



To the management board and supervisory board

Dear members of the management board and supervisory board,

Eumedion, the corporate governance platform for institutional investors, annually sends what is known as its spearheads letter to the 75 largest Dutch listed companies. The spearheads letter comprises subjects that Eumedion participants would like to bring to your attention and that they may put forward in the discussions outside and/or at the shareholders' meeting.

From 2012 onwards, the 'Best practices for engaged share-ownership'<sup>1</sup> apply to Eumedion participants. Maintaining a constructive dialogue with investee companies, casting 'informed' votes at shareholder meetings and transparency about the voting policy and the voting execution are key elements in these best practices. Eumedion participants try to act as engaged share-owners, but cannot succeed without the cooperation of the listed companies. A benevolent attitude towards maintaining an open dialogue and meaningful financial and non-financial reporting can positively contribute to this. This has been practice since 2010 and we look forward to continuing this constructive dialogue in 2012.

The spearheads for 2012 relate to risk (management) disclosures and the explanatory notes to the nomination for (re)appointment of the external auditor. The spearheads will be explained in more detail below.

**Spearhead 1: more meaningful reporting on risks and risk management**

In these times of economic uncertainty and turbulence, for investors it is of utmost importance to get a clear picture of the company's expectations regarding future developments and the risks involved. We

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<sup>1</sup> See [www.eumedion.nl](http://www.eumedion.nl).

would therefore be particularly interested in getting more meaningful information in the annual reports related to:

- a) the risk paragraph, focusing more on disclosures of strategic risks, including the strategic risks relating to environmental and social matters, and the major operational risks inherent in the business model and the strategy for implementing that business model, explaining how the company can address those risks and any obstacles that may be encountered as a result of changes in the business environment, a.o. environmental and social changes.
- b) a description of the issues that the management and/or supervisory board considered in relation to the financial statements (including the main items of the auditor's letter to the management and supervisory board) and how these issues were addressed.
- c) a specific continuity analysis, including:
  - o a clear overview of the group structure, i.e. the legal ownership structure (including subsidiaries and the percentage of shares that is owned by the parent company);
  - o the financial structure;
  - o dividend and share buy back policy;
  - o the solvency and liquidity ratios;
  - o transparency on financial ratios to which companies should comply according to their bank covenants and the 'results';
  - o the governance structure, a.o. the shareholder structure in case of a controlling shareholders;
  - o the integration of meaningful acquisitions and effectuating disinvestments;
  - o scenario analyses in which a.o. social and environmental opportunities and threats that are material for the company's sector are analysed.

## **Spearhead 2: Guidance for the explanatory notes to the nomination for (re)appointment of the external auditor**

Eumedion concluded in the evaluation of the 2011 AGM season that the AGM is regularly provided with unsatisfactory reasons for the proposed appointment of an external auditor. Below, some guidance is given for making the explanatory notes to the appointment or reappointment of the external auditor more meaningful to shareholders.

### **Guidance**

The following is stated in Best Practice Provision V.2.3 of the 2008 Tabaksblat Code: "At least once every four years, the management board and the audit committee shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the general meeting for the purposes of assessing the nomination for the appointment of the external auditor." Eumedion assumes that, in line with current views on good corporate governance, the audit committee will take the lead in making the assessment, using the input from the management board and the internal auditor.

Within the context of the "thorough assessment of the functioning of the external auditor" referred to in the Code, Eumedion participants would welcome the provision of the following information in the explanatory notes to the nomination for the (re)appointment of the external auditor:

- a) A description of the process of arriving at this thorough assessment of the functioning of the external auditor.
- b) A statement of the main conclusions of the thorough assessment, addressing also the following subjects: i) the quality of the audit; ii) the adequacy and interpretation of the audit assignment; iii) the quality of the content of the reports to the management board and to the audit committee; iv) the independence of the external auditor; v) the general conduct of the external auditor, including his professional scepticism; vi) the expertise and membership of the audit team; vii) the costs; and with effect from 1 January 2012: viii) the application of the Dutch Audit Firm Governance Code by the audit firm in question.

The supervisory board may decide in response to the thorough assessment to initiate a procedure of inviting tenders for the audit assignment. Eumedion considers it advisable that this be done at least once in seven years. The tendering procedure is announced in the report of the supervisory board one year before this procedure is implemented. In the event that a tendering procedure is decided on, Eumedion participants would welcome the provision of the following information on the tendering procedure in the explanatory notes to the proposal for the appointment of a new audit firm or for reappointment of the present audit firm:

- a) The number of audit firms approached to submit a tender.
- b) A description of the selection criteria, which is consistent with the company's policy regarding the independence of the external auditor and the quality controls at the audit firm in question.
- c) A description of the selection process.
- d) The decisive reason(s) for the recommendation of the audit firm in question.
- e) The scope of the audit assignment.
- f) The policy on any consultancy assignments to be carried out by the same audit firm (approval procedure, application of a maximum percentage of the total auditing costs, etc.).
- g) The proposed term of appointment of the external auditor.

We are of course available, should you require further clarification of this letter.

Yours faithfully,

Drs. Rients Abma  
Executive Director