

MESSAGE TO THE SHAREHOLDERS

Dear Shareholder, Sir or Madam

2002 was a difficult year.

The climate in general was unstable and the economic context for most of the sectors in which our holdings operate was uncertain.

With regard to our restricted consolidation (that is, NPM/CNP itself and its financial subsidiaries), it was mainly share trading operations that were affected, with the entire advantage of the reduced-rate financing generated by our TOTALFINAELF exchangeable bonds being absorbed by the losses recorded on these cash management activities.

In parallel, our net adjusted assets per share dropped by 11.3%; whilst it is true that this is less than most stock market indexes, it is our most disappointing performance since 1990.

However, our confidence in the future, fuelled by the quality of our portfolio of holdings, means that we are still proposing a 5% growth in the dividend per share this year. It goes without saying that our restricted consolidated operating profit (based on the dividend income from our holdings) easily allows for the distribution of the dividend, without prejudicing the group's cash position.

For many years, the inside cover of our annual report has contained a summary of our mission, strategy and management philosophy. Readers will have noticed that the description of these terms has been adapted this year.

Be that as it may, it seems appropriate to give you a report on the 2002 financial year, linking performance and major events to these concepts.

Firstly, our **mission**. During 2002, the adjusted net assets per share fell by 11.3%. We could argue that this drop was significantly less than the reduction in the main European indexes (Eurostoxx 50: -37.3%, CAC 40: -33.1%, Eurotop 100: -32.4%, Bel 20: -25.8%). However, this does not change our analysis in any way. At the very most, it allows us to point out that, beyond this performance, any assessment of the return must take into account the diversification of your assets (even if they are largely invested in TOTALFINAELF), the risks specific to each of the holdings and last but not least, the financial stability of NPM/CNP, characterised by a net cash position that is currently unleveraged.

As mentioned above, our operating performance means that we will be able once again to increase the dividend and safely predict, barring unforeseen circumstances, the continuation of the dividend policy.

With regard to NPM/CNP, the instrument used to measure performance is adjusted net assets per share, even though this only values private equity holdings at book value, in the long term, potential capital gains on these are realised and are therefore reflected in performance.

As you know, we focus our attention on the long term, and are pleased to report that what applies for our relative performance in 2002 is also confirmed over longer periods.

For example, since April 1988, when NPM/CNP was taken over by the FRÈRE Group, we have seen an 11.3% compound annual rate of return in terms of adjusted net assets per share. This achievement must be compared to the 9.9% return expected by the market at the beginning of the period. Compared to this expectation, the return was, in relative terms, 14% higher; in other words, NPM/CNP has created 1.4% extra value per year. It goes without saying that in addition to an initial investment in April 1988, these calculations take into account the subsequent capital increases, which were frequent until 1994.

It is useful to compare NPM/CNP's performance (11.3%) with that of the "Total Return Datastream Europe" index over the same period (10.7%). Over the last ten years, for which more indexes reflecting the progress of the European stock markets are available, these show returns of between 7.5% and 10.9%; NPM/CNP's is over 15%.

We are a company controlled by a family group, and our mission reflects this. These respectable results are certainly largely due to the importance we place on cash and our risk profile.

It is important to remember that a significant part of our total performance is distributed in the form of dividends, which also reduces the risk. Recent studies have shown that, in general, companies that distribute proportionately high dividends historically show a higher overall return for shareholders than companies that distribute small dividends or none at all; NPM/CNP illustrates this assertion.

To sum up, we are disappointed with 2002, but our resolution to create value for Shareholders is unchanged.

Some of you might feel that we are purposely not mentioning our consolidated results, suspecting that we want to dodge non-operating losses that have impacted the consolidated profit in 2002. This is of course not the case, even though the significant nature of the consolidated accounts is relative. For a holding company that prioritises cash revenue, dividend and adjusted net assets per

Since 1988, return has been, in relative terms, 14% higher than market expectations; in other words, NPM/CNP has created 1.4% extra value per year.

share as measuring instruments, the consolidated accounts are not representative; this is why 13 years ago NPM/CNP was the first company to introduce the concept of restricted consolidation, which places the emphasis on dividend flows from the holdings. Furthermore, the holdings that contributed to NPM/CNP's consolidated profit for 2002 through the direct or indirect equity-accounting of their results only represent 27% of the adjusted net assets, which means that the remaining 73% are only taken into account in terms of the dividends they bring us.

However, the change in this consolidated operating results from one year to the next, expressed with a constant consolidation perimeter, is meaningful. There is an analysis of the 2001 and 2002 results on pages 22 to 24 of this report. This contains full details of the various data; excluding extraordinary results, our equity accounted companies' transitive contribution comes to EUR 53.6 million for 2002, compared with EUR 51.9 million in 2001; with a constant consolidation perimeter, that is, correcting the effect of the recent divestments (see below), the comparison shows an increase of 38% (22% if the analysis is extended to include all long-term investments). Considering non-operating results, the total profit from the equity accounted companies has dropped from EUR 90.5 million to EUR 4.7 million. This fall is – largely – due to the non-operating results of the PARGESA/GBL group, which suffered from the impact of the extraordinary results and

write-offs recorded by BERTELSMANN in 2002, mainly linked to a put option granted by this group in the early 90s to its partner in ZOMBA, which exercised its right of sale in 2002.

Next, **strategy**. Although it is true, as we said last year, that the group in the broadest sense, i.e. including PARGESA/GBL and its holdings, largely avoided the traps set by the financial markets in the late 90s and early 2000s, our companies and holdings have nonetheless sometimes made ill-advised investments or paid inflated purchase prices. Fortunately, as can be seen from the first section of this message, the impact of this on your assets is limited, but we cannot conceal it.

With regard to the drop in the value of some of our blue chips, especially in 2002 and early 2003, we interpret this as the result of a reassessment by the markets and possibly a sign that they are returning to normal.

This trend has clearly affected our value investing lines, although FOMENTO DE CONSTRUCCIONES Y CONTRATAS is obviously an exception to this.

At the end of 2002, the book value of our shareholdings in GROUPE TAITTINGER and SOCIÉTÉ DU LOUVRE was some EUR 47 millions above market value; the Board of Directors, based upon the various analyses conducted, however decided not to book any write-down on these long-term investments.

With regard to private equity, we have continued along the planned path and, following the disinvestments made or initiated in 2001 (mainly SAINT LOUIS SUCRE), 2002 saw the sale of minor uncontrolled holdings or holdings that had reached maturity (HÉLIO CHARLEROI, INTERWAFFLES, ACP, PALAIS DU VIN / CLOS DU RENARD). These sales generated relatively significant capital gains, together with favourable internal rates of return (ranging from a compound annual internal rate of 11% for PALAIS DU VIN and ACP to over 20% for the SUZY / INTERWAFFLES Group and 27% for HÉLIO CHARLEROI); the associated risks and the fact that these investments were fully financed from equity, without leverage, must be taken into account when assessing this performance.

...“fishing nets” in a changing environment, synonymous with an aptitude for flexibility, which is a major constraint in modern management.

The management time freed up as a result of these sales enabled us to concentrate on our core businesses and grasp a number of opportunities directly at NPM/CNP or through our holdings. Our partnership with ACKERMANS & van HAAREN in its takeover of GIB was highly successful, with the operation completed in less than three months (squeeze-out period included); however, the true success of the takeover will only be measured in the long term through the realisation of capital gains over the coming years. One

notable consequence of this operation was the acquisition of joint control of QUICK. Although it is a listed company, NPM/CNP, in conjunction with ACKERMANS & VAN HAAREN, will exercise its role as a professional shareholder to an extent that is generally the case for private equity holdings.

Finally, **management philosophy**. From the point of view of the exercise of our role as a professional shareholder, 2002 was a turning point for the Charleroi team in that, as part of the first phase of what we have called “Process Based Value Management”, we implemented some processes that we feel are fundamental for value creation in a company like NPM/CNP:

Firstly, two network processes:

- the creation and development of a relational network within our activities

in general and each of our holdings in particular. This aspect encompasses concepts such as strategic monitoring and “co-opetition” (please refer to the book by NALEBUFF en BRANDENBURGER), and sometimes even verges on public relations, which are sometimes very useful in changing, troubled or chaotic environments;

- a true network of operational and financial hypotheses, linked to the main determiners of value both for NPM/CNP and its holdings. This notion covers the concepts of flex-

ible budgets and key value drivers, and extends to the application of asset valuation models.

From a conceptual perspective, we feel that these two networks create genuine “fishing nets” in a changing environment, synonymous with an aptitude for flexibility, which is a major constraint in modern management. Our obsession with tightening the mesh of this net to enable us to capture the scenario that will reflect the reality of the moment and grasp any opportunity that arises gives NPM/CNP a competitive advantage.

Secondly, two processes that might seem contradictory:

- the management of each of our holdings “as if we were going to own it for ever”. At least one member of the team devotes its body and soul to the long-term future of one holding and professionally carries out our main roles in the strategic context of “perpetual” ownership.
- the investigation by NPM/CNP of any possibility to sell a holding if a third party offers it a target price that exceeds the value attributed to it by NPM/CNP.

These two approaches coexist and the people in charge of the shareholdings at NPM/CNP’s level, together with the

management of the companies we own, are fully aware of this apparent contradiction. As recent experience has shown, to some extent, this makes the implementation of a sale process easier and less stressful.

Of course, the specific sets of processes we have described above are just two of the methods by which our team works. Others include openness and consideration of any opportunity that arises, with the aim of realising a transaction, but often simply for the intellectual stimulation that these real-life case studies present for our continuous training scheme and the network that we are striving to expand.

As a partner to companies and other shareholders, in the context of performing our duties as board or committee members, we have developed over the years our own corporate governance principles, which are also applied to our subsidiaries and holdings.

This is based on two fundamental concepts: firstly the right – not to say the obligation – to open dissent, and secondly true value management.

The most vital asset is being able to count on truly responsible directors who act as a body within the companies on

*...the right
– not to say
the obligation –
to open dissent...*

whose boards they sit. The ability to contradict without being obstinate, to contribute to discussions factually and constructively by providing relevant, balanced information, and even to sow constructive chaos, is a guarantee of good corporate governance.

The people who make up the bodies and management of the companies must be responsible independent thinkers and honour their ultimate contract with the company, namely managing value. To do this, over time the different forces in charge of the company have to be of the same mind as to its value in order to be able to manage it. The entire corporate body, i.e. staff, managers, directors and shareholders and, in some extreme cases, its creditors, must agree on the value attributed to the company in which they are all stakeholders in one way or another.

Although value management is the cornerstone of corporate governance, it is no longer in itself a distinguishing feature in terms of corporate strategy – it has become an obligation. Furthermore, it has a corollary. The shareholders, directors and managers have to eliminate agency costs resulting from conflicting interests between the shareholders and the other stakeholders. In other words, the shareholders' aims

*...the need to eliminate
agency costs...*

must be completely transparent; the directors and the managers must be paid based upon the realisation of those objectives.

Harmonising management and shareholder aims is an important responsibility for remuneration committees. This can be achieved through remuneration systems that involve,

for top management, a base salary and a variable salary together with, for the long-term, stock option schemes or, even better, a financial incentive based on the generation of operational value within the company. From this point of view, it is essential that consideration is given to the specific activities of the individual companies.

For example, at TRANSCOR, the managers have base salaries at the low end of the market range, but bonuses or

variable salaries that can be very high; moreover, the directors and top managers own 20%, soon to be 25%, of the share capital. The mutual transparency of each party's aims and the need to eliminate agency costs were considered, reconsidered and examined so thoroughly that it took seven years to set up this pay structure. Bearing in mind that trading companies are always exposed to risk, we see in this method a clear link with the exceptional value generated by TRANSCOR's management team for many years.

Your Company's Appointments and Remunerations Committee and those in the other holding companies of the Group have examined which remuneration system is most appropriate for your top management and has come to the conclusion that, given the specific nature of our mission, which, by its very essence, is part of a long-term picture, the division of executive directors' salaries into basic and variable parts that has been in place until now, and which is vital and objective in commercial or industrial companies, is arbitrary and could give rise to dysfunctions for a holding company. Furthermore, the success of a company like ours relies on the whole team, for each of our holdings, regardless of the individual working on the processes (see above) relating to it.

In 2002, as it has done several times before, the Committee commissioned an external expert to evaluate the jobs of each member of the team and the average remuneration for them on the market. The average determined in this way includes the basic and variable salaries observed on the market. In 2003, the salaries of the Charleroi team will immediately or in the near future be set at these average levels, with no variable component.

The long-term incentive to bring the managers' aims in line with yours lies in the staff members' indirect holding of part of the capital in NPM/CNP through an ad hoc structure.

The annual report that follows contains specific commentary about the events of the 2002 financial year. We would like to pinpoint the three major events and the three best and most disappointing performances that, in our eyes, have marked 2002.

The major events that spring to mind include our partnership with the TAITTINGER family in the control of the eponymous group, the success of the takeover of GIB and the disposal of several small or uncontrolled holdings and holdings that had reached maturity. As we stand on the threshold of the 2003 financial year, which will once again be extremely unstable, particularly in the hotel and luxury products sector, we would remind you that our investments in TAITTINGER pre-date the events of September 2001 and that our partnership with the TAITTINGER family was formed without any additional investment on our part in 2002. Nonetheless, the challenge ahead is considerable.

The three most disappointing performances, although they are more the result of external developments than strategic or managerial weaknesses, came in NPM/CNP's share trading activities and, where our shareholdings are concerned, at ENTREMONT, which has suffered from the impact of low industrial product prices (butter and milk powder) and DISTRIPAR, where Brussels Airport business has been badly affected by the collapse of SABENA.

To end on an optimistic note, the positive elements that marked 2002 were the upturn in business at IJSBOERKE (where we made some wise structural decisions, which unfortunately do not reduce the main challenge of the future, namely the recovery of home sales), the wine-producing holdings' results (which reflect the positive impact of sales of the 2000 vintage) and, above all, the success of TRANSCOR (which achieved yet another record-high profit last year, even at a time when it was extending its structure to develop several new trading niches). Good performance levels never make us lose sight of the fact that when a company is doing well, or even very well, the risk of seeing profits fall is increased tenfold.

What does 2003 have in store?

At the moment, we just can't say, and we feel sure that you will forgive us if we make no comment. We are driven by one certainty: work, work, and more work, along with unfailing professionalism, the courage to commit, information sharing and a united, motivated team will remain the keys to good performance.

May we send out our warmest thanks to our colleagues in Charleroi and within the companies that make up our portfolio for their flawless dedication.

Gilles Samyn
Managing Director



Gérald Frère
Chairman

