

# Stork N.V.

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Corporate Communications &  
Investor Relations

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Your reference :  
Our reference :  
Date : 14 December 2006  
Subject :

Dear shareholder,

For the third time this year we write to inform you about the ongoing discussions between the company and two of its shareholders, Centaurus Capital Ltd and Paulson & Co Inc. ("C&P").

As announced on 23 November 2006, C&P have again requested the company to convene an extraordinary shareholders meeting, this time to vote on two resolutions. First, C&P propose a vote of no confidence in respect of the Supervisory Board which, if adopted, would effectively result in the dismissal of the entire Supervisory Board. Second, C&P propose to make any decision of the Management Board regarding acquisitions or disposals with a value of more than Euro 100 million subject to the approval of the general meeting of shareholders.

In accordance with Stork's articles of association Stork will comply with C&P's request to convene the extraordinary shareholders meeting. The meeting will be held on 18 January 2007 at 14.00 hours in Amsterdam. Further details will be announced shortly.

C&P have sent an open letter to all shareholders dated 23 November 2006 and a letter to the Management and Supervisory Boards of the same date. In view of a specific request of C&P to inform all shareholders about their motivation and explanation for requesting this extraordinary shareholders meeting, C&P's letters can be found on our website ([www.stork.com](http://www.stork.com)).

Stork believes that the proposed resolutions are wholly unjustifiable, irresponsible and not in the interest of the company and its stakeholders:

- The resolution to propose a vote of no confidence is not only founded on unjust and wrong arguments, but would also lead to an aggravation of the already existing turbulent situation in which Stork finds itself, with serious negative consequences for its businesses.
- The resolution to restrict to Board of Management's authority to enter into acquisitions or disposals up to Euro 100 Million would severely limit Stork's ability to operate expediently and would negatively affect its growth strategy.

Stork is therefore convinced that C&P's proposals will destroy shareholder value and are harmful to its business. We therefore call on all shareholders to reject these proposals.

In this letter Stork will address some of the major issues raised by C&P, however without trying to be exhaustive.

## **The reaction of the Supervisory Board to C&P's allegations**

The Supervisory Board has considered the charges regarding its own position made on behalf of C&P in the letters of 23 November 2006 and has strongly rejected them as unfounded and factually incorrect:

1. In line with its supervisory function, the Supervisory Board has always taken a critical approach in discussions concerning strategic issues. In connection with the investigation into the possibilities for a public-to-private transaction, the Board again seized the opportunity to critically evaluate the relative strength and growth possibilities of Stork's business divisions and the views of the Management Board on this subject. As part of this investigation, the Supervisory Board engaged its own external advisors, to help it reach an independent, carefully-weighted decision. The Supervisory Board also concluded that the Management Board's decision on the strategy was reached with the utmost care, after a very thorough investigation and based on an in-depth knowledge of the markets in which the company operates. After the extraordinary general shareholders' meeting of 12 October 2006, and in response to C&P's motion, the chosen strategy was again evaluated with the same care and taking into account C&P's proposals and accompanying explanation. Both Boards again came to the conclusion, after weighing all the interests, that implementing the C&P proposals would be irresponsible. The Board therefore rejects the suggestive language used in the letters of 23 November 2006, describing the Board as "ignoring the wish of the vast majority of the shareholders" and as "digging in" and having "a rigid and inflexible attitude". Such language wrongly suggests that the Supervisory Board and Management Board were unwilling, either together or separately, to critically examine their own findings and in so doing to consider C&P's views.
2. Furthermore, C&P sketch a factually incorrect picture of the contacts between the Supervisory Board and C&P, asserting that C&P have always been prepared to "consider other perspectives and alternatives" and that the Board responded with "indifference" and "without any intention to reach a solution". The reality is different. The Supervisory Board has always kept an open line of communication to enable C&P to present their position. In fact, in the meeting with C&P, the members of the Supervisory Board present took the initiative to sound out whether common ground could be found. However C&P failed to respond in a sufficiently constructive manner.
3. The Management Board's decision to take legal steps against C&P under the Disclosure of Major Holdings in Listed Companies Act (WMZ) was carefully taken in the interest of the company and the other shareholders and after receiving appropriate advice. The Supervisory Board has reviewed and approved the Management Board's decision.
4. To use the fact that Stork did not provide a further breakdown of the costs related to the investigation into a possible public-to-private investigation as a ground for a vote of no confidence in the Supervisory Board is out of all proportion. Attached to this letter a breakdown is given of these costs (see Appendix 1).

## **Resolution to amend the articles of association**

C&P propose to amend the articles of association in order to make any decision of the Management Board regarding acquisitions or disposals with a value of more than Eur 100 million subject to approval of the general meeting of shareholders.

Stork strongly opposes this motion. The proposal is in contradiction with C&P's stated intention "not to interfere with the management of the company" as this proposal comes down to a serious curtailing of the Management Board's room to manoeuvre in order to execute Stork's M&A policy, and room to act with required swiftness and decisiveness. The proposed motion would significantly increase the uncertainty for potential candidates and prospective buyers and would as a result in Stork losing M&A opportunities, which will have a negative impact on the company and its stakeholders. At present we already experience the negative impact of C&P's proposal, as sellers of companies start to question Stork's ability to execute a transaction.

## **Stork: Strategy for growth**

We have given a detailed description of our strategy, amongst others, at the extraordinary shareholders meeting held on 12 October 2006 and in our Shareholders letter of 14 November 2006 which can be found on our website.

As discussed in our letters and presentations, we believe that each of Aerospace, Food Systems and Technical Services has clear potential for further value creation through disciplined growth and operational efficiencies. Each of the businesses now has the scale to proactively participate in the consolidation of its chosen markets, supported by Stork's strength.

In *Aerospace* Stork is already a highly rated specialist for complex components applying lightweight material such as composites and hybrid applications. Stork has been successful in leveraging its strengths in innovation and technology to become a supplier of choice to major aircraft manufacturers. Stork has a balanced portfolio and participates in three out of four of the growth platforms launched in recent years. There are opportunities in the market to grow the business by means of acquisitions and we intend to take full advantage of this to further strengthen its position in some segments of the market.

In *Food Systems* Stork has created a very well established and recognized division active in poultry, convenience food, red meat and liquids. Given Food Systems' technology leadership and strong market position, it is well positioned to be an active consolidator in the market. Stork is actively looking for acquired growth in amongst others, red meat and further processing. Early 2006, it made the first step towards becoming a sizable leading market player by acquiring Townsend.

In *Technical Services* Stork has built a strong position in the maintenance and overhaul market, a segment of the market that is known for its low cyclical nature. Stork has invested in long-term maintenance relations and customer intimacy. Our high margins compared to our peers are foremost the result of these efforts. The management of Technical Services has achieved considerable autonomous growth and has made a number of selective acquisitions. As this is still a fragmented market there is ample opportunity to expand by acquired growth and apply Stork's specialization on a wider scale.

During the past years, Stork has shown that it has been able to grow each division in an efficient manner with an acceptable risk profile, with opportunities for further value creation. The success over the past few years was possible because of the joint and committed effort of the Stork Management Board with the leadership teams of each of the individual businesses.

Stork has significant financial flexibility that facilitates autonomous growth. In addition, there is sufficient financial strength to realize sizable acquisitions in all three divisions by way of external financing.

As communicated to shareholders, Stork is further increasing its efforts to actively pursue possibilities for accelerated growth through significant acquisitions and other investments in its divisions. If, at any time in the future, the growth of one or more divisions and the consequential claim on resources starts to limit the potential of another division, we will re-evaluate our portfolio and consider further focus. We have proven that we are willing and able to do so.

### Observations on C&P's reasoning

It appears that actions and reasoning of C&P are not always clear. For example:

- At the shareholders meeting on 12 October, C&P in their presentation argued that the best route forward is to drastically pursue a “pure play” aerospace strategy and requested Stork to change the strategy accordingly. It is curious that they now state that most of the arguments in this presentation were merely “illustrative” and that “any risks associated with growing the aerospace business should of course be fully assessed and responded to where appropriate”.
- C&P have called an EGM to present their Strategy with the title “Creating a Dutch Aerospace Champion”. Now they argue that the ongoing discussion is not so much about the strategy of Aerospace but rather about a so-called “more fundamental” discussion about the viability of a conglomerate.
- C&P claim that the Management and Supervisory Boards refuse “to complete the rigorous refocusing of the company, announced by Stork in 2003 and 2004 and on the basis of which C&P invested in Stork”.  
In fact, from February 2003 onwards, we reiterated in our annual reports, press releases and interviews that we would bring more focus and eventually continue with two or a maximum of three divisions. For any informed shareholder there could have been no mistake about our strategy. C&P became a major shareholder of Stork after February 2003, yet C&P now claim to be misguided by Stork's intentions.
- C&P note that they were surprised about Stork's proposal to repay excess capital to shareholders and that they would have preferred to invest these funds in the Aerospace business.  
In fact, C&P supported the resolution to repay excess capital to our shareholders in the 2006 Annual General Meeting, without raising any questions. Also, C&P's own motion as adopted in the 12 October EGM called for the distribution of excess cash to shareholders.

### Stork Foundation

Stork will refrain from responding to statements of C&P regarding the Stork Foundation (Stichting Stork) and its call option and from commenting on the responsibilities of the Stork Foundation. The Stork Foundation is an independent entity with a role as stipulated in its articles of association.

## **Concluding remarks**

On 12 October C&P proposed a strategy, which would result in the forced sale of healthy and stable businesses within one year in order to abruptly and completely concentrate on a not yet fully mature aerospace business. This would leave a relatively small listed company in a vulnerable position.

After careful consideration the Management Board supported by the Supervisory Board came to the conclusion that C&P's proposal is not a credible alternative and not in the interest of the company, the shareholders and other stakeholders.

The Management Board and Supervisory Board considered that implementing C&P's proposal would be irresponsible and therefore could not accept the outcome of the vote at the EGM of 12 October. In taking this decision each of the Boards had full regard for their corporate responsibilities under Dutch law.

Now, C&P has requested another EGM to vote on two resolutions put forward by C&P.

Stork strongly disagrees with the allegations made in C&P's letters against the company and the Supervisory Board and therefore rejects the proposed vote of no confidence based on such allegations. We furthermore strongly oppose the resolution to limit the decision-making authority of the company in respect of acquisitions and divestments, which will adversely affect Stork's ability to execute its growth strategy.

It should be clear that the Boards deeply regret the actions announced by C&P. Their ongoing actions will result in continuing turbulence at Stork, also in relation to the management, employees, suppliers and customers. This turbulence has already continued for almost a year. C&P's actions are therefore outright harmful to the company and its stakeholders.

We therefore call on all Shareholders, to act in the best interest of the company and its stakeholders and firmly reject the proposals.

Sincerely yours,

Sjoerd S. Vollebregt  
Chairman of the Management Board  
Stork N.V.

P. Jan Kalff  
Chairman of the Supervisory Board  
Stork N.V.

**Appendix 1; Specification of Public to Private costs**

At the request of shareholders we herewith provide a further breakdown of the cost allocated per activity in connection with the investigation into a possible public-to-private transaction.

The Management Board and the Supervisory Board each engaged their own financial and legal advisors to help it reach an independent and carefully weighed decision.

The services rendered by the various advisors are customary for a process of this nature and complexity. These services included a comprehensive strategic review, a full vendor due diligence, preparation of a Fact Pack and a dataroom, the development of future legal and fiscal structuring possibilities, financing models and real estate and environmental surveys. The amount also includes a provision of approx. EUR 3,5 mln for costs following the outcome of the investigation and covering a wide range of financial advisory services.

The aggregate amount of EUR 16,5 mln can be allocated to the following activities.

1. Vendor due diligence advisors – EUR 4.400.000.--
2. Strategy consultants – EUR 2.700.000.--
3. Financial advisors of both Boards – EUR 7.900.000.-- (incl. EUR 3,5 mln provision)
4. Legal advisors of both Boards – EUR 700.000.--
5. Environmental survey and real estate valuation – EUR 500.000.--
6. Communication/public relations advisors – EUR 200.000.--
7. Others (tax advisors, organisation EGM, etc.) – EUR 100.000