SUPERVISION OF THE 2006 FINANCIAL REPORTS OF LISTED COMPANIES

ACTIVITY REPORT

Introduction

Financial reports are an important source for users gaining an understanding of the financial position and performance of a company.

Public supervision of the financial reports of listed companies is aimed at ensuring correct application of financial reporting standards, resulting in greater transparency and comparability of financial reports. In addition, public supervision of compliance with these standards enhances the public's confidence in capital markets and an adequate functioning of these markets.

Under the Act on the Supervision of Financial Reporting (*Wet toezicht financiële verslaggeving*, hereafter: "Wtfv"), which became effective on 31 December 2006, the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, hereafter: "AFM") is responsible for supervising the financial reporting of companies with registered offices in the Netherlands listed on a regulated exchange (listed companies). During the two years prior to this supervision, the AFM carried out reviews in the context of its so-called pre-supervision. The AFM's pre-supervision was aimed at informing the market about the new supervision regime and gaining as much expertise and experience as possible in preparation for its statutory supervision duties. The AFM reported on its pre-supervision findings in July 2006 and February 2007.

The AFM aims to be transparent about its activities. This report serves that purpose, while also meeting CESR standards requiring European supervisors to report annually on their supervision activities regarding financial reporting.

This report sets out the AFM's work in 2007 pursuant to its supervision duties regarding the 2006 financial reporting. The AFM's duties can be broken down into two supervision domains, the first supervision domain dealing with filings of financial reports and the maintenance of a public register. The second domain deals with compliance with financial reporting standards for both the consolidated and the company financial statements, and with the rules governing the Report of the Management Board and the Other information section of the financial report. As part of this second supervision domain, the AFM prior to its supervision announced its plan to review compliance with the requirements laid down in IAS 7 Cash Flow Statements and IAS 12 Income Taxes for a specific sample of financial reports. In addition, the AFM conducted a thematic review of interim financial reports, in preparation for its future duties as supervisor of interim financial reports (including semi-annual financial reports). This review focused in particular on implementation of CESR recommendations for using so-called non-GAAP measures.

This report is structured as follows:

Appendices[1]

[1] Appendices B, C and D have not been included in this English language version of the Dutch report.

Chapter 1 Report summary

Introduction
Listed companies' financial reports are an important source of information for users gaining an understanding of the financial position and performance of these companies. Public supervision of the financial reports of Dutch listed companies is aimed at ensuring correct application of financial reporting standards, resulting in greater transparency and comparability of financial reports. Higher quality financial reporting will contribute to the public's confidence in capital markets and an adequate functioning of these markets.

The AFM's supervision duties are twofold, dealing with timely and complete filings of financial reports and the maintenance of a public register, and with correct application of financial reporting standards.

The AFM found that companies and their auditors co-operated well with the AFM in the performance of its supervision duties. Compared with its pre-supervision of 2004 and 2005 financial reports, the AFM found that the application of financial reporting standards improved in 2006. The AFM also found that companies in the local listings segment were clearly still in the process of making improvements in their transition to IFRS.

In the context of its CESR role, the AFM discusses financial reporting issues with regulators from other member states with a view to enhancing consistent application of financial reporting standards. In 2007, the AFM reported to CESR issues where the AFM's doubts about the correct application of financial reporting standards were not removed and where companies were requested to issue public statements about these issues, covering financial reporting areas such as cash flow statements, income taxes, business combinations and segment reporting.

Finally, the AFM in 2007 met several times with the Committee on Financial Reporting, comprising Dutch and international financial reporting experts, to discuss financial reporting issues and the thematic reviews covering the 2006 financial year.

General findings
The AFM's public register holds the 2006 financial reports of approximately 240 Dutch listed companies falling under the AFM's supervision. In the case of 52 of these companies, the AFM performed an additional review of the financial reports. In a majority of these cases, the AFM raised questions about the application of financial reporting standards. In the case of seven companies, the AFM had doubts about the correct application of these standards and the companies were requested to issue public statements. The issues related to, among other standards, IAS 7 Cash Flow Statements, IAS 12 Income Taxes and IFRS 3 Business Combinations. The companies involved were mainly companies in the local listings segment. These statements are available for inspection in the public register on the AFM's website.

In the case of 21 companies, the AFM issued a notification to the effect that its doubts about the correct application of financial reporting standards had not been removed, however, not requiring the companies involved to issue a public statement. The AFM will review implementation of these notifications in companies' 2007 financial reports. In one case, the AFM issued a notification to the effect that its doubts about the application of financial reporting standards had not been removed. In this case, the AFM also initiated legal proceedings with the Enterprise Section of the Amsterdam Court of Appeal to have the annual financial statements revised. The Enterprise Section of the Amsterdam Court of Appeal ruled on 28 December 2007. The Court's decision is available for inspection in the public register on the AFM's website. Finally, the AFM performed some specific reviews on the application of financial reporting standards, including standards on income taxes and cash flow statements, which are detailed below.

As regards company financial statements, most questions raised by the AFM related to the statement in the Report of the Management Board about compliance with the Dutch Corporate Governance Code, as required by the Code. The AFM raised questions, in particular about the best practice provision dealing with internal risk management and control systems. Given the social relevance of compliance with the Dutch Corporate Governance Code, the AFM believes that transparency about compliance with the Code's best practice provisions should be improved.

Findings regarding thematic reviews

Cash Flow Statements

Our thematic review showed that conversion to IFRS not yet resulted in improved comparability of cash flow statements in 2006, due to the alternative approaches offered by IAS 7 for presenting certain cash flows. In addition, our review revealed that several companies, contrary to IAS 7, reported so-called non-cash items as cash flows, to the detriment of comparability. Our review also showed that only 60% of companies reviewed included an accounting policy and only 38% included additional disclosures regarding their cash flow statements. Given the prominence of cash flow statements in the financial statements, the importance attached to cash flow information by users of financial reports and the alternative approaches offered by IAS 7, companies have room for improvement in this area.

Income Taxes

The AFM found that disclosure of accounting policies for income taxes was not extensive enough. The AFM believes that disclosure of accounting policies for income taxes included in the financial statements can be improved, among other things, by tailoring these policies to the circumstances of the company. In addition, companies can provide greater transparency regarding the question whether recognised and unrecognised deferred tax assets are reviewed at each balance sheet. There is also room for improvement regarding certain required income tax disclosures.

CESR Recommendation on Alternative Performance Measures

In November 2005, CESR published its recommendation on alternative performance measures (hereafter: "CESR Recommendation"). The CESR Recommendation focuses on companies preparing their financial statements under IFRS. Because also the Transparency Directive requires semi-annual financial reports to be prepared under IFRS, the AFM believes that companies whose financial reporting to markets is prepared under non-statutory financial reporting standards are not in compliance with the CESR Recommendation. Listed companies should make an effort to improve compliance with the CESR Recommendation.

Chapter 2 Production data

The tables in Appendix A provide a summary of activities and findings regarding our supervision of adopted 2006 annual financial statements of Dutch listed companies.

Selection

In 2007 the AFM selected 52 companies qualifying for a desktop review of their annual financial reports. Selection was based on both risk analysis and regular rotation. No financial reports were selected based on information from whistleblowers.

Desktop review and supervision actions

51 of the 52 desktop reviews have now been completed, one desktop review currently being in progress. The AFM approached 37 of the selected 52 companies, raising questions on the application of financial reporting standards. In the case of seven of these companies, the AFM issued a *recommendation*, requiring these companies to issue press releases setting out in what respects their financial report does not comply with financial reporting standards, or setting out how financial reporting standards will be correctly applied in their future financial reporting.

In the case of 21 companies, the AFM issued a *notification* only, not requiring these companies to issue public statements. In brief, the AFM used notifications to express any doubts about the correct application of financial reporting standards for specific elements of the financial report. Three of the 21 companies voluntarily opted for including our findings in their interim financial reports or informing the market in some other way prior to their interim reporting. In these cases, the AFM issued a notification only, not requiring a public statement by the company. Therefore, the information involved was not filed separately in the AFM's public register.

Within the limits of the powers conferred on the AFM by the Wtfv, the AFM initiated legal proceedings with the Enterprise Section of the Amsterdam Court of Appeal to revise the annual financial statements of one company. These proceedings were initiated given the AFM's grave doubts about the correct application of financial reporting standards, which were such that the AFM felt it was necessary for the court to pass judgement in this matter. On 28 December 2007 the Enterprise Section ruled that, although not all IFRS requirements had been complied with, these financial statements do present a true and fair view. The AFM is currently analysing the Court's decision and may bring an appeal to the Supreme Court, after taking external legal advice.

In the case of the other companies (8), the review was completed without any further action by the AFM.

In the context of its CESR role, the AFM has discussed financial reporting issues with supervisors from other member states with a view to enhancing consistent application of financial reporting standards. In addition to the issues resulting in an AFM recommendation, the AFM also reported some other issues to CESR. The issues reported to CESR in 2007 covered reporting areas such as cash flow statements, income taxes, business combinations and segment reporting.

Chapter 3 Filing financial reports and public register

Filing financial reports

Companies are required to file their financial reports with the AFM within eight days after adoption of the annual financial statements by the general meeting of shareholders. The AFM has put much effort into making companies aware of this new filing obligation, by providing information on its website and giving external presentations, issuing news letters and via exchanges with individual companies. Insofar as the AFM was aware of the date of the annual general meeting, companies were informed of the filing obligation and of the eight-day filing deadline. The new filing obligation does not prejudice the existing filing obligation with the Chamber of Commerce. It should be noted that companies issuing solely listed bonds with a par value from EUR 50,000 are exempt from filing their financial reports with the AFM.

As soon as financial reports are filed, the AFM examines whether the financial reports are complete, i.e. that they include a Report of the Management Board, adopted annual financial statements and an auditor's report. There is no substantive review at this stage. The AFM is to include the filed financial reports in the AFM's public register within five days after filing.

Companies may file with the AFM by sending their financial reports in hardcopy form by mail, attaching a form available at the AFM's website, or by filing electronically. The AFM's electronic filing option offers companies an easy and swift way to file their financial reports, enabling the AFM to quickly include the financial report in the public register. Approximately 75% of companies filed electronically, the others did so in hardcopy form. The AFM goal is to have all companies file their 2007 financial reports electronically.

Public register

So far, approximately 250 companies have filed their 2006 financial reports with the AFM. As far as the AFM was aware of the date of the general meeting of shareholders, virtually all companies filed their financial reports with the AFM on time. The financial reports filed by the companies supervised by the AFM are available for inspection in the AFM's public register. In addition, seven companies filed press releases with the AFM, following recommendations by the AFM concerning their financial reports. Finally, the public register includes an AFM press release regarding its application to the Enterprise Section of the Amsterdam Court of Appeal and the Court's decision in this case.

Some companies filing their financial reports with the AFM, however, turned out to be exempt from filing (see above) or fell outside the scope of the supervision of financial reporting. The AFM has removed the financial reports of these companies from the public register.

Points to consider

As regards the filing of financial reports, it is important to consider the following:

- The filing term is eight days after adoption of the annual financial statements by the general meeting of shareholders.
- The filed document relates to the annual financial statements adopted by the annual general meeting of shareholders, taking account of the statutory requirements regarding the language used.
- For AFM filing purposes, the financial reports need not be signed. When filed financial reports are signed, these signatures will be visible in the AFM's public register. The AFM cannot guarantee that these signatures will not be misappropriated. Therefore, companies are advised to file unsigned financial reports.
- When Part 9 of Book 2 of the Netherlands Civil Code does not require a document to be prepared, there is no AFM filing obligation for such document.
- Companies having issued only listed bonds with a par value from EUR 50,000 are exempt from filing their financial reports.
- As yet, there is no filing obligation for semi-annual financial reports. Such obligation will come into effect after implementation of the European Transparency Directive in Dutch law.

Chapter 4 Selection of financial statements and the supervision process

Determining the sample of annual financial statements to be included in our desktop reviews is risk-based, including an assessment of the impact of specific company-related factors on the risk of non-compliance with financial reporting standards. This approach als considers the potential impact of any non-compliance on investors and an adequate functioning of the capital market. The AFM's approach is in line with CESR principles and recommendations. The AFM's approach also provides for rotation of companies, ensuring that companies that are not selected based on specific risks or their impact on the capital market can be selected for desktop review. The AFM's aim is to ensure that listed companies are reviewed at least once every five years.

Desktop reviews are performed using public information only, and are commenced as soon as possible after publication of the annual financial statements, also depending on available capacity. This means that for some annual financial statements desktop reviews will start some time after adoption and filing. Our aim is to ensure that the completion time of the review process is as short as possible, thereby addressing as much as possible the needs expressed by companies during our pre-supervision process.

The AFM sets a reasonable response time for answering questions raised. In most cases, the initial response time is set at 10 working days. However, the AFM agreed on longer response times for companies needing more time to prepare their responses and putting forward specific arguments for a longer response time. As a consequence, however, the statutory enforcement period of six months[2] in some cases left little scope for further deliberations at the end of the process. With a view to a need for consistent application of IFRS in Europe, this short time frame should also allow for international consultations with other European supervisors. Due to the complexity of the standards and the AFM's express goal to put the quality of the outcome of its reviews first, the six-month time frame was exceeded in some cases limiting our enforcement options. In these cases, the findings and their consequences for the next annual financial statements were discussed with the companies involved, and some notifications were issued.

There were no cases where the AFM applied to the Enterprise Section for an order to obtain any additional information. However, the AFM did request further additional information in cases where the response to our first information request or the oral clarifications raised additional questions. In the course of its desktop reviews, the AFM usually also encounters issues which may not result in the AFM raising questions or issuing recommendations, but which, the AFM believes, could be useful for companies' managements in improving compliance with financial reporting standards. The AFM reported these findings to the companies involved, without raising specific questions. The AFM expects that companies will use these findings in preparing their future financial statements.

Please refer to Appendix A for a summary of supervision activities.

[2] Pursuant to Section 2:449 of the Netherlands Civil Code, interested parties, the advocate general or the AFM can bring annual accounts proceedings (*jaarrekeningprocedure*) before the Enterprise Section of the Amsterdam Court of Appeal within six months after adoption.

Chapter 5 Notifications and recommendations

General impression
Generally, the AFM has found that companies and their auditors have co-operated well with the AFM in providing additional information following questions raised by the AFM. Given the complexity of the subject matter, the process of providing information involved several rounds of exchanges with the company, including, in many cases, information provided orally.

When the AFM's doubts concerning the correct application of financial reporting standards for specific elements of financial reports were not removed, this resulted in many cases in the AFM issuing a notification or a recommendation. In addition, many companies have promised to apply the relevant financial reporting standards in preparing their future financial reports.

Because the financial reporting process and compliance with laws and regulations are important duties of the Supervisory Board of listed companies, the AFM, as a standard procedure, provides the Supervisory Board with a copy of the letter with notifications. Although it is safe to assume that the Supervisory Board or the Audit Committee will have some involvement in responding to the AFM's questions, the AFM thinks it is important to support the Supervisory Board in its role of primary supervisory body.

Recommendations (public)

<u>Introduction</u>
As regards elements of financial reports that are the subject of an AFM recommendation, the AFM believes that correct application of the financial reporting standards would have a significant impact on the company's financial report or future financial reports. It is important for users of financial statements to be able to learn this information, because it will enable them to make well-considered investment and other decisions. There is a public interest in making these aspects transparent. Such transparency is achieved by making generally available such releases following an AFM recommendation, thus contributing to an adequate functioning of the capital markets and the confidence of investors in these markets. The AFM believes that greater transparency of these elements outweighs any interests of companies to refrain from going public.

Recommendations can be issued in cases where non-compliance with financial reporting standards affects a primary statement (i.e. balance sheet, income statement, cash flow statement or statement of changes in equity), possibly resulting in material misstatements in the financial statements, or where a primary statement is omitted all together. Omission of essential disclosures may also result in the AFM issuing recommendations.

The Wtfv provides for two types of recommendations. A recommendation pursuant to Section 3, subsection 2, under a of the Wtfv ("A recommendation") requires a securities-issuing institution to issue a public statement setting out how the requirements will be applied in the future and setting out the consequences thereof for the financial statements. A recommendation pursuant to Section 3, subsection 2, under b of the Wtfv ("B recommendation") requires a securities-issuing institution to issue a public statement setting out in what respects the financial statements do not comply with the requirements pursuant to Section 3 of the IAS Regulation or Part 9 of Book 2 of the Netherlands Civil Code and setting out the consequences thereof for the financial statements.

In its first supervision year, the AFM issued recommendations to seven companies, requiring the issue of public statements regarding specifically described elements of their financial reports, in the light of doubts the AFM had about the correct application of financial reporting standards. All seven companies complied with this recommendation, in many cases after having consulted with the AFM.

The contents of these statements are a responsibility of a company's management. However, the AFM did advise companies to discuss the contents of the statement with their auditors. The Wtfv does not require such statements to be audited by a company's auditor.

The statements published by the companies must be filed with the AFM, in its public financial reporting register, enabling users of financial reports to read financial reports already filed in conjunction with such statements. The press releases issued by companies are available in the public register at the AFM's website (www.afm.nl, under public database/financial reporting).

Main findings
Although each case stands on its own in terms of, for example, materiality, investor interests and capital market impact, the AFM has identified the following general findings concerning our recommendations:

1) A notable finding was that all AFM recommendations related to companies in the local listings segment. Companies in this segment are clearly in the process of making improvements in their conversion to IFRS.

2) Our main findings regarding the application of specific financial reporting standards are as follows:

   (a) In several cases, non-compliance with IAS 7 (Cash Flow Statements) resulted in the AFM issuing recommendations. In some cases, implementing these recommendations took the form of changes in, for example, the presentation of operating cash flows by adjusting recognised non-cash items or of reclassifications.
   (b) A second recurring item related to IAS 12 (Income Taxes) disclosure requirements, particularly omission of disclosures regarding the carryforward of unused tax losses (including IAS 12.82). The AFM believes that, as a consequence, users of financial statements cannot obtain a full understanding of the judgements made by management with regard to future utilisation of any unused tax losses.
   (c) A third recurring issue related to non-compliance with certain IFRS 3 (Business Combinations) requirements, particularly concerning the allocation of the cost to identifiable assets at fair value. Acquirers are required to recognise separately any identifiable assets, value them at fair value, and subsequently amortise them over their useful lives. The AFM found that, in some business combinations, such assets had not been or had not yet been separately identified and/or valued at fair value, possibly resulting in an overstatement of goodwill, and also in an understatement of regular future amortisation charges.

Notifications (non-public)
In its first supervision year, the AFM sent notifications to 21 companies to the effect that the AFM had doubts about the correct application of financial reporting standards, also stating its expectation that the companies will take the AFM's remarks into account in preparing their future financial reports. Although these notifications did not result in public statements, these notifications are not without obligation. The AFM will review compliance with its notifications in the next financial year. Any failure by the company to implement, in full or in part, the AFM's notification or notifications will be taken into account in the AFM's risk analysis and will therefore impact the selection of financial statements for review. As a consequence, there is every chance that the annual financial statements will again be selected for a full desktop review. The shortcomings encountered during the review of the 2006 financial statements will be taken into account in the review of the 2007 financial statements, and will therefore be judged together with any new issues raised.

Also in view of the additional information provided to the AFM, it did not require the companies to issue a public statement as referred to under Recommendations. The AFM believed that issuing a notification sufficed in these cases, the main reason being that our doubts about the application of financial reporting standards did not relate directly to a primary statement (i.e. balance sheet, income statement, cash flow statement or statement of changes in equity) or essential disclosures, where correct application of financial reporting standards would significantly impact the financial report and where it is important for users of the financial report to be able to gain a full understanding of the financial report. In short, there was no public interest in immediate publishing of these aspects.

In most cases, the AFM contacted the companies involved prior to issuing a notification and, in many cases, the notifications constituted written confirmations of companies' undertakings regarding improvements in their future annual financial statements. Although these notifications related to compliance with financial reporting standards in 2006 financial reports, the AFM assumes that companies will use any notification in preparing their future financial reports.

In some cases, there were also discussions between the AFM and the company involved after issue of the notification. In the AFM's view, this is in line with the character of the Wtfv, given that the Act's Explanatory Memorandum states that companies and the AFM should as far as possible mutually agree on issues.

Main findings

The notifications covered a wide range of subjects and will not be made public given the Wtfv's stringent confidentiality requirements. In addition, it is the AFM's express intention to not report any details of these cases, given that the subject matter and backgrounds to these notifications are so specific to these cases that they should only be read in conjunction with the specific underlying documentation and discussions held.

In many cases, the AFM issued notifications relating to, among other standards, IFRS 3 (Business Combinations), IAS 12 (Income Taxes) and IAS 7 (Cash Flow Statements).

In addition to the above subjects, the AFM also issued notifications relating to company financial statements, the Report of the Management Board and the Other information section of the financial report. These notifications related mainly to the following:

- *'Comply or explain' statement*: relating to information on compliance with best practice provisions of the Dutch Corporate Governance Code pursuant to Section 2:391, subsection 5 of the Netherlands Civil Code and Section 3 of the Decree of 23 December 2004 establishing further requirements regarding the contents of the Report of the Management Board in respect of the company's corporate governance. In the case of 30% of the companies selected for desktop review, the AFM raised one of more questions concerning compliance with the requirement that companies have to include in their Report of the Management Board a statement on compliance with the Code. Given the social relevance of the Code, any doubt about application of the requirement to include a statement in the Report of the Management Board on compliance with the Code is undesirable. It is important for investors to know whether a best practice provision is fully applied and, if not, that companies provide explanations why they don't comply or don't fully comply.

- *Information on, among other things, anti-takeover measures en control*: relating to the information pursuant to Section 2:391, subsection 5 of the Netherlands Civil Code, as further detailed in Section 1 of the Decree for the implementation of Article 10 of the Takeover Directive.

- Information on the business outlook with particular attention being paid to investments, financing and the number of personnel and circumstances affecting future sales and profitability as well as on the remuneration policy for its Management Board and Supervisory Board members and the application of this policy in the year under review.

- The AFM found that, in some cases, it was unclear what part of the annual report should be regarded as the Report of the Management Board within the meaning of Section 2:391 of the Netherlands Civil Code.

Best practice provision concerning internal risk management and control systems (Dutch Corporate Governance Code)

Most questions related to the best practice provisions concerning the internal risk management and control systems (best practice provision II.1.4). The AFM raised these questions when a statement on compliance with this best practice provision was not included, or when the Report of the Management Board did include a statement, but this statement was incomplete, i.e. covered only part of the best practice provision. The AFM found that the majority of companies including a statement concerning the internal risk management and control systems followed the Monitoring Committee's good practice rather than the Code's best practice. Given the importance of the best practice provision concerning the internal risk management and control systems, it is alarming that the majority of questions raised by the AFM related to this best practice provision. This is particularly alarming because companies should have been complying with the Code since the 2004 financial year. The AFM believes that transparency concerning compliance with the best practice provision should be substantially improved given the contribution of transparency to investors' confidence in the governance of companies.

Chapter 6 Findings on IAS 7 Cash Flow Statements

Introduction

In February 2007, the AFM announced that it would, in addition to performing desktop reviews, be carrying out thematic reviews of specific financial reporting areas. In this context, the AFM for the 2006 financial statements focused on the application of, among other standards, IAS 7 Cash Flow Statements.

The thematic IAS 7 review comprised the review of annual financial statements of 45 companies whose desktop review was commenced before 1 October 2007. A breakdown of the companies reviewed by Euronext index is as follows: nine AEX companies, nine AMX companies, eighteen companies included in other stocks at Euronext Amsterdam and five Dutch companies with a foreign listing.

Under IFRS, the cash flow statement is one of the components of the financial statements. According to IAS 7, information on cash flows is useful information because it provides users of financial reports with a basis to assess a company's ability to generate cash and cash equivalents and the needs of a company to utilise these cash flows. It also enhances the comparability of the reporting of operating performance by different companies because it eliminates the effects of using different accounting treatments for the same transactions and events.

Comparability of cash flow statements

Our thematic review indicated that it was not yet possible to compare cash flow statements in all cases. IFRS has not yet resulted in greater comparability as a consequence of the alternative approaches provided by IAS 7 for the presentation of certain cash flows. Not only the starting point used in the cash flow statement may differ, but also the way cash flows regarding interest, dividend and, to a lesser extent, income taxes are presented. In addition, our review revealed that several companies failed to comply with IAS 7, by presenting non-cash items as cash flows, and by doing so, harming comparability.

Disclosures regarding cash flow statements

It is notable that only 60% of the companies reviewed by the AFM included accounting policies for their cash flow statements and just 38% included explanatory notes to their cash flow statements. Given the prominence of cash flow statements in financial statements, the importance attached to cash flow information by users of financial reports and the alternatives provided by IAS 7, there is room for improvement in this area.

Any additional disclosures regarding cash flow statements were mostly limited to information on acquisitions. The AFM believes that disclosures concerning the reconciliation between balance sheet and cash flow statement may help to understand the cash flow statement.

Based on the above findings, the AFM has concluded that, users seeking good and useful cash flow information have to rely partly on companies providing more information in notes to the cash flow statement than strictly required under IAS 7.

Chapter 7 Findings on IAS 12 Income Taxes

Introduction
In February 2007, the AFM announced that it would, in addition to performing desktop reviews, be carrying out thematic reviews of specific financial reporting areas. In this context, the AFM for the 2006 financial statements focused on the application of, among other standards, IAS 12 Income Taxes.

Based on its review of the annual financial statements of 64 companies included in the AEX, AMX or AScX indexes of NYSE Euronext Amsterdam, the AFM has concluded that financial reporting regarding income taxes needs to be improved in some areas.

Importance of income taxes in the financial statements
Effective income tax rates which were reported by companies reviewed by the AFM varied widely. The unweighted arithmetic mean of the reported effective tax rates was 21%. As a result of utilising tax losses for which no deferred tax asset had been recognised, some companies reported negative effective tax rates. Virtually all companies recognised both a deferred tax asset and a deferred tax liability in their balance sheets. The recognised deferred tax asset was virtually always attributable to the carryforward of unused tax losses. In many cases, the amount of the balance sheet items did not exceed 5% of total assets. Most companies distinguished 5–10 types of temporary differences between valuations for tax purposes and for financial reporting purposes.

Overall, the findings from our IAS 12 thematic review were in line with our findings from the 2006 desktop reviews. The findings of our review are summarised in the following paragraphs.

Accounting policies
The AFM found that disclosure of accounting policies for income taxes was not extensive enough. The AFM believes that disclosure of accounting policies for income taxes included in the financial statements can be improved by tailoring these policies to the circumstances of companies. Greater transparency can be achieved by explicitly stating that a deferred tax asset or liability is recognised for all deductible and all taxable temporary differences and/or when (transaction is recognised directly in equity or arises in a business combination) deferred tax expense (income) is not included in the income statement. In addition, companies can be more transparent in stating whether recognised and unrecognised deferred tax assets are reassessed at every balance sheet date.

Specific disclosures regarding income taxes
For some of the financial statements included in our sample of financial statements reviewed, the following income taxes disclosures required under IAS 12 can be improved because they were either incomplete or omitted:

- disclosure of the nature of the evidence supporting the recognition of a deferred tax asset if the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the tax asset relates (as required by IAS 12.82);
- disclosure of the separate components of income tax expense (income), and not limiting this disclosure to a breakdown into total current tax expense and income and total deferred tax expense and income (as required by IAS 12.79);
- when using the “Other” category in the reconciliation of tax expense (income) and accounting profit before income taxes required by IAS 12.81(c), companies should refrain from netting relatively significant dissimilar items of tax expense and income;
- disclosure of an explanation of changes in the applicable tax rate(s) compared to the previous accounting period (as required by IAS 12.81(d));
- disclosure in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits, the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet (as required by IAS 12.81(g));

- disclosure of a breakdown of the tax expense relating to discontinued operations (as required by IAS 12.81(h)).

Chapter 8 Findings on the CESR Recommendation on Alternative Performance Measures

Introduction

In November 2005, CESR published its recommendation on Alternative Performance Measures (hereafter: "CESR recommendation"). The reason for issuing this recommendation was the fact that listed companies, in their financial reporting to markets, use diverging financial data that are not as such extracted from the audited financial statements. This information is referred to as alternative performance measures. While CESR considers this additional information useful for investors, it also recognises the risk that investors might be mislead.

The AFM carried out a review of press releases relating to the 2006 results with a view to assessing compliance with the CESR Recommendation. It is the role of the AFM, as a CESR member, to ensure that CESR recommendations are implemented. In addition, this review paid attention to the AFM's future supervision of semi-annual financial reports following the implementation of the European Transparency Directive. In this context, the AFM, in addition to its review of compliance with the CESR Recommendation, reviewed whether IAS 34 was applied in the 2006 semi-annual financial reports. This additional review was not carried out in the context of the AFM's statutory supervision duties regarding financial reporting.

Three of the 41 selected AEX and AMX companies falling under the AFM's Wtfv supervision[3] used US GAAP rather than IFRS in their 2006 financial reporting to markets. 36 (i.e. 95%) of the 38 AEX and AMX companies using IFRS in their 2006 financial reporting to markets used alternative performance measures.

Conclusion

The CESR Recommendation focuses on companies preparing their financial statements under IFRS. Because also the Transparency Directive requires semi-annual financial reports to be prepared under IFRS, the AFM believes that companies whose financial reporting to markets is prepared under non-statutory financial reporting standards are not in compliance with the CESR Recommendation.

Our review also revealed that press releases regarding the 2006 annual results complied only to a limited extent with the CESR Recommendation. Listed companies should make an effort to enhance their implementation of the CESR Recommendation. In their financial reporting to markets, companies should clearly define the alternative performance measures used, should use them with appropriate prominence, and should explain any differences with measures from the annual financial statements. In addition, alternative performance measures should be used consistently and should be presented in combination with measures from the financial statements as much as possible. Companies should also set out their reasons for using alternative performance measures, and should disclose whether alternative performance measures were reviewed or audited by an auditor.

The review also highlighted that almost 50% of the selected companies should make an additional effort to prepare their semi-annual financial reports in accordance with IAS 34, if they did not already do so in 2007.

[3] Based on the AEX and AMX composition on 31 December 2006.

Appendix A Tables of supervision activities

	Total	AEX	AMX	AScX	Local[4]	Foreign[5]	Bonds > € 50,000[6]
Companies under supervision[7]	**241**	**23**	**20**	**21**	**79**	**98**	**PM**
Desktop reviews							
Sample of financial statements	52	9	9	4	24	6	-
Completed reviews	51	9	9	4	23	6	-
Supervision activities							
Information requests	37	4	7	3	18	5	-
Notifications	21	3	5	2	7	4	-
Recommendations	7	-	-	-	7	-	-
Revision requests	1	-	-	-	1	-	-

Subjects in Notifications and Recommendations stemming from Part 9 of Book 2 of the Netherlands Civil Code

Provisions in Part 9 of Book 2:	**Total**	**AEX**	**AMX**	**AScX**	**Local**	**Foreign**
Corporate Governance	9	1	1	-	5	2
Takeover Directive	3	-	-	1	1	1
Management Board Report	4	2	-	-	2	-
Management Board and Supervisory Board remuneration	2	-	-	-	2	-
Other provisions	7	2	1	-	3	1

Main subjects of Notifications and Recommendations per IFRS standard[8]:

IFRS	**Brief description**	**Total**	**AEX**	**AMX**	**AScX**	**Local**	**Foreign**
IFRS 2	Share-based Payment	3	-	-	-	3	-
IFRS 3	Business Combinations	12	-	4	2	5	1

[4] Dutch companies with shares (non-index) and/or bonds listed in the Netherlands.
[5] Dutch companies only with one or more foreign listings.
[6] Dutch companies only issuing bonds from € 50,000 (par value per unit) and which are exempt from filing financial reports with the AFM. The size of the population is unknown (given that there is no filing obligation with the AFM).
[7] Population of Dutch companies with listed securities in March 2007 known to the AFM.
[8] Standards included in notifications or recommendations more than once, e.g. for different aspects, have been added up for the purposes of this summary. If notifications or recommendations contained references to more than one standard, only one standard has been included.

IFRS	Brief description	Total	AEX	AMX	AScX	Local	Foreign
IFRS 5	Discontinued Operations	2	-	1	-	1	-
IAS 1	Presentation of Financial Statements	9	1	-	1	5	2
IAS 2	Inventories	1	-	-	-	1	-
IAS 7	Cash Flow Statements	9	-	-	1	7	1
IAS 8	Accounting policies	6	-	-	1	4	1
IAS 11	Construction Contracts	3	-	1	-	2	-
IAS 12	Income Taxes	18	2	3	1	9	3
IAS 14	Segment Reporting	6	1	2	1	2	-
IAS 17	Leases	3	-	-	-	3	-
IAS 18	Revenue	2	-	-	1	1	-
IAS 19	Employee Benefits	8	1	1	-	6	-
IAS 21	Effects Foreign Exchange Rates	3	-	-	-	1	2
IAS 24	Related Party Disclosures	5	-	1	1	3	-
IAS 27	Consolidation	2	1	-	-	1	-
IAS 28	Investements in Associates	2	-	-	1	1	-
IAS 31	Interests in Joint Ventures	1	-	-	-	-	1
IAS 32/39	Financial Instruments	11	2	-	2	6	1
IAS 33	Earnings per Share	5	-	-	1	4	-
IAS 36	Impairment of Assets	10	1	1	1	6	1
IAS 37	Provisions	2	-	-	-	2	-
IAS 38	Intangible Assets	7	-	1	1	4	1