal Audit Department, Mr Edward Heck and lead partners from the company's joint external auditors, Ernst & Young and KPMG.

##### **4.3.3.2 IT Committee**

Because IT is one of the essential parts of Euronext's business activities, the Supervisory Board decided during 2003 to establish an IT Committee. The IT Committee assists and advises the Supervisory Board in governing and overseeing IT-related matters at Euronext. Furthermore, the committee supports the Managing Board by providing guidance and helping clarify priorities with regard to IT issues. In 2003, the IT Committee met twice. In the first meeting a detailed overview was given on the Company's IT, the IT organisation and the annual IT plan. The second meeting was devoted to discussing the Company's 2004 IT budget.

The IT Committee consists of three members, Mr George Cox, chairman, Mr Jan-Michiel Hessels and Baron Jean Peterbroeck. In 2003, the CEO, Mr Jean-François Théodore, Mr Olivier Lefebvre, member of the Managing Board responsible for IT, and Euronext's senior IT officers Mr Tarak Achiche and Mr Mark Hemsley attended the meetings of the IT Committee.

##### **4.3.3.3 Nomination Committee**

The Nomination Committee consists of four members, Mr Jan-Michiel Hessels, chairman, Mr André Dirckx, Mr Dominique Hoenn and Mr Ricardo Salgado. The Nomination Committee met twice in 2003. The task

description of the Nomination Committee is laid down in the Rules of Procedure of the Supervisory Board.

In 2003, the Nomination Committee advised the Supervisory Board on appointments to the Managing Board and Supervisory Board, the composition of the Managing Board, the internal allocation of tasks within the Managing Board and the position of CEO. With regard to the last matters the Nomination Committee consulted in 2003 with all the members of the Managing Board individually in an extra meeting. In 2003, Mr George Cox joined, at the request of the Supervisory Board, the meetings of the Nomination Committee in which the position of CEO and the allocation of tasks within the Managing Board were discussed.

#### 4.3.3.4 Remuneration Committee

The Remuneration Committee has the same membership, and met at the same times, as the Nomination Committee. The Remuneration Committee is responsible for advising the Supervisory Board with regard to the remuneration policy for the Managing Board, the setting of the fixed and variable elements of the Managing Board's remuneration, the related performance criteria and other remuneration related matters.

### 4.4 COMPOSITION OF THE MANAGING BOARD

On 31<sup>st</sup> December 2003, the Managing Board consisted of Mr Jean-François Théodore as CEO and chairman of the Managing Board, Mr Hugh Freedberg, Mr Olivier Lefebvre, Mr George Möller and Mr João Freixa, members of the Managing Board.

- After notification of the Annual General Meeting, the Supervisory Board appointed Mr Freixa as member of the Managing Board on 22<sup>nd</sup> May 2003. He replaced Mr Manuel Monteiro who resigned from Euronext with effect from 8<sup>th</sup> March 2003.
- Mr Théodore was re-appointed by the Supervisory Board as CEO and chairman of the Managing Board on 9<sup>th</sup> December 2003 until the approval of the year 2006

accounts in the Annual General Meeting of Shareholders in 2007.

- As from 1<sup>st</sup> April 2004, Mr Möller is no longer employed by the company. He will be replaced by a new member of the Managing Board.

The Supervisory Board and Managing Board wish to express their gratitude to Mr Möller for his excellent contributions, based on his extensive knowledge of the Dutch and international exchange and financial industry, which he made to the company and its predecessors. As former CEO of Amsterdam Exchanges, AEX, Mr Möller was one of the founding fathers of Euronext and through his efforts and perseverance Euronext was created. Mr Möller was a member of Euronext N.V.'s Managing Board from 22<sup>nd</sup> September 2000 until 1<sup>st</sup> April 2004.

The Supervisory Board and Managing Board also wish to express their gratitude to Mr Manuel Monteiro, former CEO of the Portuguese exchange BVLP, for his contribution to the company and for all his efforts that guided the entry of BVLP into Euronext in 2002. Mr Monteiro was a member of Euronext N.V.'s Managing Board from 6<sup>th</sup> February 2002 until 8<sup>th</sup> March 2003.

### 4.5 EMPLOYMENT CONTRACTS AND ADDITIONAL ARRANGEMENTS

#### **Employment contracts**

All members of the Managing Board have a contract of employment or a service contract with the subsidiary of the company with which they were originally employed. With the exception of Mr Freixa's service contract with Euronext Lisbon, all contracts pre-date the Euronext merger (or in case of Mr Freedberg from before LIFFE joining Euronext) and are still in force. The employment contracts of all members of the Managing Board will be reviewed by the Remuneration Committee in the course of this year with the purpose, where possible, to bring them in line with new corporate governance best practice.

New Managing Board members who will join Euronext after the Annual General Meeting in May 2004 will, depending on local legislation and regulations, be appointed as members of the Managing Board for renewable periods of four years.

## 4.6 REMUNERATION POLICY

### 4.6.1 General policy

In 2003, the remuneration policy for the members of the Managing Board was reviewed and agreed by the Remuneration Committee and approved by the Supervisory Board. The key objective of Euronext's new remuneration policy for Managing Board members is that remuneration attracts and retains high quality executives and motivates them to excellent performance. The policy targets base pay for Managing Board members at the median position by broad comparison with other relevant European financial services companies. Overall remuneration, including annual performance incentives, share options or any other equity incentives will be closely linked to the performance objectives of the company as set out below. The location of the Managing Board member is taken into consideration when considering the overall remuneration package, including benefits.

### 4.6.2 Base pay

Base pay is reviewed annually by the Remuneration Committee to ensure that it remains competitively positioned against the external market. 2003 Base pay was not changed for Mr Jean-François Théodore and Mr George Möller. Based on earlier agreements with the purpose to align Mr Lefebvre's base pay relevant to the other members of the Managing Board, Mr Lefebvre's base pay was increased from €285,000 in 2002, to €300,000 in 2003. Based on a comparative benchmarking of Mr Freedberg's position, Mr Freedberg's base pay was increased from £295,320 in 2002 to £325,000 in 2003.

Mr Freixa's base pay was set at €300,000 at the time of his appointment.

	Annual base pay 2003	Annual base pay 2002
Jean-François Théodore ...	€500,000	€500,000
Hugh Freedberg <sup>(1)</sup> .....	£325,000	£295,320
João Freixa <sup>(2)</sup> .....	€239,935	-
Olivier Lefebvre .....	€300,000	€285,000
George Möller <sup>(3)</sup> .....	€400,000	€400,000

(1) Mr Freedberg is paid in GBP. 2003 exchange rate GBP 1: €1.42 (2002: GBP 1: €1.59).

(2) Mr Freixa joined Euronext on 1<sup>st</sup> March 2003.

(3) As from 1<sup>st</sup> April 2004, Mr Möller is no longer employed by the company.

### 4.6.3 Annual performance incentive (bonus)

In 2003, the Remuneration Committee considered the overall remuneration package of each member of the Managing Board to ensure that variable performance incentives closely linked reward to the performance objectives of the Euronext group. In addition, external market information indicated that the performance incentive was not generally competitive within our chosen comparator Group. New bonus arrangements were therefore implemented for the members of the Managing Board in 2003. For 2004 this scheme has been further modified. These new arrangements set up by the Supervisory Board create a direct link between the variable performance incentives and a realistic yet challenging EBITA target, earnings per share (EPS), Group strategy and individual performance.

The Remuneration Committee considered the overall financial results and progress against strategic objectives before making their recommendations to the Supervisory Board.



The table below explains the arrangements for 2002, 2003 and 2004.

	2002		2003		2004	
	Bonus potential	Bonus paid	Bonus potential	Performance measures	Bonus paid	Bonus potential and performance measures
Mr Jean-François Théodore	Maximum bonus 50% of base pay.	€250,000	On-target bonus 50% of base pay. Overall maximum of 100% of base pay.	-60% Group EBITA; -40% progress against strategic goals.	€302,500	Potential bonus and performance measures same as 2003. Prospect of an additional bonus of 25% of base pay if certain EPS growth targets are met.
Mr Hugh Freedberg	On-target bonus of 100% of base pay. Overall maximum of 200% of base pay.	€595,067	On-target bonus of 100% of base pay. Overall maximum of 200% of base pay.	-33 <sup>1/3</sup> % Group EBITA; -33 <sup>1/3</sup> % Euronext.liffe EBITA; -33 <sup>1/3</sup> % Individual performance objectives.	€572,872	Potential bonus same as 2003. Performance measures: -50% Group EBITA; -25% individual performance objectives; -25% progress against strategic goals. Prospect of an additional bonus of 25% of base pay if certain EPS growth targets are met.
Mr João Freixa	Not applicable.	-	Maximum bonus of 50% of base pay.	Euronext Lisbon's financial performance, operations and strategy.	€150,000	On-target bonus 50% of base pay. Overall maximum of 100% of base pay. Performance measures: -50% Group EBITA; -25% individual performance objectives; -25% progress against strategic goals. Prospect of an additional bonus of 25% of base pay if certain EPS growth targets are met.

	2002		2003		2004	
	<u>Bonus potential</u>	<u>Bonus paid</u>	<u>Bonus potential</u>	<u>Performance measures</u>	<u>Bonus paid</u>	<u>Bonus potential and performance measures</u>
Mr Olivier Lefebvre	Maximum bonus 50% of base pay.	€142,500	On-target bonus 50% of base pay. Overall maximum of 100% of base pay.	-60% Group EBITA; -40% progress against strategic goals.	€181,500	Potential bonus same as 2003. Performance measures: -50% Group EBITA; -25% individual performance objectives; -25% progress against strategic goals. Prospect of an additional bonus of 25% of base pay if certain EPS growth targets are met.
Mr George Möller	Maximum bonus 50% of base pay.	€200,000	On-target bonus 50% of base pay. Overall maximum of 100% of base pay.	-60% Group EBITA; -40% progress against strategic goals.	€200,000	Not applicable.

#### 4.6.4 Equity incentives

No awards of share options or other equity incentives were made in 2003. Mr Théodore, Mr Freedberg, Mr Lefebvre and Mr Möller hold options under the terms of existing option plans that were granted before 2003.

The Remuneration Committee will continue to review the long-term incentive arrangements for the Managing Board during 2004 and bring forward proposals to the Supervisory Board when appropriate.

Any proposals regarding granting of options to members of the Managing Board would then be submitted to the General Meeting for approval.

#### 4.6.5 Allowances and benefits in kind

Each Managing Board member has certain allowances and benefits in kind. These arrangements vary and are customary in the location of each individual (see for details Chapter 6, § 6.3.10).



#### 4.6.6 Severance payment to Mr Möller

As from 1<sup>st</sup> April 2004, Mr Möller is no longer employed by the company. In addition to the amounts relating to Mr Möller's pension (see for the details note 6.3.10 to the consolidated financial statements in chapter 6) the Supervisory Board agreed on a severance payment of €1,500,000. It was agreed that Mr Möller will repay Euronext each year until 31<sup>st</sup> December 2009, a certain portion (25%) of the (positive) difference between his future salary (fixed and variable) from a new employment on the one hand and his 2003 Euronext salary (fixed and variable) on the other hand. Mr Möller will be entitled to keep the options granted under the Option Schemes 2001 and 2002. In the opinion of the Supervisory Board this compensation is fair and reasonable.

#### 4.6.7 Pensions

The Remuneration Committee had advised the Supervisory Board in 2002 that due to fundamental differences between the national pension systems and pension schemes in the Euronext countries, harmonisation of the pension schemes of the members of the Managing Board was not appropriate. All members of the Managing Board therefore continued to participate in their local pension arrangements (see for details § 6.3.10).

#### 4.6.8 Remuneration of the Supervisory Board

The policy of the company with regard to the remuneration of the Supervisory Board is based on the remuneration of Supervisory Board members of comparable companies. The remuneration of the Supervisory Board members was approved by the Supervisory Board and was determined by the Annual General Meeting in 2001 and has not been changed since then. Since 2001 the remuneration has been set at €35,000 per year for the chairman, €30,000 for the vice-chairman and €25,000 for the other members. Members of the committees of the Supervisory Board receive an additional remuneration of €2,500 per year. Supervisory Board members are not participating in the company's option plans

or other incentive plans, nor have any loans been granted to them by the company. Costs and expenses related to the membership of the Supervisory Board may be reimbursed. For the first half of 2003, Sir Brian Williamson abstained from his remuneration as member of the Supervisory Board because, as agreed at the time of the acquisition of LIFFE and explained in the LIFFE offer memorandum dated 12<sup>th</sup> November 2001, he received remuneration as chairman of the board of LIFFE. Sir Brian retired as chairman of the board of LIFFE on 1<sup>st</sup> July 2003. As from that date, Sir Brian received the regular remuneration provided to the members of the Supervisory Board as explained above. The remuneration received by Sir Brian is explained in more detail in Chapter 6, § 6.3.10.

The Supervisory Board would like to express its thanks to the members of the Managing Board, the general management and the entire staff in all locations of Euronext for the work performed during the past year and all their efforts related to the ongoing realization of the integration of the exchange and its markets and the further strengthening of the company's international position.

Amsterdam, 18<sup>th</sup> March 2004

Jan-Michiel Hessels, chairman  
 Dominique Hoenn, vice-chairman  
 Jean Blondeau  
 George Cox  
 André Dirckx  
 Paul van den Hoek  
 René de La Serre  
 Baron Jean Peterbroeck  
 Ricardo Salgado  
 Rijnhard van Tets  
 Remi Vermeiren  
 Sir Brian Williamson