

Background

Every year Eumedion makes an evaluation of the annual shareholder meetings season (the 'AGM season'). The principal substantive findings concerning the regular shareholders' meetings held in 2013 are set out below. Besides this, a number of best practice examples relating to the application of the Eumedion spearheads and to other important shareholder areas are included in appendix 2. The best practices were selected by Eumedion's Investment Committee and can serve as inspiration for other listed companies when drafting their next annual report and annual accounts.

Summary

- Shareholders of Dutch listed companies could vote upon 975 proposals. Only 10 agenda items were voted down (1% of total number of resolutions; slightly higher than in 2012); 3 agenda items were cancelled before or at the AGM (2012: 8) and 2 agenda items were amended before the AGM (2012: 4).¹
- A total of five subjects were submitted for inclusion on the agendas of AGMs by shareholders (2 at Simac Techniek and 3 at Qurius). In 2012 no shareholder proposals were submitted.
- The average attendance at the AGMs of AEX companies decreased for the first time in many years (from 63.7% in 2012 to 62.7% in 2013). This was due to the rather low AGM attendance rates of KPN, Imtech and PostNL.
- Supervisory Boards of AEX companies approach the legal target for female directors: 28% in 2013. The number of female executives remains well behind: 5%.
- Many statutory auditors addressed the AGMs during the discussion of the annual accounts in order to inform the shareholders on the auditing of matters like pensions, goodwill and real estate, and did so on their own initiative, i.e. without shareholders having explicitly requested this at the AGM. This has increased the communication to shareholders.
- Eumedion had asked the companies in its 2013 Spearheads Letter to give more consideration to the quality of the report of the Supervisory Board (SB). The changes requested included the disclosure of information on the attendance of the individual supervisory directors at the SB meetings and on the main findings of the SB's self-assessment. Improvements are visible in both areas.
- Eumedion also requested the SBs to discuss the main points in the management letter and to explain the policy on ensuring the independence of the statutory auditor. Regarding the first point, we have seen a continuation of the slight positive upward trend. The second point has been partly

¹ Appendix 1 shows the list with the most controversial agenda items in the 2013 AGM season.

overtaken by legislation, because from January 1st, 2016 all listed companies must to rotate their auditors after eight years. A limited number of companies have taken action this year in anticipation of this mandatory rotation.

- The second 2013 Eumedion spearhead refers to the elimination of immaterial disclosures from the explanatory notes to the annual accounts. As was already feared at the end of 2012, listed companies are reticent about making drastic cuts in this information for fear of being dragged back into line by the statutory auditor and/or the Netherlands Authority for the Financial Markets (AFM). There are a number of companies, however, who are making the explanatory notes to the annual accounts more company-specific and transparent, within the margins defined by the statutory auditor. Best practice in this context is Sligro, but Delta Lloyd and Wolters Kluwer have also taken the first steps. Eumedion is in consultation with the AFM and the IASB in order to offer listed companies the opportunity of taking the following (bigger) steps next year.
- Best practices regarding the application of some elements of the 2013 Spearheads Letter are listed in appendix 2.

Explanatory notes

1. Shareholders submit number of proposals on AGM agenda

While shareholders did not use their right to submit items for the AGM agenda during the 2012 AGM season, 2 (groups of) shareholders used this right this season.

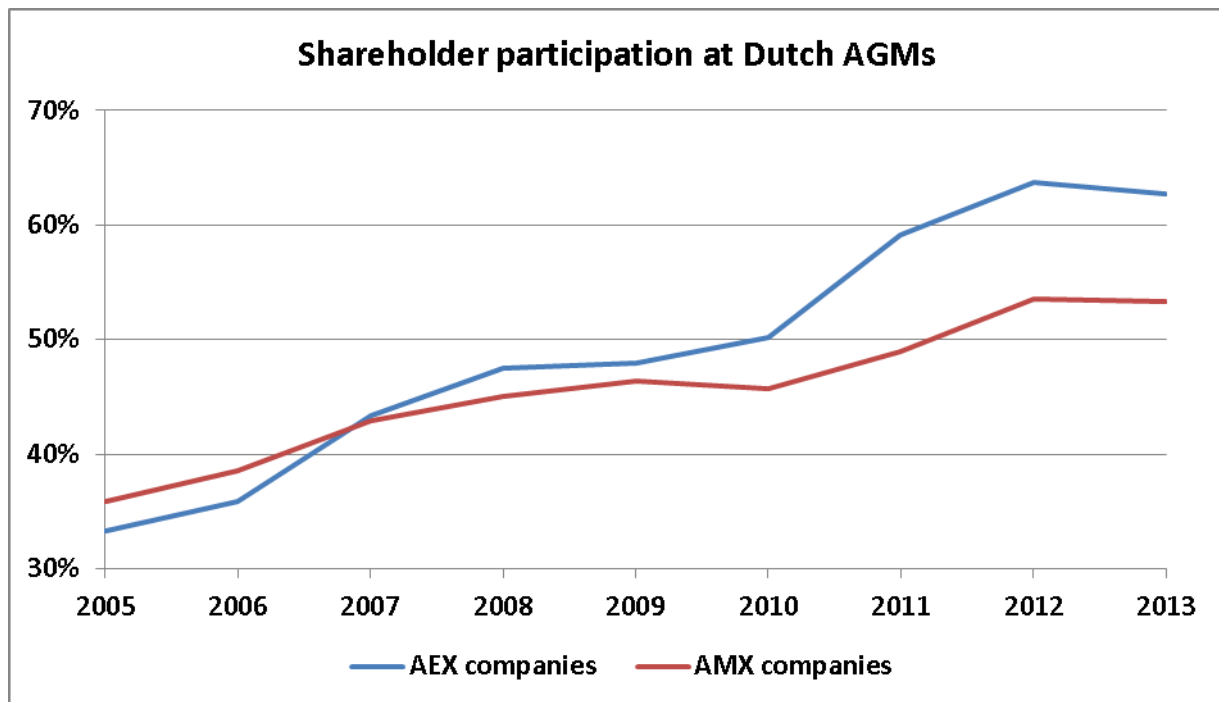
Two shareholders in Simac Techniek, viz. Nedamco Capital and Mr. Vromans, were of the opinion that the ICT company should be sold, divided or merged. The shareholders, who jointly represent more than 1% of the issued capital of Simac, had submitted two proposals to this end on the agenda for the Simac AGM. The Simac management gave the AGM the opportunity to vote on the proposals, despite not being obliged to do so by law. The proposals of the two shareholders were rejected by a substantial majority at the Simac AGM (more than 98%).

Value8, the major shareholder with a 22.6% stake in the 'shell company' Qurius (all assets were sold to French company Prodware at the end of last year), submitted three proposals on the agenda for the AGM, all of which were connected with the possibility of being able to issue new shares in the coming year so that the company could be restarted (this involves putting new activities into a company that is already listed on the stock exchange). These proposals were approved by the Qurius AGM.

2. Attendance at shareholders' meetings stops rising

The increasing trend in attendance at the shareholders' meetings of AEX companies halted this year (see chart 1). This was caused by the AGMs of KPN, PostNL and Imtech.

Chart 1: number of votes cast at AGMs of Dutch listed companies (excluding votes cast by Trust Offices)



At the KPN AGM 50.2% of the issued capital was present or represented this year, compared with 53.5% last year, which is remarkable, considering that 29.8% shareholder América Móvil participated in the decision-making this year, while in 2012 the largest shareholder 'only' held 15% of the votes at the time of the AGM. In addition, a number of important controversial proposals were on the agenda, such as the approval of a very large rights issue and the discharge from liability of the management board and the SB. A large rights issue was also on the Imtech AGM agenda. Nevertheless, shareholder turnout decreased from 47.2% in 2012 to 34.7% this year. At the PostNL AGM this year 45.8% of the issued capital voted its shares, compared with 66.4% in 2012. This decrease was also notable, because it became clear during the AGM that many shareholders were dissatisfied with the supervision conducted by the SB in 2012 and with the candidates nominated for appointment as supervisory directors.

There are no indications, where these AGMs are concerned, that custodian banks unexpectedly demanded that shareholders block their shares if they wished to vote at the AGM. The cause of the lower attendance is probably connected with changes in the shareholder structure at the three companies. Investors with a long-term horizon are inclined to sell shares in those companies where the (dividend) prospects are poor. In the 26 April 2013 edition of the Dutch newspaper Het Financieele Dagblad, KPN CFO Hageman said, for example, that "You see a few more short-term shareholders, a few more hedge funds than there used to be (...) Furthermore, retail investors currently amount to 15%, mainly in the Netherlands, according to Hageman". The first group of shareholders may be of the activist kind or may just have little interest in voting at AGMs. It is pointed out in the same article, that KPN is one of the most popular European shares for short sellers. Approximately 17.5% of the shares

were on loan at the time of the record date for the KPN AGM. Approximately 70% of the shares that could be borrowed, were, in fact, out on loan at that time.² These shares are usually lent by long-term investors; investors who generally do vote. The parties that borrow the shares will usually be 'young' investors, who are less inclined to vote the shares they have recently acquired. Also Imtech had to deal with a relatively high number of short sellers at the AGM record date (approximately 15% of the shares were on loan). This company was hit by accounting irregularities and fraud. PostNL had to contend with a relatively high number of short sellers when UPS called off the takeover of TNT Express (in which PostNL is a major shareholder), which was part of the reason why dividend could not be distributed.

3. Shareholders are attaching greater importance to supervisory boards and are monitoring these more critically

As was identified last season, shareholders are becoming increasingly aware that a professional, competent and decisive SB is crucial to an effective corporate governance structure at a company. Shareholders monitor the SB more critically, both with regard to the supervision conducted and with regard to the nomination of candidates for appointment as new supervisory directors. In addition, a growing number of major shareholders wish to have a direct influence on the composition of the SB. The trends identified last year have continued this year.

3.1. Critical assessment of the supervision conducted

Shareholders seize the opportunity offered by the agenda point relating to the discharge from liability of the SB to express their criticism of the supervision conducted by the SB collectively. In 2013 they did this mainly at companies that had got into financial difficulties and where shareholders believed that the SB had not intervened promptly and decisively enough in the (financial) policy and in the (financial) strategy pursued by the management board, or had attached insufficient consequences to this, either for themselves or for the management board.

At KPN for example, shareholders representing 28% of the total votes cast voted against the discharge from liability of the SB of KPN. This figure was even 71% when the votes of major shareholder América Móvil were not taken into account. The 'neutral' shareholders accused the supervisory directors of having pursued a faltering (supervisory) policy in response to América Móvil's partial offer for KPN shares in 2012 and to have given too little consideration to succession issues within the SB and to a strong and prudent financial policy (as a consequence of which KPN recently had to launch a € 3 billion rights issue).

During the AGM of PostNL 26.6% of the capital present voted against granting discharge to the SB of PostNL. The shareholders who voted against blamed the supervisory directors for the long delays in the reorganization plans and in restoring the financial health of the company.

3.2. More critical assessment of the composition of the SB

² 'Benelux firms struggle alongside European peers', Markit Securities Finance Commentary, 21 March 2013 (www.markit.com).

The greater awareness that an SB with the right profile is of great importance for a good governance structure means: i) shareholders make a more critical assessment of the proposals for appointing and reappointing supervisory directors; and ii) major shareholders in particular want more direct influence on the composition of the SB.

3.2.1. *Proposals for the reappointment of supervisory directors*

It has become clear that shareholders regard sufficiently frequent attendance at SB meetings and SB committee meetings as a basic requirement when considering proposals for the reappointment of individual supervisory directors. Eumedion concluded last year that transparency on the subject of the attendance/absence of supervisory directors at SB meetings was substandard at Dutch listed companies. Usually nothing more was stated than that none of the supervisory directors had frequently been absent, or the average attendance percentage per meeting was reported. Eumedion consequently urged in the 2013 Spearheads Letter that the attendance percentages be disclosed for each supervisory director, since these percentages are important information for assessing a proposal for the reappointment of a supervisory director. This season we have seen that more companies have provided clarity on the individual attendance of supervisory directors. The number of AEX companies that have provided complete transparency (9) is practically equal to the number of companies that only state the average figure (8), although it should be noted that there are two companies in the latter group who did report the individual attendance percentages for those supervisory directors whose reappointment was on the agenda. At Unilever the attendance rate of 66.67% was part of the reason why the relevant non-executive director was not nominated for reappointment. In the case of the AMX companies, 7 companies were completely transparent regarding the attendance of supervisory directors in the year under review and 9 companies reported the average figure. The largest group of AScX companies provided no information whatsoever on the presence of supervisory directors during SB meetings (6). Five companies reported only the overall percentage and four companies were transparent on each individual supervisory director.

Time spent is another factor that is important in the assessment of the reappointment of a supervisory director. This is considered to be such an important criterion that the maximum number of supervisory directorships that a person may hold (5 for supervisory directors and 2 for members of management boards) has been stipulated by law since 1 January 2013. Some supervisory directors, such as Margot Scheltema, Rob Frohn, Adriaan Nühn, Jaap Lagerweij, Henk Scheffers, Henk Breukink and Aat Schouwenaar, have already had to scale back this season on the number of supervisory directorships they hold, since they would otherwise not qualify for reappointment at a listed company. In such cases, it is usually the smaller listed companies, universities, housing corporations and health institutions that are the 'victims' of the compulsory reduction in such cases.

In addition to this statistical material, shareholders also take the performance of the relevant supervisory director in the previous term of appointment into account when considering proposed reappointment. Naturally a certain degree of subjectivity is also involved. The factors referred to in

paragraph 3.1 for example, played a role in the fact that a substantial number of shareholders (representing between 10 and 22% of the votes cast) voted against the reappointment of three current supervisory directors at KPN.

The major shareholder in ASM International announced prior to the AGM that it would be voting against the reappointment of the chairman of the supervisory board, because the major shareholder was disappointed in the chairman's communication with the company and its shareholders. The chairman of the supervisory board subsequently withdrew his candidacy for reappointment.

The chairman of the supervisory board at RoodMicrotec withdrew his candidacy for a second term of appointment during the AGM, due to the "*voting explanations formulated under the relevant agenda point thus far.*" Another supervisory director then resigned as well. During the meeting a discussion developed on a reorientation regarding the composition of the SB. It emerged from this discussion that it is desirable for a company like RoodMicrotec - in the dynamic market in which the enterprise operates - that its supervisory directors have wide-ranging market knowledge and both commercial and international experience. A number of shareholders apparently held the opinion that the supervisory directors in question did not fit a profile of that kind.

3.2.2. *Proposals for the appointment of supervisory directors*

The proposals for the appointment of new supervisory directors are also reviewed more critically. Shareholders consider whether the candidates fit the profile and the situation in which the company is operating. During the AGM at PostNL no less than 43.8% of the share capital present or represented voted against the appointment of Agnes Jongerius (the former chair of the Dutch trade union FNV) as a supervisory director and 38.7% was against Jasper Engel joining the SB of PostNL. No reasons for their voting behaviour on this agenda item were given during the AGM by the shareholders who voted against, but it later emerged that part of the reason why there had been a high number of votes against was because the chairman of the SB had refused to allow the nominee to answer questions from shareholders about her position on the company's strategy.³ At the KPN AGM, the Chairman of the Supervisory Board also refused to pass substantive questions on to the nominees.

3.2.3. *Specific nomination rights for major shareholders*

It again became clear this season that an increasing number of major shareholders want to have direct influence on the composition of the SB. There is a continuing trend in demanding special rights of nomination for one or more seats on the SB. It happened at KPN this season (major shareholder América Móvil nominated two supervisory directors), at TNT Express (major shareholder PostNL nominated one supervisory director) and at NedSense (major shareholder Nantahala Capital Management nominated the chairman of the supervisory board). The new major shareholder of Cryo-Save Group has indicated to nominate candidates for executive and non-executive board positions at this company. In recent years the major shareholders in Randstad, Heineken, Wessanen, TomTom and AND International Publishers had already demanded the right to be allowed to nominate one or more supervisory directors. At the AGMs of KPN and TNT Express, Eumedion members asked explicit

³ Article 'Stem tegen Jongerius was stem tegen PostNL', *De Volkskrant* (newspaper), 19 April 2013.

questions about how it has been ensured that the supervisory directors in question serve the company's interests alone and not a specific particular interest.

3.3. Shareholders would like to have influence on the composition of the Management Board

The increased scrutiny of shareholders is not limited to the composition of the Supervisory Board, but also relates to the Management Board. This assumes that the AGM is also able to appoint and dismiss executives. Application of the full structure regime prevents such a situation. In the last number of years, shareholders explicitly expressed their wish that once a company no longer meets the legal criteria for the application of the full structure regime, the company should abandon this regime or at least switch to the mitigated structure regime (the AGM will receive the right to appoint and dismiss executives, but the works council keeps the enhanced right to nominate at least one third of the Supervisory Board). This trend continued in 2013: Corio abolished the full structure regime, while TKH Group switched to the mitigated structure regime (see also table 1).

Table 1: number of structure companies in AEX and AMX index (%)

	2009	2013
Full structure regime	29%	18%
Mitigated structure regime	7%	9%

4. CEO-CFO model is becoming familiar model at AEX companies

More and more AEX companies are changing their management board structure to a management board consisting of only 2 statutory members, known as the CEO-CFO model. This year AkzoNobel became the ninth AEX company to make this change; Wolters Kluwer made it possible to introduce the CEO-CFO model under the articles of association this year. Of the smaller companies, also Grontmij introduced the CEO-CFO model this year. In practice, decision-making on day-to-day matters then takes place in an executive committee, whose members include the divisional and/or country directors in addition to the two statutory executives under the articles of association. This development gives rise to a number of questions. Since only the statutory executives under the articles of association are accountable to the AGM, is this trend not at odds with the Dutch corporate law principle of collegial decision-making? Does it not create too great a distance from the SB? Do the statutory executives still feel that they are wholly responsible for certain divisions and/or countries? It is partly for this last reason that Royal Imtech has decided to increase the number of statutory executives again. It seems that a number of companies are setting up an executive board that is in keeping with a one-tier company without narrowing the distance between the non-executive directors

(supervisory directors) and the executive directors to create the required checks and balances.⁴ Furthermore, it is difficult for an AGM to find out whether the (executive) board has a balanced and competent structure, since the AGM plays no role in the appointment of the members of the executive committee.

5. Remuneration policy remains important point for discussion at AGMs

Many AEX companies submitted proposals for amendments to their executive remuneration policies. There were 10 such companies this year, compared with only one last year. An overview of the most important trends is provided below.

5.1. Greater discretionary powers for SB

SBs want to have greater discretionary powers so that they themselves can adopt the individual elements of remuneration within the remuneration policy; these elements include the short-term and long-term bonuses, including the precise conditions. The AGM's power of adoption regarding the remuneration policy is eroded as a consequence.

5.2. TSR less popular performance criterion, guideline share ownership for executives becoming more usual

There is a clearly visible development towards allocating less weight to the creation of shareholder value (total shareholder return (TSR) compared with the competitors) in the performance criteria for long-term bonuses (the proposals at Philips and DSM for example). On the other hand, however, increasing numbers of companies are introducing guidelines for their executives to accumulate a certain quantity of shares in 'their own' company and to continue to hold these shares during their entire term of office: Unilever, Shell, Reed Elsevier, KPN, AkzoNobel and Imtech had already introduced guidelines of this kind and were joined this year by ASML, Ahold, DSM and Philips.

5.3. Shareholders critical of special bonuses for executives

A number of companies submitted proposals to the AGM to award special bonuses to executives. Heineken for example, proposed giving its executives takeover bonuses in shares and awarding a retention bonus (also in shares) to the CEO. Approximately 75% of the 'independent' share capital represented at the meeting voted against both bonuses and the remuneration proposals were only formally approved by the AGM due to the support of major shareholders Heineken Holding (50.005%) and FEMSA (12.53%), both of which are also represented on the Heineken SB.

In advance of the extraordinary general meeting (EGM), shareholders at DEMB expressed critical comments on the 'special' share incentive scheme proposed for the CEO to the value of € 4 million.

⁴ On July 1st, 2013, 8 Dutch listed companies (8% of the total) apply the one-tier board model: Unilever NV, DE Master Blenders 1753, Reed Elsevier NV, Kardan, Cryo-Save Group, Gemalto, Heineken Holding and New Energy Sources. UNIT4 will be the ninth company on January 1, 2014.

The EGM was cancelled, however, after Benckiser announced a public offer for all DEMB shares. From the offer memorandum it becomes clear that the bidder will grant the former CEO of DEMB the special remuneration package in cash after the offer has become unconditional.

The special sign-on bonus for the new CEO at Ziggo also led to discussion. The sign-on bonus is paid in cash. Since Ziggo is a so-called structure regime company, the AGM was unable to vote on his appointment and consequently not on his remuneration package either.

5.4 Small number of non-financial institutions follow trend at financial institutions with different remuneration mix

A number of non-financial institutions are following the trend at financial institutions by changing the remuneration mix: a relatively greater part as fixed salary and a smaller part as variable salary. At PostNL the fixed salary component in the remuneration mix rose from 50% to 57%; at ASML it increased from 34.6% to 43.5% (in the case of the CEO). This latter change means that, as from 2014, members of the management board at ASML will relinquish approximately 14% variable salary in favour of 27% more fixed salary (with total remuneration remaining the same). The important principle of 'pay for performance' is coming under more pressure due to this development and it was partly for this reason that 28.1% of the share capital present or represented at the PostNL AGM voted against the proposal for a new remuneration policy. The AGM of ASML approved the proposal, however, by 98.9% of the votes cast.

5.5 Other notable matters

- The SB is making more frequent use of its discretionary powers: the short-term bonus was adjusted downwards at KPN, PostNL, AkzoNobel (CEO on account of absence), BinckBank, Vopak, AMG, USG People, Delta Lloyd and Ordina. Upward discretion was exercised at AkzoNobel (short-term bonus CFO on account of temporary work in connection with chairmanship), Royal Dutch Shell (short-term bonus), TNT Express (on account of temporary chairmanship/membership management board) and Ordina (long-term bonus). The extent of the discretion (in terms of withheld or extra bonus) is not clear in all cases.
- Some companies disclosed in their annual accounts the bonuses granted for the financial year 2011 and paid in 2012. This is not information of current interest to stakeholders. The companies at which this was done include Fugro, SBM Offshore, Boskalis, Brunel International, Delta Lloyd, VastNed Retail, Royal Ten Cate and Hydratec. It is customary for the annual accounts to include the short-term bonuses that relate to the year under review, i.e. the bonuses for the performance year 2012 are entered in the annual accounts for 2012. It is worth noting that no uniform accounting guideline seems to exist on this point.
- After Ahold in 2004, Unit4 in 2012 became the second company - as far as we can ascertain – where the SB used its authority to reclaim (part of the) bonuses previously granted. This happened after Unit4 had to adjust the financial figures for 2010 and 2011 as a consequence of

accounting irregularities at its Polish subsidiary. The claw back was effected in practice by reducing the bonus awarded for 2012. The company unfortunately provided no written information on the total amount of the reduction. Two other companies also restated their annual accounts as a result of accounting irregularities: Royal Imtech and Brunel International. As there was no formal claw clause in their employment contracts, the new CEO of Imtech has called on the company's previous CEO and CFO to voluntarily return their short term and long term bonuses for 2010 and 2011. Imtech and the former CEO and CFO are still engaged into talks about the repayments to be made. A claw back provision is also lacking in the employment contracts of Brunel's CEO and former CFO. However, Brunel's Supervisory Board used its discretionary power to scale down the annual bonuses for the financial year 2012. The accounting irregularities are reflected in the rather low bonuses for financial year 2012 (although the 2012 results were rather good). The lack of formal recovery powers in the employment contracts of the (former) executives of Imtech and Brunel, five years after such a provision was included in the Dutch corporate governance code, shows the need for legislation on that subject.⁵

6. Supervisory Boards of AEX companies approach 30% legal target for female directors

Since January 1st, 2013, listed companies must strive for a balanced division of seats on the Management Board and the SB between women and men in 2016 at the latest, which endeavour must be clearly reflected and emphasised in (the drafting of nominations for) appointments of executives and in the profile of the SB. According to the Act, there is a balance once each gender constitutes at least 30% of the complete staffing. This protocol is subject to the principle of "apply or explain". Companies who do not meet the numerical requirements are held to explain the reasons for it in their annual report, and must indicate how they intend to arrive at a balanced division of the seats in the future after all.

The legal target of 30% is still far away for the Management Boards of the AEX and AMX companies: only 5% of the executives are women. However, the SBs of AEX companies are on track to meet the legal target: by July 1st, 2013 28% of the supervisory directors of the AEX companies were women (2009: 17%). The SBs of AMX companies remain well behind: only 10% of the supervisory directors of these companies are women. This percentage is only slightly higher than in 2009, when 9% of the supervisory directors of AMX companies were women. All companies who have not yet reached the legal target have included a special section in the annual report on its diversity policy. Often these companies state that it looks for female executives and supervisory, but that the quality of executives or supervisory directors is more important than gender.

⁵ Bill on revision and claw back of executive bonuses; currently under discussion in the Senate (Parliamentary Papers no. 33 512).

7. *Process of audit firm rotation has not really started yet; statutory auditor is more outspoken, however*

Many companies are still waiting to see which way the wind blows on the rotation of audit firms as enforced by law as of 2016 (when the firm in question has been performing the statutory audits for the company for at least 8 years). Only Ahold, Aegon, Brunel International, Ballast Nedam, Hydratec, Vivenda Media Groep and Fornix BioSciences anticipated the mandatory rotation and proposed to their shareholders that the firm should be changed this year. From these seven companies, four chose PwC as new external auditor. Only a handful of companies (such as SBM Offshore and Sligro Food Group) have already stated that the change of audit firm would be placed on the agenda for next year's AGM. By far the majority of companies apparently want to hold on to 'their' old tried and trusted audit firm for as long as possible.

At the same time, it appears that statutory auditors want to render more account for their auditing procedures than in previous years. In any event, many statutory auditors addressed the AGM during the discussion of the annual accounts in order to inform the shareholders on the auditing of matters like pensions, goodwill and real estate, and did so on their own initiative, i.e. without shareholders having explicitly requested this at the AGM. This has increased the communication to shareholders. However, at large Dutch listed companies only a small minority of the issued share capital attends the AGM. Shareholders not attending the AGMs – especially the foreign shareholders – would also benefit of the increased transparency of the auditors' work if the (written) auditor's report, as included in the annual accounts, contains a fuller description of the work the statutory auditor has undertaken. On June 4th, 2013, the UK Financial Reporting Council issued a new auditing standard, effective from the 2013 annual accounts of UK listed companies. This revised standard requires statutory auditors reporting on UK listed companies to explain more about their work. This format could also be used for the auditor's report of Dutch listed companies.

Besides this more and more SBs are willing to make the most important topics of the management letter public at the AGM if shareholders request so. However, they are still a bit hesitant, to disclose these topics in the annual report. We only see a very small increase in that respect.

8. *Integrated reporting takes off*

Integrated reporting is gradually starting to really take off. By means of integrated reporting, users of the annual report are given a coherent overview of the business model, the value creation capacity of the company and the impact that the company has on the various kinds of capital (such as human capital, intellectual capital and natural capital) to create this value. The number of companies that issue meaningful reports on the sustainability of their strategies and business models (in all their facets) is gradually increasing. The 2012 annual reports of DSM, Philips, Nutreco, TNT Express and PostNL, but Unilever and AkzoNobel above all, make it clear that these companies are the absolute frontrunners in this field.

9. Some innovation in the ‘cutting the clutter’ project

Eumedion’s second spearhead for 2013 mimicked the international call for more relevant reporting, by removing irrelevant and boilerplate information from the annual report. The ‘Significant accounting policies’ paragraph is a very tangible example of a section that contains a high proportion of irrelevant information. In conversations with listed companies we learned that our request was very well received.

In December 2012 Eumedion, together with the Confederation of Netherlands Industry and Employers organisation (‘VNO-NCW’), requested clarity from the AFM in a public letter⁶. AFM responded with a constructive response⁷, and provided general comfort for reporting entities:

“At this stage, we can certainly state that we do not expect to interpret IAS 1.117 more strictly in our supervision of financial reporting for 2012 than was intended in the relevant standard, and we also expect this to allow the necessary room for the specific appeal from Eumedion and VNO-NCW.”

However, we learned that despite this general comfort, many listed companies and statutory auditors are in fear of being slapped on the wrist by the supervisory bodies if they were to alter this paragraph according to the wishes of Eumedion. Similar observations were shared during the ‘Disclosures’ round table organised in London by the IASB in January 2013.

So here we are in a situation where investors, reporting entities, auditors, enforcers, and the standard setter all tend to agree there is a problem, but little practical progress to the common goal is made in the mean time. Standards do not change overnight, enforcers cannot publicly oust a standard, statutory auditors and listed companies do not want to run even a small risk of a reprimand, and investors remain cluttered with irrelevant information.

Eumedion sat down with several experts, and noticed the efforts of a number of listed companies that tried to follow-up on our spearheads letter, most notably Sligro Food Group. This resulted in seven criteria for disclosing relevant accounting policies, and presentation suggestions for this paragraph in the annual accounts. The approach detailed below allows companies to remain technically compliant with IFRS, without burdening investors with clutter. Wide adoption by companies may prove to provide inspiration to the IASB to make improvements to the existing standards.

Criteria for relevance of accounting policies

1. Reporting entities should assume that investors have a reasonable knowledge of accounting principles.
2. Immaterial information is not relevant.
3. Accounting policies are not relevant if there is no policy choice to the entity.
4. Accounting policy choices are relevant.

⁶ http://www.eumedion.nl/en/public/knowledgenetwork/letters/2012-12_letter_afm_-_spearheads_2013.pdf

⁷ http://www.eumedion.nl/en/public/knowledgenetwork/letters/2012-12_response_letter_afm_2013_spearheads.pdf

5. If it is not evident for an investor which or how an accounting policy is applied, the policy or the application of the policy is relevant.
6. Descriptions and summaries of standards are not relevant. Mirroring, or aiming to mirror the standards, results in misinformation for the investor. It requires the investor to determine whether the description correctly summarises the standard, and whether the differences are material.
7. Assumptions and estimates should preferably be mentioned in the specific notes to the annual accounts.

Suggestions for the presentation of accounting policies

Eumedion suggests to distinguish two sections: 'Relevant accounting policies' and 'Accounting policies of a less critical nature'. The first section allows an investor to quickly identify all the truly relevant policies.

1. 'Relevant accounting policies'

Paragraph	Examples
1. Description of the set of standards applied	IFRS as endorsed in the European Union
2. Significant accounting policy changes	Change from historical value to fair value, together with the impact of the change
3. Impact of significant future changes in accounting policies	The impact on pension obligations if IFRS 19R were applied in the current year
4. Significant accounting policy choices	The choice to value real estate at fair value
5. Company specific application of accounting policies	The internal guidance used to define 'significant or prolonged' in relation to impairments of Available For Sale securities; Overview of key estimates and assumptions, together with relevant sensitivities and, if relevant, a reference to notes.
6. Other insightful information regarding accounting policies	A summary of which assets are valued at fair value, historical cost

2. 'Accounting policies of a less critical nature'

Ideally, from an investor perspective, the proper application of the seven criteria will help make this second section 'Accounting policies of a less critical nature' quite brief; especially, if the concept of materiality is properly applied. This is in line with the existing IAS 1.117, which already explicitly encourages preparers to limit significant accounting policies to those that are relevant to understand the financial statements properly.

Any data that is not informative for investors, but technically required to be GAAP compliant, can be included in this second section. For example the boilerplate description of the 'Consolidation policy' which is identical for all IFRS applying companies.

This section may also be moved to a less prominent location in the annual accounts. There it can reside until the IASB more formally allow for their elimination.

Appendix 1: most controversial voting items at 2013 AGMs (excluding votes cast by Trust Offices)

AGM	Subject	Result
Witte Molen	Discharge of former CEO	99.91% against (resolution voted down)
Simac	Sale or merger of the company	98.36% against (resolution voted down)
Simac	Divest parts of the company	98.36% against (resolution voted down)
Groothandelsgebouw	Authority to repurchase shares	73.7% against (resolution voted down)
UNIT4	Authority to issue anti-takeover preference shares	56.43% against (resolution voted down)
Gemalto	Disapplication of pre-emption rights	55.50% against (resolution voted down)
Gemalto	Authority to issue new shares	50.39% against (resolution voted down)
UNIT4	Authority to issue new shares	49.91% against
Gemalto	Amendment of Articles of Association	45.39% against (resolution voted down) ⁸
Accell Group	Authority to issue anti-takeover preference shares	44.3% against
PostNL	Appointment of Ms. Jongerius as SB member	43.84% against
Heijmans	Authority to issue new shares (including anti-takeover preference shares)	42.8% against
Heijmans	Disapplication of pre-emption rights	42.7% against
Wolters Kluwer	Disapplication of pre-emption rights	42.03% against
BinckBank	Amendment of Articles of Association	40.32% against (resolution voted down) ⁹
Stern Groep	Authority to repurchase shares	39% against
PostNL	Appointment of Mr. Engel as SB member	38.73% against
Arcadis	Authority to issue anti-takeover preference shares	37.82% against
Cryo-Save Group	Cancellation of shares	33.81% against (resolution voted down) ¹⁰
Cryo-Save Group	Authority to repurchase shares	33.81% against
Cryo-Save Group	Amendment of Articles of Association	33.81% against
Wolters Kluwer	Authority to issue new shares	31.47% against
PostNL	Amendment of remuneration policy	28.14% against
KPN	Discharge of SB	28.04% against
PostNL	Discharge of SB	26.55% against
PostNL	Amendment of Articles of Association	26.55% against
KPN	Discharge of management board	25.61% against
Fugro	Disapplication of pre-emption rights	25.58% against
Royal Ten Cate	Amendment of Articles of Association	22.92% against
DSM	Disapplication of pre-emption rights	22.19% against
KPN	Re-appointment of Mr. Routs as SB member	22.06% against
SBM Offshore	Disapplication of pre-emption rights	21.76% against
Heineken NV	Granting of take-over bonus	20.79% against
ASM International	Disapplication of pre-emption rights	20.60% against
SBM Offshore	Authority to issue new shares	20.39% against
Heineken NV	Granting of retention bonus for CEO	20.18% against

⁸ Approval of a proposed amendment of the Articles of Association of Gemalto requires a 2/3 vote majority.

⁹ Approval of a proposed amendment of the Articles of Association of BinckBank requires a 2/3 vote majority.

¹⁰ Approval of this proposal required a legal 2/3 vote majority since less than 50% of the issued capital was present or represented at the Cryo-Save Group general meeting.

Appendix 2: Selected Best Practices

1. More meaningful reporting on the self-assessment of the SB

Unilever:

Board evaluation

Unilever's Chairman, in conjunction with the Vice-Chairman/ Senior Independent Director, leads the process whereby the Boards formally assess their own performance, with the aim of helping to improve the effectiveness of the Boards and their Committees. The evaluation process consists of an internal exercise performed annually with an independent third-party evaluation carried out at least once every three years.

This year we took a more rigorous approach to our internal evaluation process by engaging an independent governance specialist. This external source challenged and provided insight into the questions in our Board, CEO and Chairman's evaluation questionnaires and resulted in the creation of three full and confidential questionnaires for all Directors to complete, hosted for the first time using online facilities. The detailed questionnaire invited comments on a number of key areas including board responsibility, operations, effectiveness, training and knowledge. In addition, each year the Chairman conducts a process of evaluating the performance and contribution of each Director that includes a one-to-one performance and feedback discussion with each Director. The evaluation of the performance of the Chairman is led by the Vice-Chairman/Senior Independent Director and the Chairman leads the evaluation of the Chief Executive Officer, both using the bespoke questionnaires. Committees of the Boards evaluate themselves annually under supervision of their respective chairmen taking into account the views of respective Committee members and the Boards.

Ongoing evaluation

In the table on the following page we report progress on the key actions agreed by the Boards on a year-on-year basis, in order to provide a meaningful assessment of the challenges the Boards face as they evolve and an insight into how well they respond to those challenges.

Date	Action	Progress
2012 evaluation (internal)	Shape the meeting agendas to enable Directors to bring more of their personal experience and insight to the discussions	2013 agendas structured around strategic priorities and operational topic areas rather than being weighted towards category and geographical performance
	Directors to receive more regular feedback from the Chairman on their personal contributions	The comprehensive personal and Board evaluations performed at year end are to be supplemented by a mid-year discussion between the Chairman and each Director
	Enhance the ways of working for the Committees	Information flows from management have been defined and priorities for each Committee agreed for the year
	Further interaction between Non-Executive Directors and Senior Executives around site visits or otherwise	Time to be built into personal and Board agendas throughout the year for Non-Executive Directors to interact with Senior Executives
	Greater periodic review by the Board of historic decisions taken and actions agreed	More frequent periodic reviews of historic decisions taken and actions agreed to be built into the agendas
2011 evaluation (external)	Build some sessions into the agenda during which the Directors can share experiences on a specific topic	Strategic discussions have been expanded to include 'blue sky' thinking around topics influenced by Unilever's strategy including e-commerce, Eurozone and looking ahead to 2020
	Build into the end of each Board meeting agenda a five-minute session during which actions taken can be reviewed and feedback given on the Meeting	Meetings are now concluded with a summary by the Chairman of key decisions and actions taken
2010 evaluation (internal)	Increase Board representation from China and India	Sunil Bharti Mittal from India was appointed to the Boards following shareholder approval at the AGMs in May 2011, and two Non-Executive Directors from China are being proposed at the 2013 AGMs
	Consider using electronic methods of receiving Board meeting materials	Unilever now uses an online tool for dissemination of Board meeting materials with no hard copy meeting packs now being produced
	Meetings to focus more on gaining knowledge/ experience from the Directors rather than simply providing them with information	Presentations are now shorter to allow more time for feedback from Directors and discussion between Directors
	Continue to hold important educational sessions	Board knowledge sessions are built into the meeting timetable and held at least three times each year

2. Disclosure of attendance rates of individual SB members

Roto Smeets Group:

Date	Feb 15	Mar 14	Apr 27 (*)	May 9	June 6	July 19 (**)	Aug 22	Oct 3	Dec 12	Dec 12 (***)
Extra participants	CEO/ Staff	CEO/ FD/EY	CEO/ COR	CEO/ FD/EY	CEO/Staff/ OCC/MPG	CEO/DD/ Staff/OCC	CEO/ Staff	EY/ Staff/RS	CEO/ Staff/DD	CEO/ Staff/Mmt
Ronald Blom	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Joost Rijper	✓	X	✓	✓	✓	✓	✓	✓	✓	✓
Henk Groenen	X	✓	✓	✓	✓	✓	✓	✓	✓	X
Han Noten	✓	✓	✓	✓	✓	✓	X	✓	✓	X

X available via teleconferencing for decisions

* tripartite consultation with Central Works Council

** extra meeting with OC&C consultants

*** workshop with broad management tier

FD Financial Director

EY Ernst & Young LLT

COR Central Works Council

MPG Director MediaPartners Group

RS Director Roto Smeets

DD Divisie Directeuren

3. Reporting on the discussion on the main items of the auditor's letter to the management and supervisory board

Exact Holding:

As of its appointment in 2011, the external auditor, KPMG, identified the internal control environment as an area for improvement. In April 2012, the Company's management started a project to enhance the Risk Control Framework, assessing the risk appetite, key risks, quantification and related monitoring. Assisted by the Internal Audit Department and external experts, the Company enhanced and implemented an integrated and comprehensive Risk Control Framework in the course of 2012. The Audit Committee is pleased with the significant progress made and the quality of the work delivered. In 2013, the Risk Control Framework will be further mapped out and implementation will be finalized. The identified risks will be reviewed periodically and linked to the related internal controls to mitigate these risks.

4. Meaningful information on granting short term bonuses to members of the Management Board

Vopak:

Short-term incentive

The table below shows the realization of the short-term incentive for the financial year.

	Opportunity (1)		Result as % of base salary (1)				Total	Total in EUR
	Target	Max	Financial	Safety	Engagement	Effectiveness		
E.M. Hoekstra	50%	75.0%	50%	0%	8.33%	8.33%	66.66%	349,965
J.P. de Kreij	45%	67.5%	45%	0%	7.50%	7.50%	60.00%	282,000
F. Eulerink	45%	67.5%	45%	0%	7.50%	7.50%	60.00%	261,000

(1): % of annual base salary 2012.

The 2012 financial targets of the short-term incentive plan and the non-financial targets relating to employee engagement and overall Executive Board effectiveness were all maximally achieved. The EBITDA - excluding exceptional items - significantly improved with 20% from EUR 636 million to EUR 764 million. The employee engagement survey amongst all Vopak employees (response rate 89%) showed an improved result compared to the achievement in 2010, which was already a very good result compared to the external benchmark. Specifically, the leadership criterion, which was selected a special target for 2012, showed a significant improvement. Furthermore the assessment by the Supervisory Board of the team effectiveness of the Executive Board was very good. A fatal accident in Malaysia in June and a second in China in December, reduced the safety element of the short-term incentive to zero, even though the safety targets were met in terms of personal and process safety.

5. More relevant reporting in the 'Significant accounting policies paragraph'

Sligro Food Group, with the following subdivision in the significant accounting policies paragraph:

1. Changes in accounting policies
2. New standards and interpretations
3. Specific choices under IFRS
4. Accounting policies of a more critical nature
5. Other accounting policies

6. Integrated reporting

Unilever with its 2012 Annual Report.