In Balance 2016

Thematic review of integrated reporting, risk paragraph, scope and quality of disclosures

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The Dutch Authority for the Financial Markets (AFM)

The AFM is committed to promoting fair and transparent financial markets.

As an independent market conduct authority, we contribute to sustainable financial well-being in the Netherlands.

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1. Management summary

Investors and other stakeholders need relevant information that goes beyond purely financial reporting, the figures. Users increasingly request non-financial information. In addition, it is important for users that companies provide good quality and consistent reporting on relevant risks and their risk appetite. In order for investors to make good decisions, it is important that they can base their decisions on relevant disclosures and that the use of standard texts is reduced. Integrated reporting can also play an important part in the transition to a more sustainable business model and a sustainable economy.

Following its previous reviews in 2013 and 2014 and in view of the many initiatives and developments since then (see section 2), the AFM carried out a review of integrated reporting, the risk paragraph and the scope and quality of disclosures in 2016.

The AFM has further reviewed the 2015 reporting by 39 companies in the AEX, AMX and AScX indices with respect to these items. It also conducted interviews with nearly all of the companies concerned.

Based on its review, the AFM notes with respect to the companies concerned that:

- Most of the companies are making progress in the right direction with respect to integrated reporting.
- A large majority of the companies are focusing on improving their risk paragraph.
- The extent to which companies are addressing the scope and quality of disclosures varies.

Most of the companies are making progress in the right direction with respect to integrated reporting

Investors and other stakeholders increasingly need non-financial information. This trend is expected to continue and strengthen, both internationally and nationally. The AFM also notes that self-regulation is being replaced by regulation and that the FSB, the banking supervisors and the EU are leading the way in the further formulation of this regulation. The AFM also expects that the implementation of the EU non-financial information directive in Dutch law, which will take effect from the 2017 financial year, will encourage companies to adopt integrated reporting.

The review shows that companies are participating in this trend and have made good progress with respect to integrated reporting. We see that in comparison to previous years, companies are increasingly reporting on their value creation model, their stakeholder dialogue and their materiality analysis. Another positive trend is that companies in the AMX and AScX indices are beginning to adopt (aspects of) integrated reporting as well as the AEX companies. On the other hand, the AFM notes that there are still too few companies reporting on certain aspects of non-financial information. These companies can make further progress on translating their strategy into targets and relevant KPIs.

The AFM also notes that almost half of the AEX companies and some of the AScX companies report their financial and non-financial information in a separate sustainability report. In common with many other stakeholders, the AFM takes the view that non-financial information should always be considered in combination with financial information. In other words, the relevant non-financial information should form part of the annual report[1]. Publication in a separate report or elsewhere makes this information less accessible. Separate publication leads to fragmented reporting, while what is needed is compact, integrated and consistent reporting.

A large majority of the companies are focusing on improving their risk paragraph

We note that companies have made progress with respect to the risk paragraph. Most of the companies made a number of improvements to their risk paragraphs after 2013, varying from changes to the structure to the addition of new elements such as the risk appetite. A large number of the companies now disclose their risk appetite and a number of them are looking at how risk appetite can best be disclosed in the management report. The quantification of risks and the inclusion of sensitivity analyses with respect to risks is another area of development. The AFM recognises that reporting sensitivity analyses with respect to major risks is complex and potentially competition-sensitive, but it recommends that companies should provide a sensitivity analysis since such analyses are relevant to the users. Without this relevant information, users have to make their own assumptions and will infer that the management is not sufficiently aware of it or does not wish to provide it. The description of the evaluation of the operation of the risk management system has improved. Reporting is increasingly provided on major failings, significant changes and scheduled improvements.

The extent to which companies are addressing the scope and quality of disclosures varies

The review of the scope and quality of the disclosures revealed a mixed picture. From the interviews, it emerged that a large number of the companies had made changes to their disclosures in the context of the regular process of preparation of the financial statements. Some companies had gone further and made changes to the design and structure of their disclosures. A few companies stated that they had not addressed the scope and quality of their disclosures or that they planned to do so in the near future. The AFM calls on companies to follow the 'Disclosure Initiative' and the 'Better Communication' theme of the IASB and to use the results of these projects to further increase the quality and limit the scope of disclosures in the financial statements in the coming years. The upcoming introduction of a number of new and important IFRS on financial instruments (IFRS 9), revenue recognition (IFRS 15) and leases (IFRS 16) can be used by companies for this purpose. The AFM notes that it has remarked in the past that when new IFRS come into effect and/or existing standards are amended, the reporting standards are frequently not applied correctly. Our reviews of the financial reporting of listed companies have previously identified problems in the application and disclosure of these new and/or amended

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[1] In this report, reference to the (normal) annual report concerns the annual financial reporting, consisting of the management report, the financial statements and the other information.

standards, and therefore this matter requires additional attention by the companies and their statutory auditors.

2. Introduction

Integrated reporting, the risk paragraph and the scope and quality of disclosures have been items of attention both nationally and internationally (ESMA, IASB, IOSCO, FSB, EU) for a number of years. There have been numerous national and international initiatives in relation to integrated reporting and the scope and quality of disclosures. See the box below for an overview of some of the important initiatives.

National and international initiatives that generally support the importance of integrated reporting:

- The International Integrated Framework of the IIRC in December 2013[2]
- The DNB report 'Time for Transition an exploratory study of the transition to a carbon-neutral economy' in 2016[3]
- The formation of the Task Force on Climate-related Financial Disclosures of the FSB at the end of 2015[4]
- The GRI Sustainability Reporting Standard of 19 October 2016[5]
- Non-Financial Reporting Directive of the EU in 2014[6]
- Sustainable Finance Lab[7]
- Inquiry platform of the United Nations Environment Programme in 2014[8]

Initiatives relating to the scope and quality of disclosures:

- The 'Better Communication' theme of the IASB, including the 'Disclosure Initiative' of 2016
- Public statement by ESMA on 27 October 2015 (see section 5.2)

With this review, the AFM is participating in these worldwide initiatives in progress. In addition, the AFM anticipates the upcoming transition in relation to disclosure requirements and actively contributes to this.

The AFM has devoted attention to the issues of this thematic review in past years. In 2013, it carried out a thematic review of integrated reporting[9] and it carried out a review in 2015 of

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[2] http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf
[3] https://www.dnb.nl/en/binaries/TimeforTransition_tcm47-338545.pdf
[4] https://www.fsb-tcfd.org/
[5] https://www.globalreporting.org/information/news-and-press-center/Pages/First-Global-Sustainability-Reporting-Standards-Set-to-Transform-Business.aspx
[6] http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm#related-documents
[7] http://sustainablefinancelab.nl/en/rubriek/calender/
[8] http://unepinquiry.org/
[9] https://www.afm.nl/~/profmedia/files/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/2013/themaonderzoeken-engels/listed-companies-integrated-reporting.ashx?la=en

companies forming part of the AEX and AMX indices. In 2014 the AFM carried out an exploratory review[10] of the scope and quality of disclosures in the financial statements and a thematic review of the risk paragraph[11]. These reviews revealed that companies still need to make progress with respect to these items. The framework of norms is also undergoing intensive development. For this reason, the AFM carried out a further exploratory review in 2016[12] of 39 companies on these items, which also included interviews with companies. Firstly, with the aim of encouraging companies to make further progress, and secondly to give companies the opportunity to further explain their situation with respect to these items.

Sections 3, 4 and 5 present the results of our review of integrated reporting, the risk paragraph and the scope and quality of disclosures.

Appendix 1 describes the objectives, the review methodology and the review population.

During the interviews, it emerged that companies were experiencing difficulty with some elements of reporting. We have accordingly included a number of good practices in Appendices 2, 3 and 4. These are examples of specific disclosures from recent financial statements and management reports of companies involved in this review. The AFM hopes that other companies will be inspired by these good practices to make further improvements. The good practices should not be seen as a standard or as the only correct formulation. Other formulations are also possible.

Appendix 5 contains a list of abbreviations.

[10] https://www.afm.nl/~/profmedia/files/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/2014/themaonderzoeken/english/thematic-review-fv-2014-scope-quality-disclosures.ashx?la=en

[11] https://www.afm.nl/~/profmedia/files/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/2014/themaonderzoeken/english/thematic-review-fv-2014-risk-paragraph.ashx?la=en

[12] The AFM did not look at all the aspects of these items in its further exploratory review, but restricted itself to certain elements thereof.

3. Integrated reporting

<u>Summary</u>

Investors and other stakeholders increasingly need non-financial information. This trend is expected to continue and strengthen, both internationally and nationally. The AFM also notes that self-regulation is being replaced by regulation and that the FSB, the banking supervisors and the EU are leading the way in the further formulation of this regulation. The AFM also expects that the implementation of the EU non-financial information directive in Dutch law, which will take effect from the 2017 financial year, will encourage companies to adopt integrated reporting.

The review shows that companies are participating in this trend and have made good progress with respect to integrated reporting. We see that in comparison to previous years, companies are increasingly reporting on their value creation model, their stakeholder dialogue and their materiality analysis. Another positive trend is that companies in the AMX and AScX indices are beginning to adopt (aspects of) integrated reporting as well as the AEX companies. On the other hand, the AFM notes that there are still too few companies reporting on certain aspects of non-financial information. These companies can make further progress on translating their strategy into targets and relevant KPIs.

The AFM also notes that almost half of the AEX companies and some of the AScX companies report their financial and non-financial information in a separate sustainability report. In common with many other stakeholders, the AFM takes the view that non-financial information should always be considered in combination with financial information. In other words, the relevant non-financial information should form part of the annual report. Publication in a separate report or elsewhere makes this information less accessible. Separate publication leads to fragmented reporting, while what is needed is compact, integrated and consistent reporting.

Appendix 2 lists a number of good practices with respect to integrated reporting.

After the introduction and a description of the national and international developments, this section deals with the review results in more detail, starting with paragraph 3.3.

3.1 Introduction

Integrated reporting, whereby non-financial aspects are also reported, provides further insight into a company's actual value and value creation. It also explains the consequences of the implementation of the company strategy in the short, medium and long term.

Integrated reporting can play an important part in the transition to a more sustainable business model and a sustainable economy. The integrated reporting concept challenges companies to think about their role in society, such as what value the company creates, what is its impact on the environment and how the interests of its various stakeholders are considered, and to report on these matters. This promotes transparency with respect to the strategy and policy of the companies, the effects of their policy and the risks associated with that policy.

The AFM made a baseline measurement in 2013 of the status of integrated reporting at the companies under its supervision. This revealed that listed companies had made a start on non-financial reporting, but that they needed to make further progress to achieve truly integrated reporting. The room for improvement was mainly in the areas of relevance and the connectivity of information, together with the stakeholder dialogue, value creation and the translation of strategy into targets and relevant (non-financial) KPIs. We have included these aspects in our review this year.

In 2015 the AFM carried out a review of companies included in the AEX and AMX indices[13]. The principal conclusions from this review were that an increasing number of companies stated that they were adopting integrated reporting or forms thereof and that this reporting could be useful in providing better information to stakeholders, but that integrated reporting involves more than combining the sustainability report and the traditional annual report.

Integrated reporting is also an item in the AFM's multi-year agenda for 2016-2018[14]. The AFM supports the concept of integrated reporting, since this enables companies to provide more relevant information to their investors and other stakeholders. It is important that investors can rely on the quality of information and can make informed choices on that basis. The AFM intends to contribute to this with its supervision.

3.2 National and international developments

The IIRC published a framework for integrated reporting in 2013. Listed companies around the world have adopted this concept since that time. Most companies have done this in combination with other framework regulations, such as the GRI.

The topic is also of interest to stakeholder groups such as Eumedion, the VBDO and individual institutional investors, which are calling on companies to increase their application of integrated reporting. The ICGN published its report 'ICGN Guidance on Integrated Business Reporting' in 2015[15], which contained guidelines for companies with respect to non-financial information and integrated reporting that are important for investors. The developments in this area are expected to take further shape in the coming years, thus improving comparability between companies with regard to non-financial performance.

On 27 September 2016, the Dutch Senate approved the parliamentary bill for the implementation of the EU directive on non-financial information[16]. The related (draft) decree on the provision of non-financial information will state that, with effect from the 2017 financial year companies with more than 500 employees will have to include information in their management reports on policy, results and risks with respect to the environment, their employees, human rights and anti-corruption measures. If a company has not formulated a policy with respect to these issues, it will have to explain why. From the interviews conducted, it emerged that not all companies were yet aware of the requirements that will apply as a result of the implementation of the EU non-

[13] https://www.afm.nl/en/professionals/nieuws/2015/okt/rapport-in-balans
[14] https://www.afm.nl/nl-nl/verslaglegging/agenda
[15] https://www.icgn.org/sites/default/files/Integrated%20Business%20Reporting.pdf
[16] https://www.eerstekamer.nl/wetsvoorstel/34383_implementatie_eu_richtlijn. Only available in Dutch.

financial information directive with effect from 2017. The AFM calls on companies to apply the requirements pursuant to this Act correctly and in a timely manner.

In connection with the EU directive on non-financial information, the European Commission published its 'Non-binding guidelines on methodology for reporting non-financial information' for consultation in early 2016.[17] The European Commission is expected to publish its definitive 'non-binding guidelines' before the end of this year.

3.3 There is a high level of awareness of integrated reporting among companies

The interviews we held revealed that integrated reporting is an agenda item for the vast majority of the companies and that the topic is under discussion by management boards and audit committees. Many of the companies had already started with integrated reporting or aspects thereof. A positive development is that the companies in the AMX and AScX indices are moving towards integrated reporting as well as the AEX companies.

Companies stated that they were engaging in integrated reporting as a result of the public attention to the issue and the interest in it from stakeholder groups and institutional investors. What other companies are doing (whether or not belonging to the peer group) and the attention to the issue from supervisors and regulators have also played a role. We expect what is initially mainly extrinsic motivation to be followed by intrinsic motivation (from employees and directors). We do note that some parties have already taken the lead. Other parties may perhaps need to be prompted by external pressure to apply the generally accepted principles.

Some companies stated that while investors and analysts are not specifically demanding integrated reporting, they are asking for important elements of integrated reporting such as strategy, targets, risks of non-financial aspects, prospects, the earnings model and opportunities. Even if the term integrated reporting is not used, the elements of it are in demand.

3.4 A number of companies are still reporting non-financial information in a separate (sustainability) report

For investors and other stakeholders to have a complete view of a company's targets and performance in both financial and non-financial terms, it is desirable to have one document in which this information is easily accessible. The regular annual report is still the most suitable document for this purpose. Nearly half the AEX companies and some of the AScX companies publish a separate (sustainability) report. We did not include these reports which were published separately by the review population in our review. This concerns six companies in the AEX index and three in the AScX index. These separately published (sustainability) reports can devote attention to certain aspects considered by the AFM in its review. The figures in this section do not take account of this.

[17] http://ec.europa.eu/finance/consultations/2016/non-financial-reporting-guidelines/index_en.htm

In the interviews, the companies publishing separate (sustainability) reports stated that they did so in order to satisfy the wishes of all their stakeholders. If all this information were to be included in the annual report, in their view the annual report would become extremely lengthy.

The AFM appreciates this point, but considers that only a reference to a separate sustainability report in the management report is not enough to qualify as integrated reporting. The non-financial information included in the separate sustainability reports is then not considered in combination with the financial information as stated in the annual report. In addition, the sustainability reports are not published at the same time as the annual reports in all cases. The statutory auditor therefore has not compared the information included in the sustainability report to ensure that it is consistent with the information in the financial statements. The AFM takes the view that the annual report should include all the material financial and non-financial information so that a complete picture of the company is presented. The upcoming implementation of the EU directive on non-financial information in Title 9 Book 2 of the Dutch Civil Code will require in any case that part of this information is included in the management report. In our view, this will make a positive contribution to the further development of integrated reporting, since integrated reporting is a good way of presenting information on all relevant financial and non-financial items cohesively.

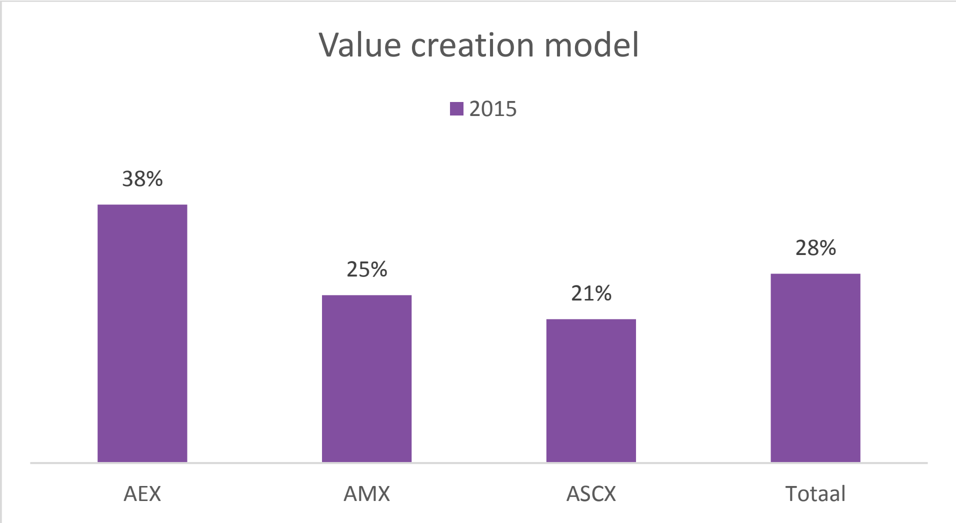
3.5 The number of companies describing their value creation is increasing, but most of them are not yet doing so

Value creation is an essential aspect of integrated reporting: how does a company create value, both commercially and in other areas? This involves more than simply the financial return. It also concerns the positive or negative effects on the environment and society. In its consultation document published on 10 February 2016[18], the Corporate Governance Code Monitoring Committee devoted attention to value creation in its proposals for a revision of the Dutch Corporate Governance Code. The Monitoring Committee called on companies to focus more on value creation in the long term. It also stated that this focus by the management board and the supervisory board requires that they act in a sustainable manner in the performance of their allotted tasks by focusing on long-term value creation and devoting attention to opportunities and risks, including consideration of the interests of the stakeholders involved.

Figure 3.1 shows that over a quarter of all companies include a value creation model in their 2015 annual reports in which a visual representation of value creation according to the IIRC framework was provided. Around 40% of the AEX companies provided this, along with 20-25% of the AMX and AScX companies. There was hardly any reporting of a value creation model in 2012, and therefore no figures for this year are included. Most of the companies do not describe in a model how and in which areas the company creates value or has a negative impact on the environment or society.

[18] http://www.commissiecorporategovernance.nl/download/?id=2835

Figure 3.1: % of companies reporting their value creation model



The interviews revealed that companies are experiencing difficulty with describing how and in which areas they create value or have a negative impact on the environment or society, for example. They also have difficulty with expressing this in a single overview in diagram form. Several companies stated that a simplified representation of the value creation process was not yet possible for them due to the complexity of their business.

A practical and in some cases more extensive description of how companies create value can be useful for investors and other stakeholders. Representing this in diagram form makes this immediately visible to readers. The AFM understands that this may be complicated, but calls on companies to get to work on this and produce this reporting.

Good practice 1 in Appendix 2 concerns the value creation model of Philips. In this model we can see the value creation process and the quantification of the capital inputs and value outcomes at a glance.

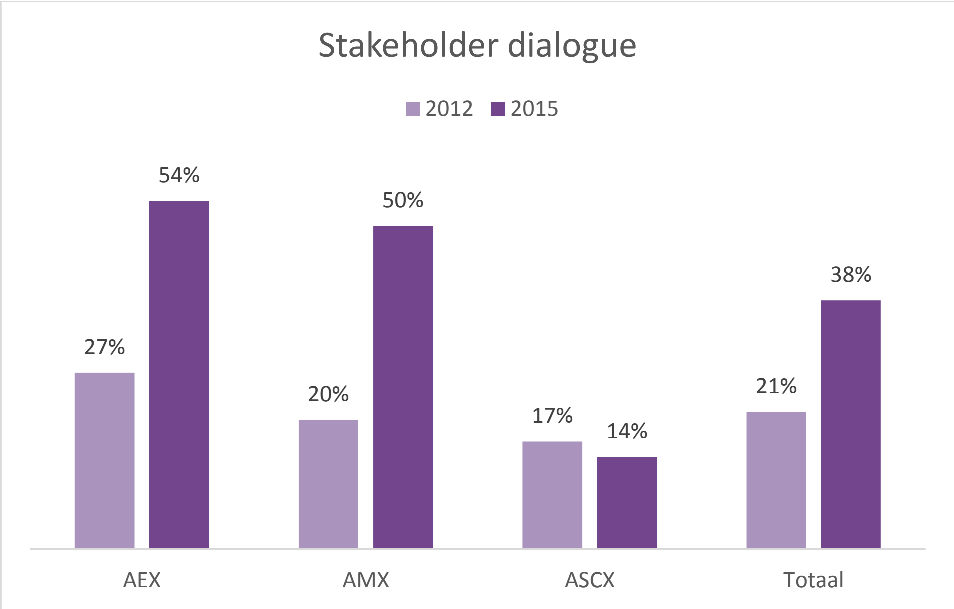
3.6 Companies are providing more information on their stakeholder dialogue and materiality analysis

Reporting on the stakeholder dialogue is an important element of integrated reporting. An integrated report has to provide insight into the nature and quality of the organisation’s relations with its major stakeholders.

Figure 3.2 shows that slightly less than 40% of the companies provide information on their stakeholders and the dialogue maintained with them on material issues on which the company should report. This is an increase in comparison to 2012. The AEX companies report most on this aspect, while the AScX companies report the least. We see a clear improvement in comparison to 2012 regarding the dialogue with relevant stakeholders such as investors, customers, employees, special interest groups, governments and other interested parties. There is greater transparency on who the stakeholders are, what issues were discussed and the significance of this for the company, and the aspects reported. Whereas reporting in the past was restricted to general descriptions, we are now seeing more detail provided. How this reporting is presented does however vary: from detailed qualitative descriptions to limited accounts in matrix form.

In the interviews, the companies stated that they considered a dialogue with a broad group of stakeholders to be important. Several companies that do not yet report on their stakeholder dialogue stated that they wished to make progress on entering into a dialogue with their major stakeholders and that they would report on this. There are also companies for which the dialogue is limited to investors, shareholders and customers. Some of these companies stated that they would engage in a dialogue with a broader group in future.

Figure 3.2: % of companies reporting on the stakeholder dialogue



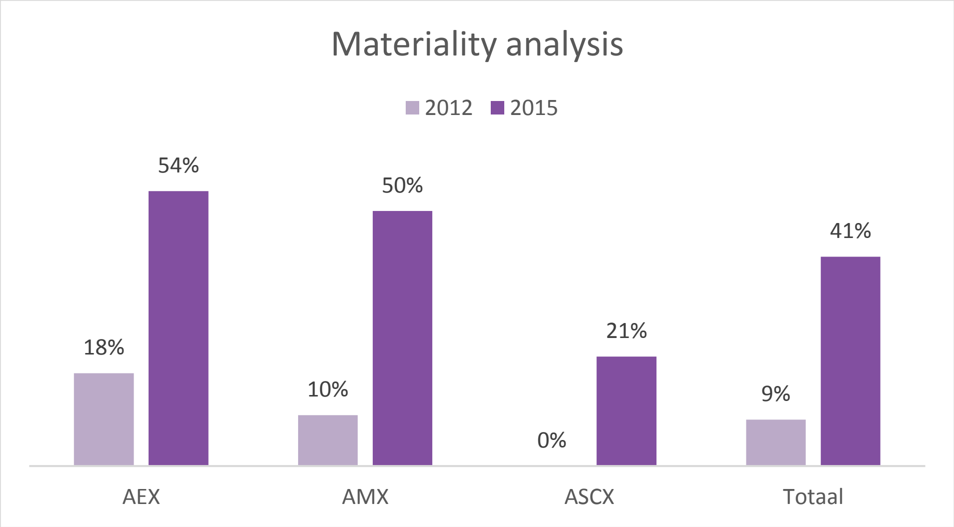
Good practice 2 in Appendix 2 shows the stakeholder dialogue reporting of TKH Group. In an easy-to-read way, TKH shows for each stakeholder group the nature of the relationship, the relevance for TKH, the aimed-for results and expectations and the form of communication used.

The stakeholder dialogue is also important for the identification of the material issues that substantially affect the company's ability to create value, which have to be reported.

The information reported has to be relevant for the stakeholders. This can be determined by means of a materiality analysis. Here it is important that information is correct and complete and that it meets the needs of stakeholders.

Regarding the materiality analysis, we see that many more companies are including a materiality matrix in their reporting than in 2012. A materiality matrix is a means of presenting the issues that are material to a company in visual form, and is actually the result of the materiality analysis. Here too, the companies in the AEX and AMX indices are taking the lead, see figure 3.3.

Figure 3.3: % of companies reporting a materiality analysis



Good practice 3 in Appendix 2 shows the materiality matrix of DSM. This matrix sets the identified relevant financial, environmental and social issues against stakeholder wishes and the impact on the business operation. The issues are also explained in more detail.

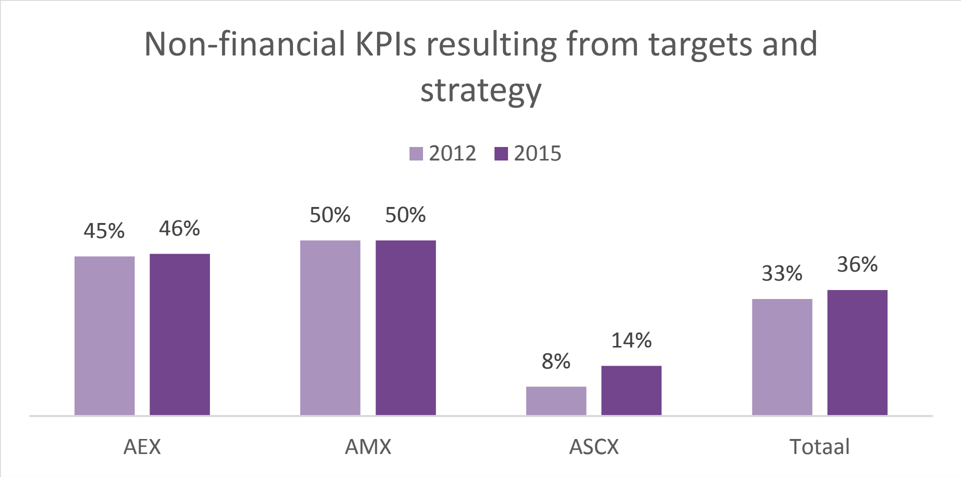
3.7 Translating strategy into targets and relevant KPIs is still difficult

The targets arising from the strategy have to be quantified in KPIs, so that performance is measurable and comparable with previous periods and other companies as well. It also shows how successful the company has been in implementing its strategy.

Translating strategy into financial and non-financial targets and KPIs and reporting on this continues to be a problem for companies. Users consider this to be important, since it enables them to make a good assessment of company performance. Figure 3.4 shows that more than a third of the companies quantify their strategy in non-financial KPIs. With scores around 50%, the companies in the AEX and AMX are doing much better than the companies in the AScX. We see a slight increase compared to 2012. The AFM calls on companies to make further progress in this respect.

Companies are having difficulty with quantifying non-financial targets. The interviews reveal that the quality of non-financial data is not adequate for reporting purposes in some cases. Non-financial data are also sometimes difficult to collect. This makes it difficult for companies to report on this. Some stated that detailed internal KPIs are available, but that they are not suitable for external publication due to their limited reliability.

Figure 3.4: % of companies reporting non-financial KPIs



3.8 Limited scrutiny by the statutory auditor of non-financial information

Having reported information reviewed or audited by an auditor can provide assurance with respect to its reliability.

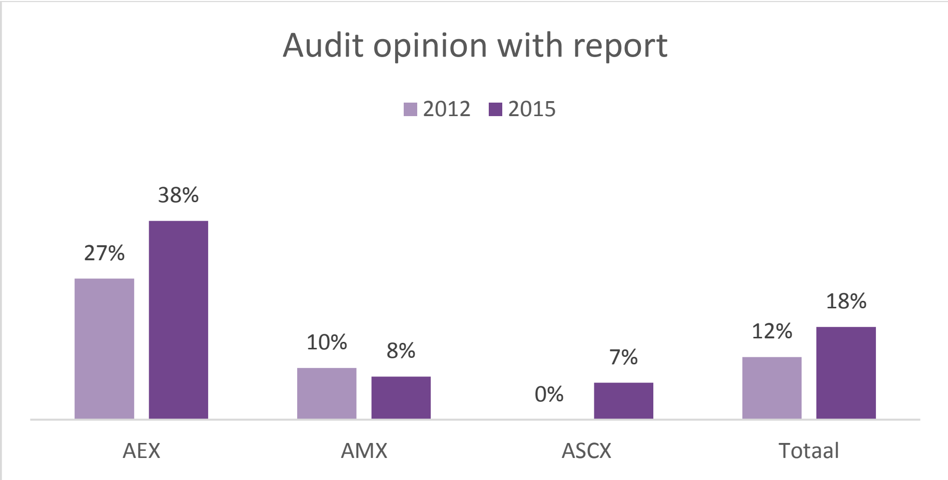
Around one fifth of the companies have assurance regarding their non-financial information provided by an auditor, see figure 3.5. Most of these companies are in the AEX index. In 2012, 12% of the companies had their non-financial information reviewed by an auditor. In one case, the non-financial information was audited by the auditor. The other cases involve a review, or negative assurance. In all cases, the 3810N standard for assurance engagements[19] relating to sustainability reports is applied as the norm by the auditor.

The interviews revealed that one company that has its non-financial information reviewed is considering having this audited by an auditor. The companies that do not have their non-financial information reviewed by an auditor stated that they were not planning to do so in the near future. Some stated that they would not have their non-financial information audited because there was no pressure on them from stakeholders to take on this additional work. Others mentioned the cost involved, the fact that non-financial data could not be audited and the lack of an adequate internal control model for non-financial data as reasons.

[19] https://www.nba.nl/HRAweb/HRA1/201405/4646.html. Further Regulations on Auditing and Other Standards (Nadere voorschriften controle- en overige standaarden, or NV COS) are established in the Accountancy Regulations Manual (Handleiding Regelgeving Accountancy, or HRA), in force since 1 January 2015. These can be consulted at www.nba.nl.

The provision of a certain degree of assurance regarding non-financial information raises a number of questions, such as what degree of assurance is necessary for users. There is also the question of whether in the current situation the parties are in a position to provide this degree of assurance. Lastly, there is the question of whether auditors should normally provide this assurance or whether other parties could also do this.

Figure 3.5: % of companies whose non-financial information is provided with an auditor's statement



4. Risk paragraph

Summary

We note that companies have made progress with respect to the risk paragraph. Most of the companies made a number of improvements to their risk paragraphs after 2013, varying from changes to the structure to the addition of new elements such as the risk appetite. A large number of the companies now disclose their risk appetite and a number of them are looking at how risk appetite can best be disclosed in the management report. The quantification of risks and the inclusion of sensitivity analyses with respect to risks is another area of development. The AFM recognises that reporting sensitivity analyses with respect to major risks is complex and potentially competition-sensitive, but it recommends that companies should provide a sensitivity analysis since such analyses are relevant to the users. Without this relevant information, users have to make their own assumptions and will infer that the management is not sufficiently aware of it or does not wish to provide it. The description of the evaluation of the operation of the risk management system has improved. Reporting is increasingly provided on major failings, significant changes and scheduled improvements.

Appendix 3 lists a number of good practices in relation to the risk paragraph.

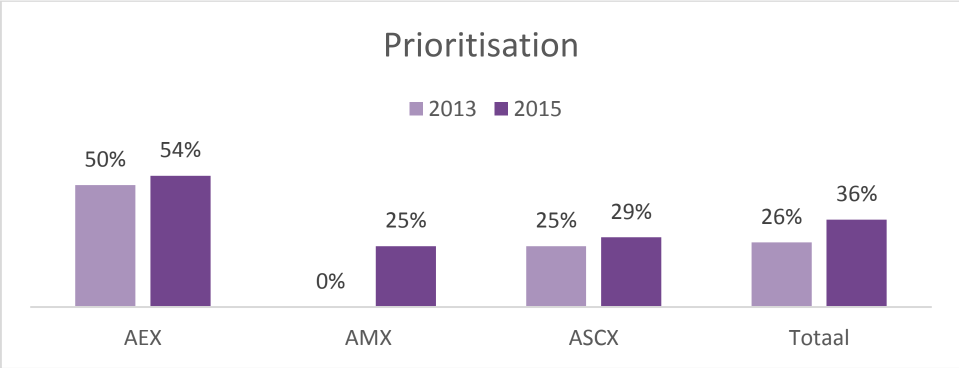
The following paragraphs deal with the review results.

4.1 Companies focus on the major risks. Prioritisation is still difficult

Under Section 2:391 (1) of the Dutch Civil Code, companies have to include a description of the principal risks and uncertainties facing them in their management report. This statutory requirement is elaborated in the Guidelines issued by the Dutch Accounting Standard Board (RJ 400.110a). This does not have to be an exhaustive description of every possible risk and uncertainty; it should be a selection and representation of the major risks and uncertainties that the company faces.

Almost all the companies reviewed focus on the principal risks. Only two companies gave an exhaustive account of all potential risks (more than 30 in number). Most companies describe between 10 and 15 risks, and most of them divide the principal risks into categories.
A limited number of principal risks are then identified in each category (in most cases, between two and four risks per category). Nearly 40% of the companies have taken things further by prioritising the principal risks, see figure 4.1. The AEX companies are the forerunners in this respect.

Figure 4.1: % of companies that prioritise risks



The interviews revealed that many companies have difficulty with prioritising risks. The reasons cited included the following:

- In a situation where only a limited number of risks are stated in each category, further prioritisation is difficult. The principal risks in each risk category are usually stated first, without any explicit prioritisation.
- Prioritisation is applied internally but not externally, since companies find it difficult to communicate their prioritisation externally. Risks develop through the course of the year, and risks that may be low on the list at the beginning of the year may become more pressing at a later stage.
- Risk management is not managed on a top-down basis; it is embedded in all the layers of the organisation, depending on the region and the business concerned. Aggregation at group level involves estimation. According to the companies, this makes it difficult to prioritise risks.

A number of companies stated that while the major risks are not explicitly stated, risks are described in order of importance, beginning with the strategic risks. In the opinion of the AFM, the company does not have to limit itself to listing its top 5 risks (for example), since this may lead to information on significant other risks being lost. To avoid this, the principal risks could be shown in a different way: they could be put in front, listed in order of importance or printed in bold type. Also, in cases where companies do not explicitly state their major risks but list them in order of importance, the AFM recommends that the sequence should also be explicitly stated.

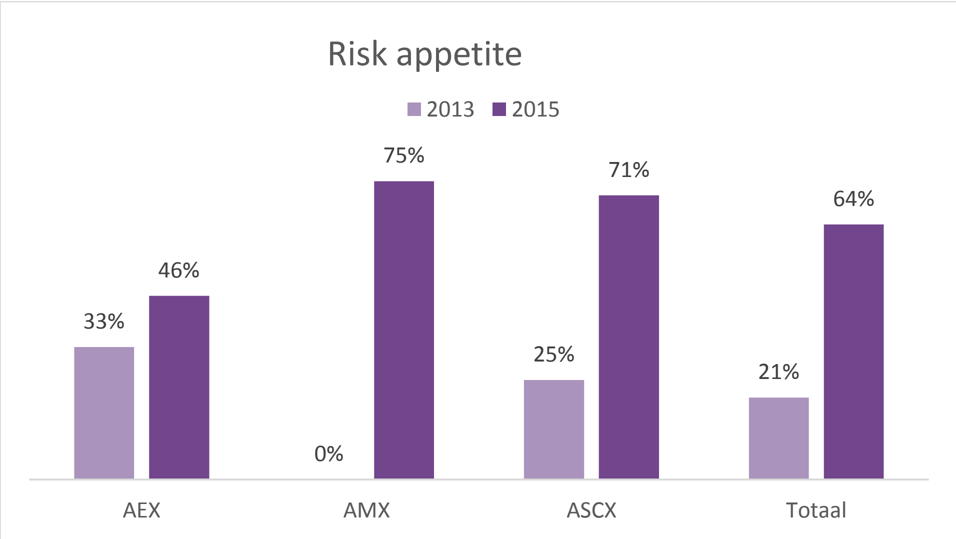
Good practice 4 in Appendix 3 regarding good practices for the risk paragraph concerns the top risks of DSM. DSM has identified its four most important risks and also provides an indication of their financial impact. Good practice 4 by DSM also provides a visual overview to clearly represent its risk appetite. See paragraph 4.2.

4.2 The disclosure of risk appetite has greatly improved

Companies have to devote attention to their risk appetite pursuant to RJ 400.110c and BP II.1.4 of the Corporate Governance Code[20]. The extent to which companies are prepared to assume risks is very important information for users. It shows the degree of risk a company is prepared to take in order to achieve its goals. The degree of risk appetite is also a guide as to whether or not measures should be taken to manage risks and uncertainties.

The disclosure of the risk appetite has greatly improved. Figure 4.2 shows that 64% of the companies provided a disclosure of their risk appetite in 2015. Most of the companies catching up in this respect are in the AMX and AScX indices.

Figure 4.2: % of companies describing their risk appetite



During the interviews, the companies gave several reasons for including a description of their risk appetite:

- The publication of the AFM report devoting attention to risk appetite in 2014.
- In some cases due to rotation of the auditor, the statutory auditor has drawn the attention of companies to the disclosure of their risk appetite.
- Increasing awareness that risk appetite is an important element of risk management. This process begins with the question of how much risk does the company consider to be acceptable.

[20] http://www.commissiecorporategovernance.nl/dutch-corporate-governance-code

Among the companies that do not yet describe their risk appetite, some of them stated that they were currently engaged in deciding how best to disclose their risk appetite. The interviews also revealed that a number of companies are still debating whether or not to include this item and what form it should take. The following issues are involved from the company's point of view:

- Stating the risk appetite raises all kinds of questions and can also be competition-sensitive. Companies are thus cautious in this respect.
- The risk appetite will not be published, since not every stakeholder has adequate context in order to be able to interpret this information properly. For this reason, some companies prefer to omit this information.
- Risk appetite is difficult to define in practice and, according to them, adds little value for stakeholders.

The AFM concludes that companies are rapidly increasing the reporting of their risk appetite and that some of them are engaged in deciding how risk appetite can best be disclosed. The AFM recommends that companies disclose their risk appetite because of the relevance of this item for investors and other stakeholders. In addition, companies are obliged to devote attention to their risk appetite pursuant to RJ 400.110c and BP II.1.4 of the Corporate Governance Code.

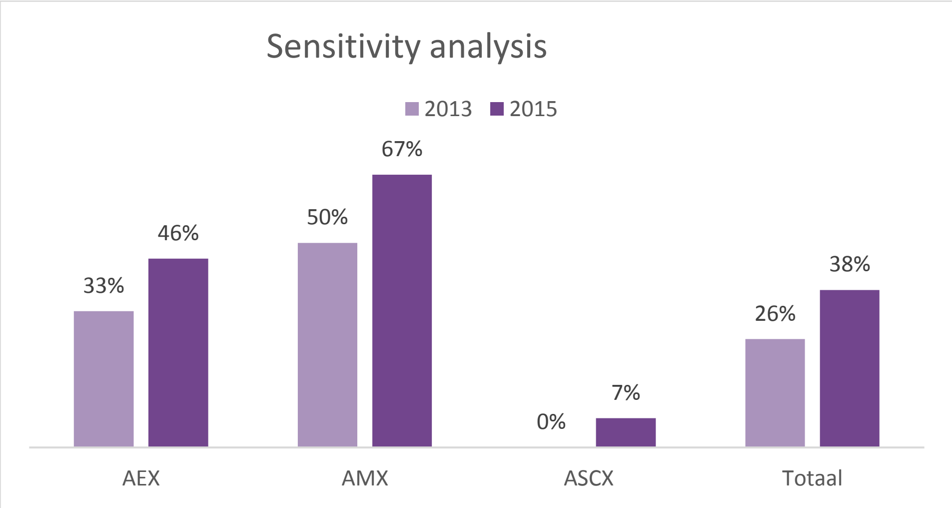
Good practice 5 in Appendix 3 concerns the management report by Corbion. Corbion states its risk appetite for each risk category and also states how risk appetite is addressed internally.

4.3 The quantification of risks and the inclusion of a sensitivity analysis are under development

According to BP II.1.4 of the Corporate Governance Code and RJ 400.110c, companies have to describe the expected impact on their result and/or financial position if one or more of the principal risks and uncertainties were to occur, as far as possible based on a sensitivity analysis. Our review did not include the sensitivity analyses provided based on IFRS 7[21]. Figure 4.3 shows that there is a slight improvement regarding this item. The main improvement is among the AMX and AEX companies. The AScX companies are clearly lagging.

[21] We did include consideration of IFRS 7 in the case of financial institutions. This concerns sensitivity analyses for currency risk, interest rate risk and other price risks.

Figure 4.3: % of companies including a sensitivity analysis



The following points were mentioned in the interviews:

- Scenario analyses are available and risks are quantified internally. This however uses assumptions and views at a very high level. In addition, analyses are time-bound. This means that an internal sensitivity analysis is not reliable enough to be included in the risk paragraph.
- Risks are quantified internally, but are not disclosed in quantified form in the risk paragraph for competitive reasons.
- Companies also have difficulty in providing a sensitivity analysis for risk categories, such as strategic and operational risks. This particularly applies to companies operating globally with a range of products. Some also doubted whether such analysis was actually useful.
- A number of companies were studying how sensitivity analyses could be included in the future, either together with an external consultant or independently.

The AFM recognises that reporting sensitivity analyses is complex and may be competition-sensitive, but recommends that companies should provide a sensitivity analysis. These analyses are relevant to users, as they make the effect of principal risks visible to users. Without this relevant information, users have to make their own assumptions and will infer that the management is not sufficiently aware of it or does not wish to provide it.

Good practice 6 in Appendix 3 originates from Fugro. In addition to a sensitivity analysis for financial risks, Fugro also discloses its sensitivity with respect to strategic and operational risks.

4.4 The description of the evaluation of the operation of the risk management system has improved, but further progress is needed

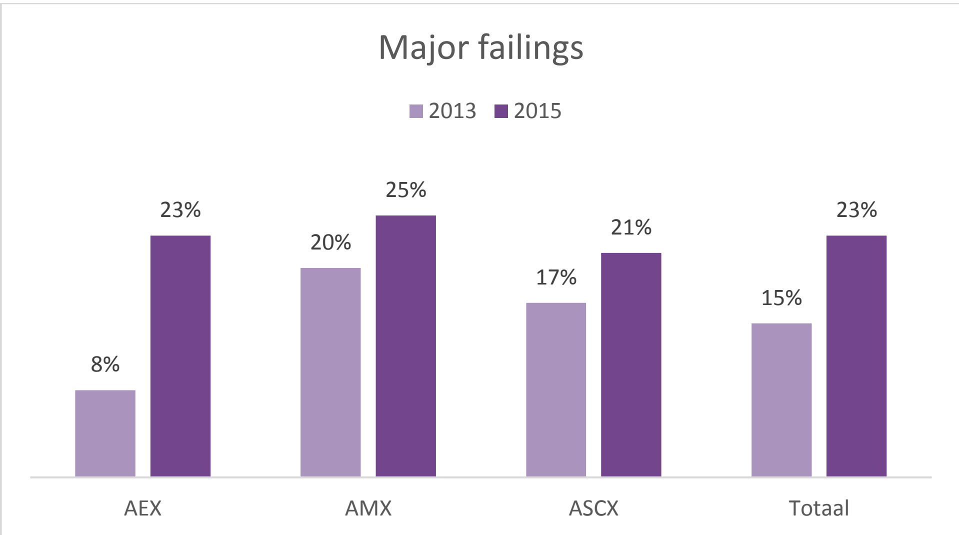
Under BP II.1.4b of the Corporate Governance Code, the management must assess the design and operation of, and any major changes to, the internal risk management and control systems at least once a year. The management report must include a description of the design and operation, deficiencies, significant improvements and planned changes. RJ 400.110c states that companies must state whether, and if so which, improvements to the risk management system have or will be made by the company.

Two companies stated that they could not conclude that their risk management and control systems had operated satisfactorily in 2015. Looking at the reporting of deficiencies and significant changes and/or improvements made, we see that there has been some progress, but further progress is possible as shown in the following paragraphs.

4.4.1 Major failings in risk management systems

Figure 4.4 shows that 23% of the companies reported on whether they had identified major failings in their systems during the financial year. Most of the companies in this group describe the deficiencies in question. The remainder state that there were no deficiencies. The interviews with the companies revealed that there had been no deficiencies in most of the cases in which no statement was provided regarding major failings. However, this was not stated as such. If there are no major failings, we recommend that this should be explicitly stated so that it is clear that there are no deficiencies.

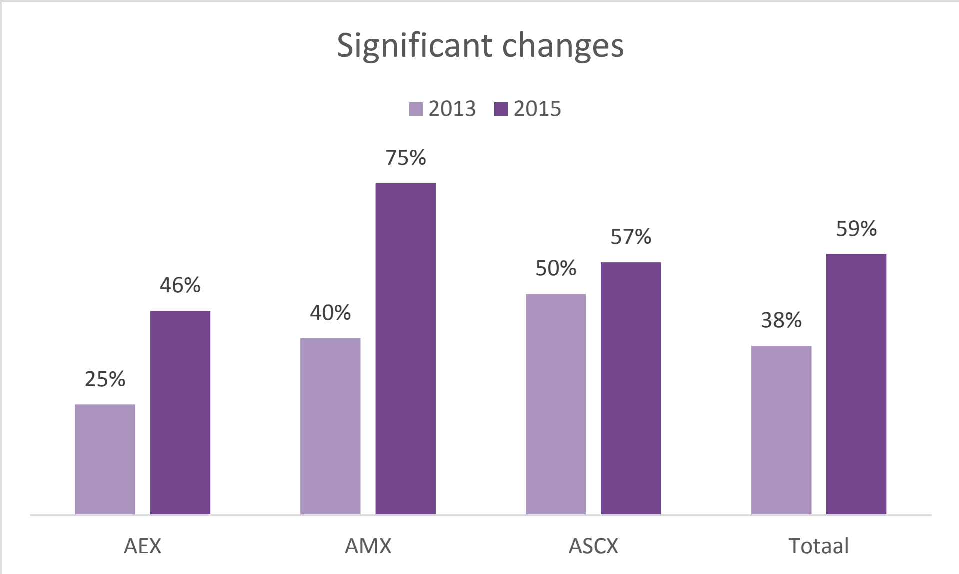
Figure 4.4: % of companies reporting on major failings



4.4.2 Significant changes to risk management systems

As shown in figure 4.5, an increasing number of companies report on significant changes made to their risk management systems. In the case of some companies that did not report on changes, the interviews revealed that there had in many cases been changes and amendments during the year but that these were not considered to be significant in the view of the companies concerned.

Figure 4.5: % of companies reporting significant changes



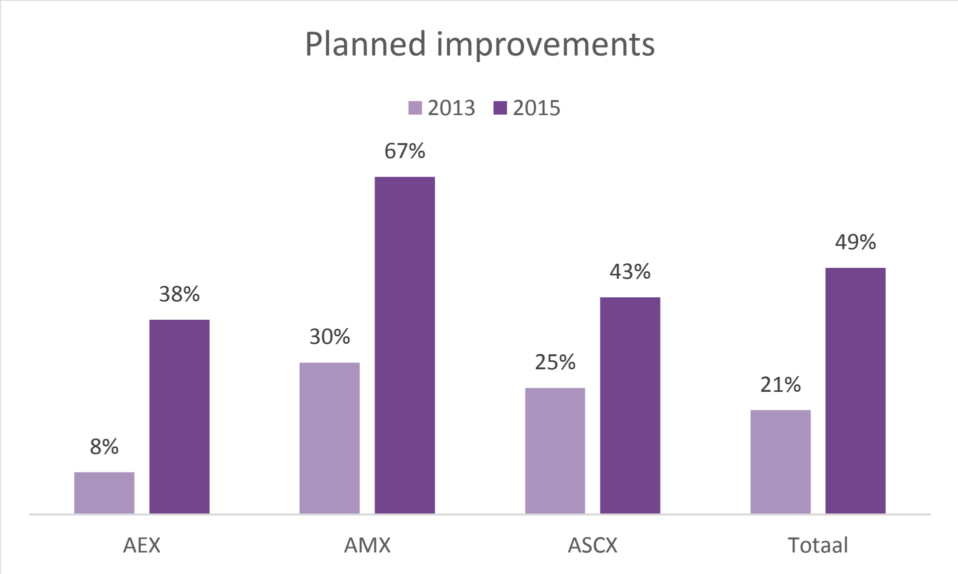
The environment, the risk profile and the risk trend of the company may change to some extent each year. The systems may also therefore change as well. Although such changes are not always significant, reporting on this may be relevant to users.

Good practice 7 in Appendix 3 comes from TMG and deals with a number of changes made during the financial year.

4.4.3 Planned improvements to risk management systems

We also see good progress with respect to reporting on planned improvements, see figure 4.6. Nearly half of the companies reviewed described the improvements they were planning to introduce. The picture is most positive among the AMX companies. In the interviews, a number of companies stated they were planning to devote more attention to the reporting of planned improvements. A number of companies cited their planned improvements designed to limit the effects of cyber crime in this context.

Figure 4.6: % of companies reporting on planned improvements



Good practice 8 in Appendix 3 comes from Heijmans and concerns planned improvements. In addition to an evaluation of its risk management system and the measures introduced in 2015, Heijmans provides an overview focusing on its measures and actions for 2016.

5. Scope and quality of disclosures

Summary

The review of the scope and quality of the disclosures revealed a mixed picture. From the interviews, it emerged that a large number of the companies had made changes to their disclosures in the context of the regular process of preparation of the financial statements. Some companies had however gone further and made changes to the design and structure of their disclosure. A few companies stated that they had not addressed the scope and quality of their disclosures or that they planned to do so in the near future. The AFM calls on companies to follow the 'Disclosure Initiative' and the 'Better Communication' theme of the IASB and to use the results of these projects to further increase the quality and limit the scope of disclosures in the financial statements in the coming years. The upcoming introduction of a number of new and important IFRS on financial instruments (IFRS 9), revenue recognition (IFRS 15) and leases (IFRS 16) can be used by companies for this purpose. The AFM notes that it has remarked in the past that when new IFRS come into effect and/or existing standards are amended, the reporting standards are frequently not applied correctly. Our reviews of the financial reporting of listed companies have previously identified problems in the application and disclosure of these new and/or amended standards, and therefore this matter requires additional attention by the companies and their statutory auditors.

Appendix 4 includes a number of good practices in relation to disclosures.

After the introduction and a description of the national and international developments, this section deals with the review results in more detail, starting with paragraph 5.3.

5.1 Introduction

As stated previously, the AFM carried out an exploratory review of the scope and quality of disclosures in 2014. This gave the AFM insight into the opinions of companies, auditors and users on this issue. In its 'In Balance 2015' report, the AFM noted that various companies such as TomTom and Vopak had responded to the AFM's call for improvement to quality of their disclosures in the financial reporting for 2014.

5.2 International developments

Attention to the scope and quality of disclosures has increased around the world in recent years. On 27 October 2015, ESMA published its public statement 'Improving the quality of disclosures in the financial statements'[22]. ESMA also devoted attention to the importance of effective communication in its supervisory priorities for the financial reporting for 2016, which it published on 28 October 2016[23].

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[22] https://www.esma.europa.eu/sites/default/files/library/2015/11/2015-1607_press_release_-_improve_quality_of_disclosures_in_financial_statements.pdf

[23] https://www.esma.europa.eu/sites/default/files/library/esma-2016-1528_european_common_enforcement_priorities_for_2016.pdf

In its public statement of 27 October 2015, ESMA called on companies to observe a number of principles in the preparation of their financial reporting. ESMA's intention is to improve the quality of the disclosures in financial statements prepared according to IFRS. Like the AFM, ESMA stresses that it is crucial that the company tells its own story and that the relevant information in financial statements is presented in an accessible and readable way. In this context, it is important that companies take materiality aspects into consideration. Finally, the information in other documents such as the management report must be consistent with the information in the financial statements.

The IASB has recently stated that it will focus on the theme of 'Better Communication' in the next five years[24]. The aim of this theme is to make the financial statements a more effective means of communication.

The IASB's 'Better Communication' theme consists of a number of projects, such as the 'Disclosure Initiative', 'Primary Financial Statements' and 'IFRS Taxonomy'.

Disclosure Initiative

The 'Disclosure Initiative' aims to improve the quality of disclosures. In this context, the IASB issued its exposure draft 'Practice Statement Application of Materiality on Financial Statements' in October 2015, in which it puts forward proposals to provide better support to companies in their assessment of whether information is material or not. The IASB is currently analysing the responses from the consultation process. The IASB hopes to make a decision regarding the direction of this project by the end of 2016. The IASB also expects to publish a Discussion Paper designed to establish a set of principles for disclosures in the financial statements in the first half of 2017.

The IASB published the amendments to IAS 1 'Presentation of Financial Statements' in December 2014. The amendments emphasise the importance of correct application of the materiality principle and among other things concern the disclosure of the accounting policies, the presentation of sub-totals and the structure of the disclosure. The amendments apply to financial years starting on or after 1 January 2016. Early application was permitted.

In addition to the amendments to IAS 1, the IASB's 'Disclosure Initiative' published in January 2016 included amendments to IAS 7 'Statement of Cash Flows'. These amendments require disclosure of changes in obligations arising from financing activities. Changes in these obligations resulting from both cash flows and non-cash flows have to be disclosed. The amendments apply to financial years starting on or after 1 January 2017.

[24]See the IASB press release of 30 June 2016 'IASB® Chairman to prioritise communication effectiveness of financial statements during second term'
http://www.ifrs.org/Features/Documents/2016/Zurich_Conference_PR_June_2016.pdf

Other projects

The ‘Primary Financial Statements’ project is currently still in the analysis phase. Additionally, the ‘IFRS Taxonomy’ project concerns the improvement of IFRS taxonomy and electronic reporting.

The AFM calls on companies to follow the ‘Disclosure Initiative’ and the ‘Better Communication’ theme of the IASB and to use the results of these projects to further increase the quality and limit the scope of disclosures in the financial statements in the coming years. A number of new standards will also come into effect in the coming years. The first application of IFRS 9 ‘Financial Instruments’ in 2018, IFRS 15 ‘Revenue Recognition’ in 2018 and IFRS 16 ‘Leases’ in 2019 can in the opinion of the AFM be used by companies to take a critical look at their accounting policies and other disclosures.

5.3 General observations

The review revealed that one company had applied the change to IAS 1 as a result of the ‘Disclosure Initiative’ early. This company referred to the presentational changes it had made in 2014 in this respect.

The interviews revealed that there is sometimes a conflict between only disclosing items that are relevant and complying with legislation and regulation. Some of the companies stated that they were looking for a dialogue and that the statutory auditor in their view had taken a constructive attitude, while others stated in the interviews that they thought the statutory auditor had focused primarily on compliance.

The AFM thinks that a dialogue between companies and their statutory auditors is a good thing, because it helps companies to include relevant and company-specific information in their financial statements and remove information that is not material.

In response to the question of whether investors asked questions regarding the scope and quality of disclosures, a few companies said the questions they had received mostly concerned specific disclosures in the financial statements.

5.4 A limited number of companies had made changes to the design and structure of their disclosures

Five companies had made changes to the design and structure of their disclosures. They had moved the description of some of their accounting policies and in some cases also the main judgements and sources of estimation uncertainties used in the financial statements to the disclosures relating to the balance sheet items. Two companies had also structured their disclosures in thematic form. In the interviews we conducted with these companies, most of them stated that they had taken the initiative in this respect and that their main motivation was to make the disclosures more concise, relevant and readable. One company also said that this had led to the removal of irrelevant accounting policies.

Most of the companies had not made any changes to the structure. The following reasons for not changing the structure were cited in the interviews:

- Consistency: some companies had intentionally not changed the structure in order to retain consistency in the reporting from one year to the next.
- Added value: some companies had considered changing the structure, but they did not see that this would add value.
- Scope of the financial statements: the inclusion of accounting policies in the relevant disclosures would lead to lengthier financial statements, since accounting policies applied to multiple disclosures and these companies did not consider this to be desirable.

The AFM's view is that it is a good thing for companies to check regularly whether a change to the structure would be appropriate in order to make the disclosures more concise, relevant and readable (see also paragraph 5.5). Appendix 4 contains the following three good practices regarding changes to the structure of the disclosures:

- Good practice 9 shows that PostNL provides a convenient framework at the beginning of the section 'Result for the year' to explain the content of this section. The disclosure of revenue includes a statement of the accounting policies and numerical information is also provided.
- Good practice 10 comes from RELX. RELX has added the main judgements and estimates used in the financial statements to specific disclosures. The example concerns the disclosure of pensions in which the main sources of estimation uncertainties are stated.
- Good practice 11 shows that TomTom has divided its disclosures into six sections. This is shown in the contents.

5.5 A few companies stated that they had not addressed the scope and quality of their disclosures or that they planned to do so in the near future

The interviews revealed that a very few companies had not addressed the scope and quality of their disclosures or that they planned to do so in the near future.

During the interviews, the companies stated that they looked at their accounting policies and disclosures each year as part of the normal process of preparation of the financial statements. Most of the companies had made changes during the past two years as a result of this process. Some examples:

- Improving readability: changes to the design and structure (see paragraph 5.4) or the presentation of figures in a table instead of text.
- The inclusion of more relevant (company-specific) information: additions to specific disclosures such as inventory and segmentation of revenue.
- The removal of immaterial information: the removal of disclosures as a result of the disposal of business divisions and the limiting of certain disclosures on the basis of materiality.

The AFM takes the view that the financial statements have to be adjusted in line with changes to facts and circumstances. In addition, we wish to call on companies to take another fresh look to establish whether the information that is repeated every year in the financial statements is company-specific and relevant and a suitable basis on which investors can make decisions.

More than a quarter of the companies stated during the interviews that they were addressing the scope and quality of their disclosures in the current financial year in addition to their normal processes or that they intended to do so in the coming years (either in phases or not). This concerned for instance the removal of standard texts, the reformulation of the accounting policies and looking at certain disclosures that the company considered to be too lengthy. Some companies stated that they would be looking at their disclosures as a result of the mandatory rotation of the statutory auditor, or that they would take the opportunity of the rotation to do so and that they would discuss the disclosures that, in their opinion, were too lengthy with their new statutory auditor.

Standard texts that reappear without change in the financial statements year after year offer less valuable information to users of the financial statements. The accounting policies would appear to be a good example of this. The review shows that a couple of companies have made their accounting policies more relevant to users by adopting a different content or structure of their accounting policies. These companies have specifically stated the option they have chosen in cases where options are available within IFRS. Or, in the description of their accounting policies they have stated the policies that are most relevant to the company.

Good practice 12 in Appendix 4 concerns NN Group and shows that the accounting policies are divided into critical policies and general policies. In its critical accounting policies, NN Group has listed the policies that are most relevant to its operations and for understanding its results, while the other important policies are listed in the general section.

Appendix 1 Objectives, review and population

1.1 Objectives

This review contributes to the long-term objective that all companies continue to report relevant information. This will be supported if companies (i) apply integrated reporting to a greater extent and ii) prepare financial statements and a risk paragraph that is more readable, more accessible and more company-specific. Integrated reporting, the risk paragraph in the management report and the disclosures in the financial statements will thus become more relevant and better meet the wishes of investors. We hope the findings of this review will encourage companies to make further progress in these areas and continue to devote attention to them. By talking to companies, we aim to raise awareness so that these items become and remain part of their agenda. The AFM also contributes to the discussions on these issues in international forums, so that supervisors and standard setters recognise their importance and can fulfil their role now and in the future.

1.2 The review

The review has two elements: quick scans of the financial reporting and interviews with companies. The review findings are based on the quick scans and the interviews.

1.2.1 Quick scans of the financial reporting

We have carried out a quick scan of the 2015 financial reporting of the 39 selected companies (see paragraph 1.3) and compared this with the financial reporting for 2012 (integrated reporting) and 2013 (the risk paragraph and disclosures) of the companies concerned. A quick scan means that we have assessed a number of specific elements for each of the three items. We have not assessed the financial reporting as a whole. Separately published sustainability reports were not included in the review of the integrated reporting element[25].

1.2.2 Interviews with companies

Telephone or personal interviews were conducted using a questionnaire with 35 of the 39 selected companies to establish whether the items were on the agenda and to establish the extent to which companies were making progress with respect to these items. It was not possible to hold an interview with four companies during the review period.

[25] See paragraph 3.4.

1.3 Population

We selected companies in the AEX, AMX and AScX indices whose 2015 financial reporting was subject to supervision by the AFM as the review population, since these companies have the largest trading volume on Euronext Amsterdam and therefore have the greatest market impact in the Netherlands. This concerns 63[26] companies with a total market capitalisation of around €400 billion as at 31 December 2015.

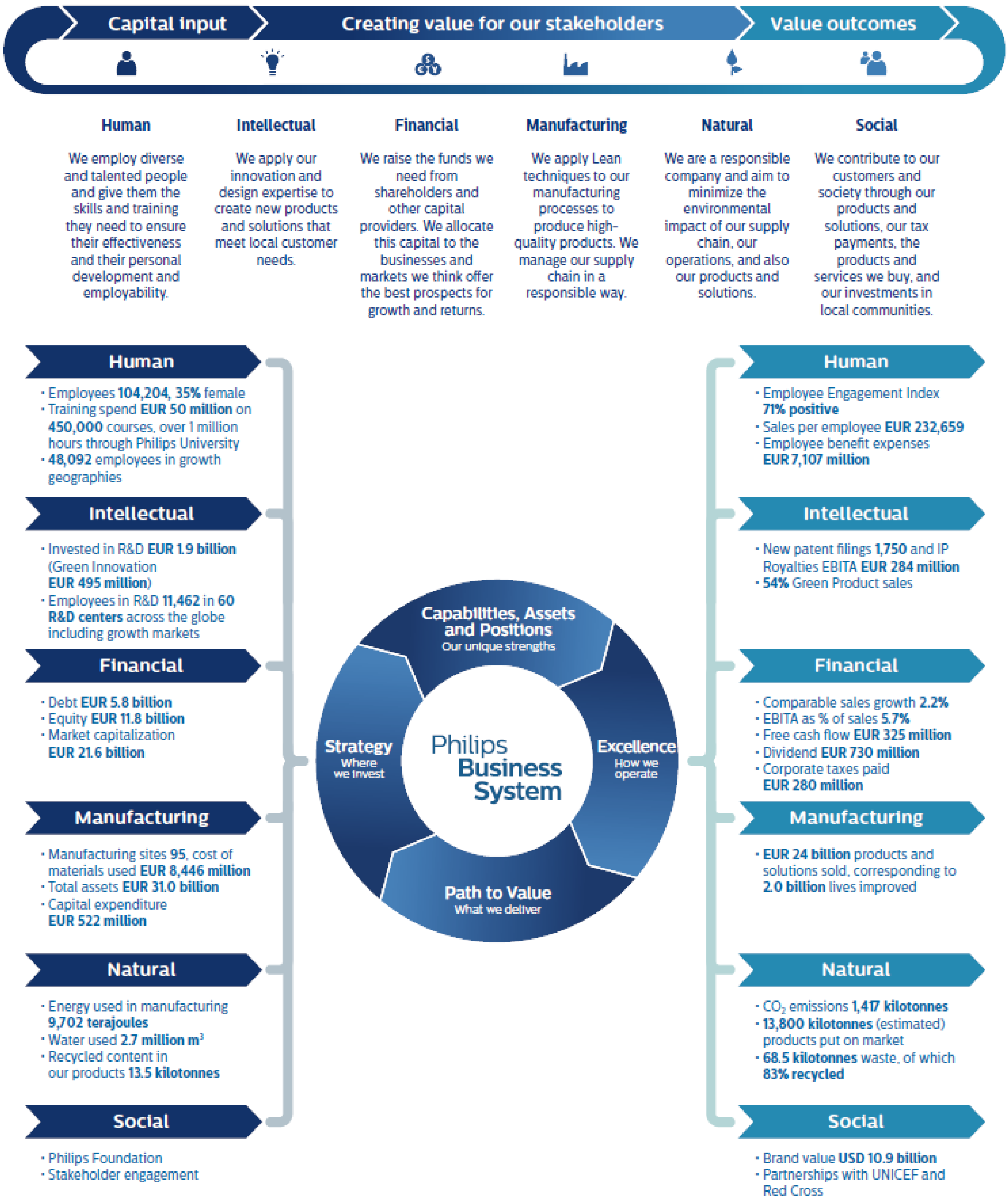
39 companies are selected in order to obtain a representative sample of this group of 63 companies. These 39 companies were randomly selected and proportionally spread across the indices. The review population included 13 companies in the AEX, 12 in the AMX and 14 in the AScX. The financial reporting for 2013 and 2012 of 5 and 6 of the selected companies respectively was not included in the review, since these companies were not subject to supervision at that time. Only the financial reporting for 2015 for these companies was assessed. This means that the review findings with respect to the 2013 and 2012 financial reporting are not representative of the population as a whole in these years.

[26] Two companies were delisted in 2016 and were therefore not included in the population.

Appendix 2 Good practices Integrated Reporting

The AFM hopes that companies will be inspired by the following good practices to make further improvements. The good practices should not be seen as a standard or as the only correct formulation. Other formulations are also possible.

Good practice 1: The value creation model (Koninklijke Philips N.V., financial reporting 2015 page 13):



Good practice 2: Reporting on stakeholder dialogue (TKH Group N.V., financial reporting 2015 pages 24-25):

Our stakeholders

Our stakeholders are those groups and individuals who directly or indirectly influence the activities of TKH and its subsidiaries, or who are themselves influenced by these. Our strategic stakeholders include our employees, customers, suppliers, analysts, shareholders and other investors. Also government bodies, educational and research institutions, organizations of civil society and trade associations (including NGOs).

In the context of our business operations and based on our position in the supply chain, we are in regular dialogue with our stakeholders. This allows us to share and check our vision, our strategy and our expectations with them, with a view to further tighten up these aspects in our business operations. When conducting stakeholder dialogues we often work together with our subsidiaries when its concerns customers, suppliers or employees.

Stakeholders dialogue

	Relevance for TKH	Relevance for the stakeholder/ most important expectations	Intended result of the dialogue
Employees	Employees are crucially important for the success of TKH. They are the ambassadors of the business and our most important social capital.	Good employment practices. Development opportunities and a good package of employee benefits. A safe and healthy working environment.	• Motivating and enthusing our employees. • Increasing involvement. • Entrepreneurship and development opportunities.
Customers	Buy products and services. Develop sustainable package of products and services by means of co-operation.	Offer products and services for the right price/quality ratio, which meet the demand and where the focus is on the interests of the customer. Good ROI.	• Customer loyalty. • Translating customer needs into products, systems and (total) solutions. • Chain approach.
Suppliers	Supply of services and products for our business operations.	Fair and good business practices and payment at market rates.	• Sustainable product development. • Chain initiatives.
Shareholders	Investment through shareholding in TKH that strengthens our capital position.	Good return on investment with good dividend policy and value creation.	• Communication on (strategic) developments. • Continuation of confidence and involvement.
Analysts	On the basis of analysis and research, prepare profiles and ratings on the basis of which the investor can make a selection for his investments.	Transparent communication about developments.	• Optimal image of our company.
Banks	Financial services provider enabling TKH, among other things, to realize its growth ambitions.	Creditworthy enterprise that is correctly balancing risks against returns and complies with contractual agreements.	• Communication about (strategic) developments, investments and possible business risks.
Government bodies	Acting as initiator, facilitator of (chain) projects and driver of sustainable solutions.	Strengthen the economic attractiveness in the region with respect to business location and employment. Chain initiatives with a significant contribution to sustainability.	• Regional and national involvement with mutual interests with respect to continuity.
Academic and research institutions	Influx of new talent in order to compensate for a shortage of technical personnel.	Providing a challenging work environment with ample development opportunities. Providing traineeships - gaining work experience.	• Filling vacancies. • Development opportunities.
Organizations of civil society and trade associations (including NGOs)	Possesses an extensive network and knowledge of the positions in the supply chain. Expertise on specific sectors.	Thinking about and initiating partnerships.	• Developing knowledge sharing and supply chain initiatives.

Means of communication
• Internet / intranet. • Staff magazine. • Employee satisfaction survey. • Employee meetings. • Conferences and seminars. • Performance interviews.
• Internet. • Events, symposia and exhibitions. • Customer satisfaction survey.
• Business contacts. • Negotiations. • Code of supply & site visits.
• Internet. • Financial reports, Annual Report. • General meeting of shareholders. • Investor days.
• Internet. • Financial reports, Annual Report. • IR meetings. • Capital Market Day. • Reporting.
• Internet. • Financial reports, Annual Report. • Half-yearly discussions.
• Internet. • Network meetings and thematic meetings.
• Internet. • Exhibitions and seminars. • Social media.
• Internet. • Media coverage and reports. • Annual Report.

Good practice 3: Materiality matrix (Koninklijke DSM N.V., financial reporting 2015 page 24):

Stakeholder engagement

Taking part in strategic and proactive dialogue with key stakeholders helps DSM to deepen its insights into the drivers of its business and the needs of society across the world, and thus be ahead of competition in adjusting to changing demands.

In 2015, DSM reached out to its stakeholders – suppliers, customers, investors, employees, companies, governments, academia and civil society – to further align its strategy with their views. The company's stakeholder groups have been identified based on the influence they have on the company's operations, as well as whether they are significantly affected by them. The outcomes from the various stakeholder dialogues inform many aspects of DSM's strategy such as risk management, business opportunities, and strategic objectives and ambitions.

The continuous dialogue DSM has with its stakeholders takes place through a variety of channels. A non-exhaustive overview of the ways in which it has engaged with each stakeholder group is provided on page 29. DSM values engaging with its relevant stakeholders and maintains open discussions on topics relevant to its business activities and its role in society.

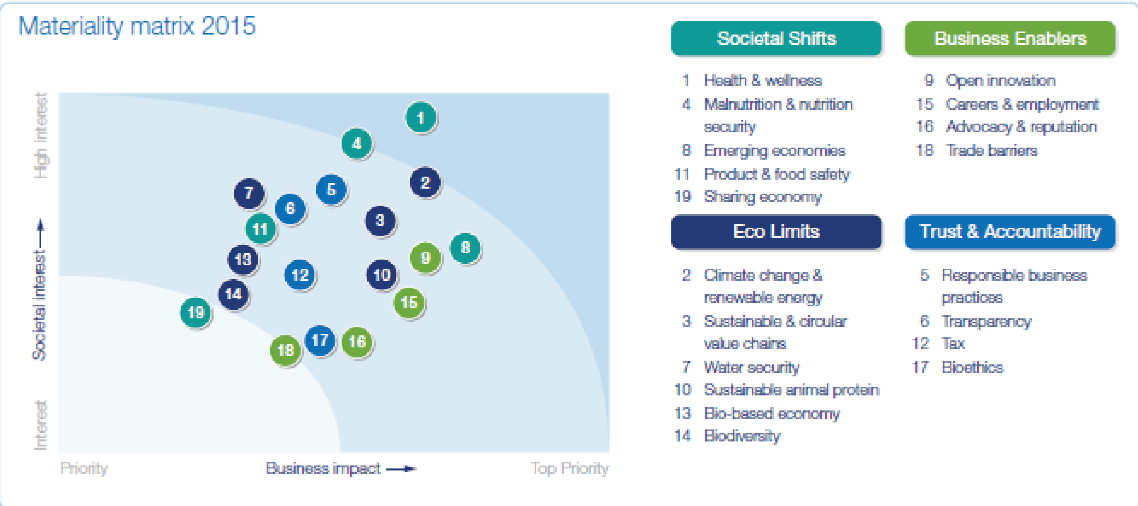
Materiality

For DSM, materiality is about identifying the People, Planet and Profit topics that are most relevant to the company's stakeholders, and plotting them against the impact they have on its business. Business impact includes social, environmental and financial impact. DSM formally introduced its first materiality matrix in 2012. Since then, it has continuously assessed whether major changes to its material topics and matrix are needed by keeping up with societal debates and engaging in dialogue with international business organizations and other relevant stakeholders. DSM conducts media research and peer analyses as part of these efforts.

In 2015, DSM refreshed its materiality matrix based on a process that included the aforementioned media and peer analysis, and identified external trends and developments relevant to DSM's external stakeholders and to the business. For the first time, DSM also aligned its materiality matrix refresh with its risk management process, and checked that risks identified in its Corporate Risk Assessment were reflected in the material topics. The topics were validated via internal stakeholder interviews, as well as a formal review process with the Sustainability Leadership Team – a group of senior managers with the role to champion sustainability within the company. The refreshed materiality matrix was signed off by the members of the Managing Board.

As a result of the materiality refresh in 2015, DSM added three new topics to its materiality matrix: Sharing economy, Responsible business practices and Transparency. The topic Human rights is now covered under Responsible business practices. Social media has been included in the management approach of the topic Advocacy & reputation. The results of the refreshed matrix highlight the ongoing, emerging and new topics that are most relevant for DSM to report to its stakeholders in 2015.

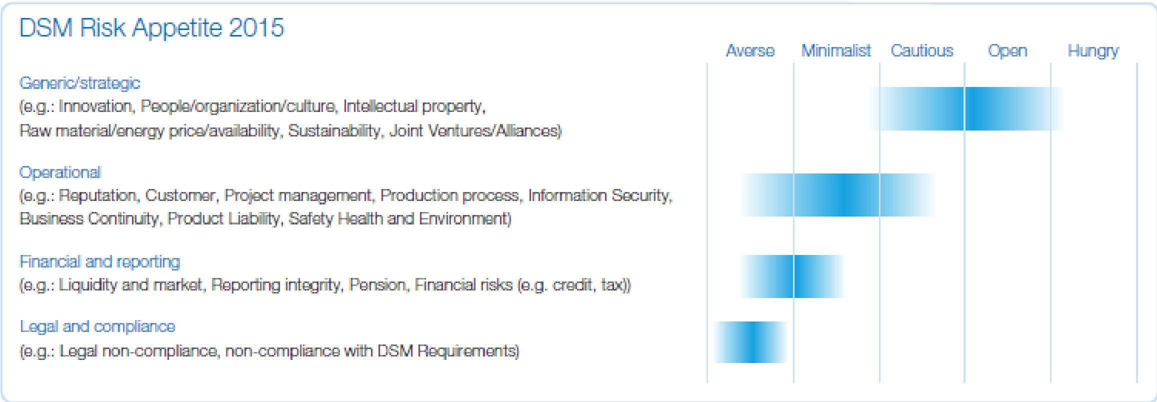
The 19 subjects have been clustered into four categories: Societal Shifts, Eco Limits, Business Enablers and Trust & Accountability. An explanation of all topics and reference to DSM's management approach are described on the next pages.



Appendix 3 Good practices Risk Paragraph

The AFM hopes that companies will be inspired by the following good practices to make further improvements. The good practices should not be seen as a standard or as the only correct formulation. Other formulations are also possible.

Good practice 4: Top risks and risk appetite (Koninklijke DSM N.V., financial reporting 2015 pages 97-99):



The company's top and emerging risks

The preliminary outcome of the CRA as performed by the Managing Board was reported to and discussed with the Audit Committee of the Supervisory Board in the meeting of 7 December 2015. This 'top-down' outcome was compared with the 'bottom-up' risks and incidents as reported by all the individual units in their LoR, as well as with the findings from the internal and external audits. This final risk profile was reported to and discussed with the Audit Committee on 15 February 2016 and forms the basis for the main risks and responses as reported on the next page.

Top risks

The table on the next page shows the four most important risks for DSM not achieving its targets as defined in Strategy 2018: *Driving Profitable Growth* and the remedial actions to mitigate them. Top risks have a potential impact on DSM's EBITDA of approximately €25 million and over.

Top risks and related mitigating actions

Description of risks	Mitigating actions
Market environment	
In 2015, DSM finalized important transformation steps, completing the creation of a streamlined and simplified business portfolio and a good platform for growth. Nonetheless the risk of facing increased competition for some product-market combinations remains.	DSM leverages its innovation power to differentiate in the value chain and secure growth. Furthermore, DSM is broadening its offering in terms of products, applications and customer base. Improved marketing and pricing management programs should contribute to enable DSM to increase the value it captures.
People, organization and culture	
DSM's capabilities in certain disciplines and the way it manages talent may not be fully at the desired level to execute its plans for above-market growth or its cost and productivity improvement programs.	DSM is adjusting its operating model and strengthened its top leadership structure to manage performance and drive the achievement of its objectives. A culture change program is on-going focused on a results-driven trust/support/can-do mindset. Moreover, DSM will implement a new talent management approach developed in 2015. DSM will improve its existing capabilities by training and attracting additional competences if required.
Global financial and economic developments	
DSM's Strategy 2018 assumed no major economic downturn with a global GDP growth-rate of 3.2%, although economic headwinds might occur. DSM assumed exchange rates versus the euro of USD 1.10 and CHF 1.08, while future currency volatilities could have a significant detrimental impact on the achievement of DSM's targets; USD 0.01 volatility in the exchange rate has almost €10 million EBITDA impact (before hedging).	The same mitigating actions apply to macro-economic developments as for risks related to the market environment. Furthermore, DSM continues to match cost and revenue currencies wherever possible, while the exchange rate risk is also reduced by DSM's acquisitions in China (Aland) and Latin America (Tortuga) which provide a measure of natural hedge with 'local for local' production. The appropriateness of the DSM hedging policy will be reviewed.
Program and project management	
Besides achieving above-market growth in the period 2016-2018, EBITDA improvements have to be generated via cost savings to be derived from globally leveraging DSM's support functions and a Nutrition-specific cost and productivity improvement program. Although DSM has well-identified initiatives with targeted overall savings of €250-300 million in EBITDA by the end of 2018, the final delivery of the program will require strong program and project management.	DSM's new way of working with its focus on Accountability (delivering the results) and Collaboration (increase speed) in combination with a new operating model and a new strengthened top structure should enable faster and better execution of the strategic cost and productivity improvement programs. Moreover, DSM continues to invest in change management, strict project management and ongoing monitoring which includes taking corrective actions where needed.

Good practice 5: Disclosure of risk appetite (Corbion N.V., financial reporting 2015 pages 31-32):

Risk management

Risk management and internal control

Corbion, with its worldwide operations in various markets and jurisdictions, needs to ensure a timely identification and effective management of all significant risks inherent to the execution of its strategy and realization of its objectives. Corbion is committed to the preservation of its reputation, assets, competitive edge, and profits through enterprise-wide risk management (ERM). ERM is the process of systematically identifying, analyzing, evaluating, and treating risks that may impact the achievement of corporate objectives. The Board of Management is responsible for the design, implementation, and operation of Corbion's risk management and internal control system. We have defined a governance model that identifies clear reporting and accountability structures in line with the Dutch corporate governance code.

Risk appetite

Our risk appetite is the amount of risk we are willing to accept to achieve our strategic goals. This requires adequate risk understanding and awareness and insight in their magnitude within the company. The level of risk appetite is set by the Board of Management. For areas that are close to or exceeding our risk appetite, involvement of both senior management and Board of Management will be required. Our risk appetite can be summarized as follows:

Risk category	Risk appetite
Strategic/market risk	Moderate to high: balancing risks and rewards to achieve our growth, innovation, and sustainability objectives
Operational risk	Low: safety issues Moderate: other areas with a focus on improving operational and functional excellence
Financial/compliance risk	Low: full compliance with legal and regulatory reporting (including financial reporting)

Good practice 6: Sensitivity analysis (Fugro N.V., financial reporting 2015 page 66):

Sensitivity analysis

	Change	Impact	On	Assumption (based on 2015 financials before exceptional items)
Revenue (volume)	+ 1%	EUR 15 million	EBITDA	Flat net revenue own services
Revenue (price)	+ 1%	EUR 24 million	EBITDA	No change to cost base
Operating expenses	+ 1%	EUR (20) million	EBITDA	No change to revenue
Vessel utilisation	+ 1%	EUR 9 million	EBITDA	Equal contract terms
Days of revenue outstanding	+ 1%	EUR 6 million	Working capital	All other conditions remaining equal
Euro versus US dollar	+ 10%	EUR (8) million [1]	Net profit	Stable revenue and margin in USD
Euro versus British pound	+ 10%	EUR 0 million	Net profit	Stable revenue and margin in GBP
Interest rate	+ 100 bp	EUR 1 million	Net profit	Average net debt 2015
Net debt	+ 100 million	EUR (2) million	Net profit	Stable interest rates

[1] Based on normalised level of profitability.

Good practice 7: Reporting on changes to the risk management system (Telegraaf Media Groep N.V., financial reporting 2015 pages 65-66):

The internal management and control system was evaluated and a number of improvements implemented:

- The risk assessments have been updated and are continuously monitored to be able to update the assessments in line with changing internal and external circumstances.
- In 2015, the merger of Internal Audit and Risk Management was evaluated and it was decided to continue the merger in 2015/2016. Internal Audit and Risk Management have a facilitating role in the risk analyses. The independent role of Internal Audit is assured.
- In 2015, a new governance risk capture tool was implemented. This provides better management information on the risk profile and risks within the organisation and processes.
- In 2015, Keesing Media Group was added to the internal risk management and control system.
- In 2015, agreement was again reached between TMG and the tax authorities on the evaluation, implementation and operation of internal control measures performed by TMG.

Good practice 8: Reporting on planned improvements to the risk management system (Heijmans N.V., financial reporting 2015 page 101):

Focus of risk management in 2016

Many of the items of attention and actions from previous years will be followed up in 2016, with the addition of certain other actions and/or measures.
In practice, this means:

- Extensive attention to the management of large and mostly integrated projects at Infra and Non-Residential in the Netherlands, especially in the start-up phase;
- Consistent direction regarding the implementation of the 'Improve the Core' programme with respect to tender management, project management, procurement and sales;
- Continuation of the GO! safety programme with higher target figures, as well as an increased focus on safety in Germany and Belgium;
- Continuation of the 'Fit for Cash' programme including intensive monitoring and management of liquidity in the light of the desired improvement of profitability;
- Continued roll-out of the SAP-ERP environment including the introduction of follow-up initiatives designed to achieve the desired business benefits;
- Strengthening the funding of the Company;
- A stronger audit programme carried out by the risk and audit officer;
- Ensuring compliance with respect to HR-related risks as a result of the Labour Market Fraud (Bogus Schemes) Act (WAS), sequential liability, changes to regulations for self-employed persons, employment of foreign nationals and the protection of personal information - in the awareness that changes have either been made or will be made in the regulations for these domains.

Appendix 4 Good practices Disclosures

The AFM hopes that companies will be inspired by the following good practices to make further improvements. The good practices should not be seen as a standard or as the only correct formulation. Other formulations are also possible.

Good practice 9: Accounting policies (PostNL N.V., financial reporting 2015 pages 90-91):

Section 2: Result for the year

In this section...

This section sets out the Group's results and performance over 2015, from a profit, cash flow and equity perspective. It concludes with the performance of our reportable segments.

We analyse the Group's profit for the year in two separate steps. First we focus on our operating income by reference to the activities performed by the Group and an analysis of our key operating costs. Thereafter we focus on the net profit and earnings per share by exploring the financial results –which mainly consists of interest expenses– and the income tax charge.

Next, we analyse this year's cash flow performance of the Group. The cash flow-generating capability of the Group is essential for the continuity of our company. We explain the difference in accounting for income and expenses from actual cash in and cash out flows. In our analysis, we separate the cash flow performance of our operating, investing and financing activities.

Thirdly, we disclose the material developments underlying the equity performance of the year. Together with the net profit for the year, equity is mainly impacted by developments in our pension liabilities and the value of the stake in TNT Express.

This section concludes with segmental information of our performance. We disclose the contribution of our reportable segments to total operating revenue and operating income. Furthermore, we report on our non-recurring and exceptional items during the year.

2.1 Operating income

2.1.1 Total operating revenue: 3,461 million (2014: 3,465)

Accounting policies

Revenue recognition
PostNL's normal business operations consist of the provision of postal and logistics services. Revenue is recognised when services are rendered, goods are delivered or work is completed. Revenue is the gross inflow of economic benefits during the current year that arise from ordinary activities and result in an increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at the fair value of the consideration of received amounts or receivable amounts.

Contracted services that have not yet been rendered by PostNL on the balance sheet date, as well as outstanding customer repayments for stamps and frankings, are designated as deferred income. Amounts received in advance are recorded as accrued liabilities until services are rendered to customers or goods are delivered.

Net sales
Net sales represent revenue from the delivery of goods and services to third parties less discounts, credit notes and taxes levied on sales. Accumulated experience is used to estimate and provide for the discounts and return shipments.

Other operating revenue
Other operating revenue relates to the sale of goods and rendering of services not related to PostNL's ordinary postal and logistics services and mainly include rental income of temporarily leased-out property and custom clearance income.

The following table presents PostNL's total operating revenue, being the sum of the revenue of the reported operating segments adjusted for intercompany transactions.

Operating revenue

(in € millions)

Year ended at 31 December	2015	2014
Mail in the Netherlands	1,961	2,044
Parcels	917	854
International	983	921
PostNL Other	188	196
Eliminations	(588)	(550)
Total	**3,461**	3,465

Volume and revenue growth within Parcels and International was offset by decreased revenue within Mail in the Netherlands, mainly resulting from the continued volume decline in addressed and unaddressed mail.

The following table presents the geographical segmentation of total operating revenue. The basis of allocation of operating revenue by geographical area is the country or region in which the entity recording the sales is located.

Geographical segmentation

(in € millions)

Year ended at 31 December	2015	2014
The Netherlands	2,516	2,576
Germany	507	495
Italy	242	243
Rest of Europe	116	114
Europe	**3,381**	3,428
Rest of the World	80	37
Total	**3,461**	3,465

Revenue growth in 'Rest of the World' mainly related to increased volumes of Spring Global Delivery Solutions in Asia.

Good practice 10: Judgements and estimates (RELX N.V., financial reporting 2015 page 104):

Notes to the consolidated financial statements

for the year ended 31 December 2015

6 Pension schemes

Accounting policy

The expense of defined benefit pension schemes and other post-retirement employee benefits is determined using the projected unit credit method and charged in the income statement as an operating expense, based on actuarial assumptions reflecting market conditions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur.

Past service costs and credits are recognised immediately at the earlier of when plan amendments or curtailments occur and when related restructuring costs or termination benefits are recognised. Settlements are recognised when they occur.

Net pension obligations in respect of defined benefit schemes are included in the statement of financial position at the present value of scheme liabilities, less the fair value of scheme assets. Where schemes are in surplus, i.e. assets exceed liabilities, the net pension assets are separately included in the statement of financial position. Any net pension asset is limited to the extent that the asset is recoverable through reductions in future contributions.

The expense of defined contribution pension schemes and other employee benefits is charged in the income statement as incurred.

Critical judgement and key source of estimation uncertainty

At 31 December 2015, the Group operates defined benefit pension schemes in the UK and the US. These schemes require management to exercise judgement in estimating the ultimate cost of providing post-employment benefits, especially given the length of each scheme's liabilities. Accounting for defined benefit pension schemes involves judgement about uncertain events, including the life expectancy of the members, salary and pension increases, inflation, the future operation of each scheme and the rate at which the future pension payments are discounted. Estimates for these factors are used in determining the pension cost and liabilities reported in the financial statements. The estimates made around future developments of each of the critical assumptions are made in conjunction with independent actuaries. Each scheme is subject to a periodic review by independent actuaries. Information regarding some of the assumptions used for valuation is provided below, together with a sensitivity analysis.

Good practice 11: Division of disclosures (TomTom N.V., financial reporting 2015 page 75):

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The notes are grouped into six sections. The notes contain the relevant financial information as well as a description of accounting policy applied for the topic of the individual notes.

Good practice 12: Division of accounting policies into critical and general (NN Group N.V., financial reporting 2015 pages 47-49):

Critical accounting policies

NN Group has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance contracts, deferred acquisition costs, the determination of the fair value of real estate and financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts and the information below.

Reference is made to Note 50 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Insurance contracts and Deferred acquisition costs (DAC)

The determination of insurance liabilities and DAC is an inherently uncertain process, involving assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, court decisions, changes in laws and other factors, and, in the life insurance business, assumptions concerning mortality and morbidity trends. Specifically, assumptions that could have a significant impact on financial results include interest rates, mortality, morbidity, property and casualty claims, investment yields on equity and real estate and foreign currency exchange rates.

Insurance liabilities also include the impact of minimum guarantees which are contained within certain products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors.

The use of different assumptions could have a significant effect on insurance liabilities, DAC and underwriting expenditure. Changes in assumptions may lead to changes in insurance liabilities over time.

The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability with current best estimate actuarial assumptions and a risk margin. The use of different assumptions in this test could lead to a different outcome.

[...]

General accounting policies

Consolidation

NN Group comprises NN Group N.V. and all its subsidiaries. The Consolidated annual accounts of NN Group comprise the accounts of NN Group N.V. and all entities over which NN Group has control. NN Group has control over an entity when NN Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Group and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined taking into account both NN Group's financial interests for own risk and its role as asset manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in Net result.

A subsidiary which NN Group has agreed to sell but is still legally owned by NN Group may still be controlled by NN Group at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as held for sale if certain conditions are met.

All intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with NN Group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of NN Group N.V.

A list of principal subsidiaries is included in Note 33 'Principal subsidiaries and geographical information'.

Appendix 5 List of abbreviations

AEX - Amsterdam Exchange Index

AMX - Amsterdam Midcap Index

AScX - Amsterdam Smallcap Index

BP - Best Practice

BW - Burgerlijk Wetboek, the Dutch Civil Code

DNB - De Nederlandsche Bank, the Dutch Central Bank

ESMA - European Securities and Markets Authority

EU - European Union

FICE - Financial Instruments with Characteristics of Equity

FSB - Financial Stability Board

GRI - Global Reporting Initiative

IAS - International Accounting Standards

IASB - International Accounting Standards Board

ICGN - International Corporate Governance Network

IFRS - International Financial Reporting Standards

IIRC - The International Integrated Reporting Council

IOSCO - International Organization of Securities Commissions

KPI - Key Performance Indicator

RJ - Guidelines issued by the Dutch Accounting Standard Board

VBDO - Vereniging van Beleggers voor Duurzame Ontwikkeling, the Dutch Association for Sustainable Development

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