

Group management

EBIT after asset charge introduced as new performance metric


As part of our Roadmap to Value capital markets programme, we have introduced EBIT after asset charge (EAC) as our new performance metric from 1 January 2008. This metric is an additional guideline for managers at all levels and in all areas of activity, helping them to make decisions that focus their operating businesses on sustained value growth.

Unlike EBIT, the performance indicator so far, EAC takes into account the cost of tied-up capital. In other words, it reflects profit generated over and above the cost of capital. Managers' incentives have also been tied to the new indicator, which complements the previous EBIT-based bonus scheme.

The weighted average cost of capital (WACC) is defined as the weighted average net cost of interest-bearing liabilities and equity, taking into account sector-specific risk factors in a beta factor.

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Weighted average cost of capital (WACC)

Equity cost of capital		Debt cost of capital	
Risk-free rate of return	4.2%	Risk-free rate of return	4.2%
⊕ Risk premium on equity	3.9%	⊕ Average risk premium on debt	1.2%
= Market risk premium	5.0%		
× Beta factor	0.78		
	(specific risk premium for the Group)		
⊖	8.1%	⊖	5.4%
⊕ Tax effect	1.8%		
⊖	9.9%		
Weighting at market rates	70%	Weighting at market rates	30%
		Group cost of capital 8.5%	

In addition to the cost of capital, the net asset base makes up the second component of the calculation. This is identified by including assets required for business operations and subtracting liabilities that do not incur a cost of capital. Goodwill is included in the net asset base, as value is created only if the required cost of capital is earned on the entire initial investment, which also includes goodwill.