

SUMMARY

Transparency of Management Commentary

An empirical study of annual reports concerning economic analysis and strategy related information based on IFRS statement: Management Commentary



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October 2011



Title:

Transparency of Management Commentary: An empirical analysis of annual reports concerning economic analysis and strategy related information based on IFRS Practice Statement: Management Commentary.

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01 | Preface

This publication is a summary of our research that provides a detailed descriptive analysis of the current reporting practices on the subject of company strategy and economic analysis. Our study focuses on the Large-, Mid-, and Small cap companies listed on the Euronext Amsterdam Stock Exchange. Companies' disclosures regarding strategy and economic analysis are benchmarked against IFRS Practice Statement: Management Commentary – a framework for presentation (IASB, 2010), which provides a broad framework for the presentation of management commentary.

Overall, our results show that there is great diversity in disclosure on strategy reporting. No company has incorporated all the information items that were included in the IFRS Practice Statement: Management Commentary. For most companies, there is both room and need for further improvement. In this summary we provide several avenues to enhance disclosure (with references to best practices).

We believe our findings, along with the best practices and recommendations presented in our (full) report provide comprehensive insight into the current disclosure practices and can be a useful guide for preparers of annual reports. Hence, we believe it can contribute to the quality of the annual reports, and the management commentary in particular.

We would like to thank NBA, the professional association of chartered accountants in the Netherlands, for providing us with the opportunity to conduct this research. A special word of thanks to Monique den Hertog-Barbier, Johan Scheffe, and Henk Verhoek, who have provided us with valuable feedback throughout the entire research. Finally, we refer to the full version of our report, which is available on www.nivra.nl/NivraSite/Het+NIVRA/De+strategie+in+het+jaarverslag.aspx.

Heerlen, October 2011

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02 | Introduction, motivation and objectives

Introduction

It has been widely acknowledged that it is important for a company to have a clear and focused strategy. As a result of all technological advancements, companies nowadays have several ways of communicating their strategy. Strategy information could for instance be disclosed in analyst meetings, conference calls and/or published on the corporate website. Despite these new media alternatives the annual report is one of the most important ways to communicate this information to the companies' stakeholders. The conclusion from most of academic research is that the annual report remains a (highly) important source of information for investors and the financial community. In several studies, the narrative sections (President's Letter and Management's Discussion and Analysis) were shown to be the most influential parts of the annual report, at least to most analysts. Therefore, it is rather surprising that a lot of research has been conducted into the quality and the extent of financial disclosures in annual reports is relatively scarce.

More recent studies of annual reports conducted by Eumedion (Dutch corporate governance forum) show a number of striking differences between companies regarding the degree of in-depth information provided in the description of the company's strategy.¹

¹ The studies referred to here have not been published. However, Eumedion refers to the results of these studies in its spearheads letter 2010. Eumedion annually sends

The NBA, The Netherlands Institute of Chartered Accountants, expects that auditors will pay more attention to non-financial information in the future. Global issues such as the credit crisis, show that solely relying on financial information is no longer sufficient. Users of annual reports require in addition to the traditional annual accounts also insight into the realisation of strategic goals, performance, code compliance and the operation of risk management systems. Accountants can play an important role in this perspective. In 2010, NBA pleaded for the development of a framework of standards for non-financial information reporting.² The main purpose of this framework of standards is to enhance the integration of non-financial information into the overall reporting of organisations. Non-financial information is often associated with corporate social responsibility/ sustainability reporting, but in fact is significantly broader.

a "spearheads letter" to the 75 largest Dutch listed companies for the coming season of annual reports and shareholders' meetings, drawing special attention to a number of important topics that should be specifically addressed by the companies in their annual reports.

² This recommendation was made by NBA during the workshop, "More than just Euros" ("Meer dan Euro's alleen"), held in Amsterdam on January 14, 2010. On that occasion also an eponymous NBA discussion report was presented on non-financial information. The report (among others) recommends the development of a combined reporting framework with financial - as well as non-financial information.

Motivation

This publication is a summary of our research, which is aimed at providing a detailed descriptive analysis of the current reporting practices of Dutch publicly listed companies on the subject of strategy related information and economic analysis. We refer to our full report that provides an in-depth analysis of several categories of strategy related information, including an analysis of differences based on a number of firm characteristics (size and industry). In our empirical analysis we also identify and report best practices for different disclosure items. These best practices are intended to help companies to improve their reporting practices. Finally, we aim to identify the weak spots in current reporting practices and provide suggestions for improvement.

Research questions

As a result of the relative scarce research that has been conducted to date on the subject of strategy related disclosure, as well as the overall negative perception of the quality of information that is provided in annual reports on this particular subject, we conduct an empirical analysis of the current disclosure practices regarding strategy related information.

We have thus formulated the following research questions:

1. What are the current disclosure practices of Dutch publicly listed companies regarding company strategy?
2. What are the specific areas of economic analysis that companies report on, and which of these areas require more disclosure (i.e. transparency)?
3. What best practices can we identify from the disclosures of strategies and economic analysis?

Objectives

The aim of this summary is to provide some insight into the disclosure practices concerning strategy related information reporting of the most actively traded Dutch listed companies in 2010. For that purpose, we have selected and analysed the annual reports of the Large, Mid and Small cap index of Euronext Amsterdam for fiscal year 2010. Data has been collected on strategy related disclosures from the annual reports of these companies using a checklist of specific disclosure items, which is primarily based on the IFRS Practice Statement: Management Commentary – A framework for presentation (IASB, 2010). This practice statement provides a broad framework for the presentation of management commentary. Management commentary is described by the IASB as “a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity’s prospects and its general risks, as well as the success of management’s strategies for achieving its stated objectives.” From this description we can conclude that strategy and strategy related information is one of the focal issues in the management commentary. The practice statement provides a very detailed overview of strategy related disclosure items. Hence, it allows us to develop a comprehensive checklist that can be used to examine the content of the annual reports.

Based on the outcome of this comprehensive analysis we are able to identify weak areas (with on average low disclosure scores) as well as areas in which disclosure quality is better (with higher on average disclosure scores). In addition, we have also identified a number of best practices for different topics which are included in the full report. We have combined our overall results into a number of policy recommendations aimed at improving the overall quality of strategy related disclosures.

03 | Overall view regarding information provided on company strategy and economic analysis including recommendations

From our research we deduct a number of general observations. It is apparent that strategy related disclosures in annual reports are receiving more attention, both from the companies and their stakeholders. Our analysis reveals that there is no company that has incorporated all information items that were included in our checklist, which is based on the IFRS Practice Statement: Management Commentary. The company with the most comprehensive reporting on strategy related information is *Arcadis N.V.* Arcadis N.V. includes 94% of all our disclosure items in its annual report. On the other hand, the company with the least comprehensive reporting is a Small Cap fund that only incorporates 29% of all disclosure items. The average disclosure score is 72% for all companies. For the Large-cap index, the average score is 77%, the Mid-cap index average score is 74%, and the Small-cap index average score is 66%.

This study also indicates that there is great diversity in disclosure on strategy reporting. In particular, the degree of depth, the quality of the provided information and the presentation of the information in the annual report show large differences between companies. In general, Large Caps appear to have the most transparent annual reports concerning firm strategy disclosures. However, there are certain areas in which Mid- and Small Cap funds are more transparent. Examples of this are: the inclusion of a separate chapter or paragraph with a heading 'strategy', the disclosure of solvency information, providing

a link between the company's result and revenue and the applied performance measures, the attachment of a SWOT analysis, and the enclosure of a separate chapter or paragraph 'prospects/future performance/outlook'. Also noteworthy is the fact that the company with the most comprehensive reporting on strategy information is a Mid Cap fund (i.e. Arcadis N.V.).

Recommendations for increased transparency

Based on the results of this study we identify critical areas of disclosure and formulate subsequent recommendations for improvement:

- a. Strategy is an important topic that has interdependencies with numerous other activities, yet information about strategy is scattered throughout the annual report. We recommend a separate strategy section to be incorporated in the annual report that not only sets out the company's strategy, but also incorporates the interdependencies with legal, regulatory and macro-economic circumstances. The latter have merely been described in the risk management section. In our opinion, the key drivers that impact likelihood of achieving (i.e. the realisation of) a company's strategic goals should be presented as an integral part of the strategy section.

- b. Whereas almost all companies give an indication of their competitive position, a more elaborate competitor analysis is only present in 20% of all instances. Apparently, tension exists between the predominantly narrative nature of existing strategy disclosures and the increased demand for more quantitative information on the realisation of strategic goals (like key performance measures and SWOT). Means to improve the outside verifiability of the disclosed information are crucial to increase the information value and usability of strategy related information.
- c. More and more corporate citizenship and corporate sustainability are becoming an important part of companies' strategy, while the related policies are written down in the strategy paragraph.
- d. Level, depth and quality of disclosure on strategy differ significantly between companies. At the same time, companies face an increase in complexity, both internal and external (more complex production and services processes, increasing risks, increasing information demand, increasing global competition). As a consequence, companies' strategies have also become more complex and therefore more difficult to explain to the external stakeholders. This requires more transparency in the annual report and better alignment of the strategy section with the other parts of the annual report. To improve the readability, usability and verifiability of the separate sections of the annual report (like for example the strategy and the risk management section or the economic analysis), a better link needs to be established between the relevant sections.
- e. Strategies are not static, but evolve over time. A proper explanation of the (r)evolutionary developments in strategy and the motivation for these changes would be another area for enhancing the quality of disclosure. Only one-third of the companies include a benchmark of their current results against the long-term strategic objectives. For example, we have observed that in several instances companies have changed their strategy or their performance indicators that are used to measure strategy realisation. Whereas the first is normally discussed and motivated, the latter is merely not. For the stakeholders of the firm the latter information is crucial for their evaluation of the performance.
- f. Outside evaluation and analysis of strategy is difficult, therefore inclusion of a SWOT analysis is important. However only a limited number of companies currently disclose that information. We favour such a framework, as it will help outsiders to evaluate companies' strategies.
- g. Though prospective information is commonly provided, a vast majority of companies provide merely qualitative information, lacking any setting of specific targets that need to be realized. We appreciate the difficulties of pinpointing exact levels, however as the current economic crisis clearly demonstrates, it is very important to be more transparent about companies 'what if scenarios' and appropriate stress testing. Hence, we propose to make stress testing, sensitivity analysis or scenario planning an integral part of the (prospective) strategy disclosure as this would help (outside) stakeholders to assess whether the appropriate actions and strategic plans are in place and have been discussed within the company.
- h. Information about strategy and evaluation of strategy differ largely between different types of companies. The areas that have the greatest potential for improvement are set out in table 1.
- i. Qualitative disclosure of the strategy is elaborate; we observe that a majority of the companies portray their competitive and market position. In most instances however our analysis reveals that the content and magnitude remains descriptive and therefore it is difficult to validate most of the strategy related information on a consistent basis. In order to improve the quality and decision usefulness of strategy related disclosures we urge to include year on year consistent performance measures that, ideally, would be retrievable from the annual report and that would also be reviewed/validated independently.

Table I: Areas that have the greatest potential for improvement

Item	Disclosure scores			
	Overall	AEX	AMX	AscX
Main competitors	22%	22%	24%	20%
Organisational Chart	40%	52%	24%	44%
Significant changes in strategic objectives	12%	26%	8%	4%
Are actual outcomes benchmarked against the strategic objectives	33%	39%	36%	24%
Explanation of relevance of performance measures	10%	19%	7%	0%
Explanation why results have changed through the use of Performance measures	3%	0%	7%	0%
Link between changes in result and applied performance measures	41%	31%	53%	38%
Link between changes in revenue and applied performance measures	46%	31%	50%	50%
Inclusion SWOT analysis	21%	9%	40%	12%
Inclusion Scenario analyses	32%	39%	32%	24%
Targets in outlook section	30%	61%	32%	0%

04 | Management Commentary

Definition of management commentary

According to the IASB the definition of management commentary is: “a narrative report that relates to financial statements that have been prepared in accordance with IFRSs. Management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity’s financial position, financial performance and cash flows. It also provides commentary on an entity’s prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management’s objectives and its strategies for achieving those objectives.”³

Framework for the presentation of management commentary

Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management’s view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity’s future. Management commentary complements and supplements the financial statements by communicating integrated information about the entity’s resources and the claims against the

entity and its resources, and the transactions and other events that change them. Management commentary should also explain the main trends and factors that are likely to affect the entity’s future performance, position and progress. Consequently, management commentary looks not only at the present, but also at the past and the future.⁴

Presentation

Management commentary should be clear and straightforward. The form and content of management commentary will vary between entities, reflecting the nature of their business, the strategies adopted by management and the regulatory environment in which they operate. Management commentary should be presented with a focus on the most important information in a manner intended to address the principles described in the Practice Statement.⁵

³ IFRS Practice Statement - Management Commentary: a framework for presentation, Appendix Defined terms, page 17.

⁴ IFRS Practice Statement - Management Commentary: a framework for presentation, BC 9-11; page 8.

⁵ IFRS Practice Statement - Management Commentary: a framework for presentation, BC 22; page 10.

Elements of management commentary

Although the particular focus of management commentary will depend on the facts and circumstances of the entity, management commentary should include information that is essential to an understanding of:

- a. the nature of the business;
- b. management's objectives and its strategies for meeting those objectives;
- c. the entity's most significant resources, risks and relationships;
- d. the results of operations and prospects; and
- e. the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

The elements are not listed in a specific order. They are, however, related and should not be presented in isolation.

Management should provide its perspective on the business and its analysis of the interaction of the elements to help users to understand the entity's financial statements and to understand management's objectives and strategies for achieving those objectives.

In the Dutch Civil Code (part 9, book 2) specific requirements for annual reports are included. The Dutch Accounting Standard Board provides Standards which are a further guidance of the requirements in the Dutch Civil Code.

The requirements for management commentary are included in article 2:391 of the Dutch Civil Code and in Dutch Accounting Standard 400. Both provide limited guidance on the elements strategy and economic analysis. However, for economic analysis some, more principle-based, requirements are included.

05 | Data and sample selection

Our study focuses on the 73 largest Dutch publicly listed companies. All the selected companies are to be listed on the Euronext Amsterdam Stock Exchange on June 1, 2011. We examined the annual reports 2010 of these companies. Table II provides an overview of the companies in our sample. We derived our data from the statutory annual reports of 2010.

Table II: Companies included in the empirical analysis

Large Caps (AEX)	Mid Caps (AMX)	Small Caps (AscX)
AEGON N.V.	Aalberts Industries N.V.	Accell Group N.V.
Koninklijke Ahold N.V.	AMG Advanced Metallurgical Group N.V.	Amsterdam Commodities N.V.
Air France-KLM S.A.	Arcadis N.V.	Antonov plc
Akzo Nobel N.V.	Advanced Semiconductor Materials International N.V.	Arseus N.V.
ArcelorMittal S.A.	Koninklijke BAM Groep N.V.	Ballast Nedam N.V.
ASML Holding N.V.	BinckBank N.V.	BE Semiconductor Industries N.V.
Koninklijke Boskalis Westminster N.V.	Brunel International N.V.	Beter bed Holding N.V.
Corio N.V.	CSM N.V.	Dockwise Ltd.
Koninklijke DSM N.V.	Delta Lloyd N.V.	Exact Holding N.V.
Fugro N.V.	Eurocommercial Properties N.V.	Fornix Biosciences N.V.
Heineken N.V.	Heijmans N.V.	Grontmij N.V.
ING Groep N.V.	Imtech N.V.	Kardan N.V.
Koninklijke KPN Nederland N.V.	Logica plc	Kas Bank N.V.
Koninklijke Philips Electronics N.V.	Mediq N.V.	Kendrion N.V.
Randstad Holding N.V.	Nutreco Holding N.V.	LBi International N.V.
Reed Elsevier N.V.	Ordina N.V.	MacIntosh Retail Group N.V.
Royal Dutch Shell plc	Pharming Group N.V.	Nieuwe Steen Investments N.V.
SBM Offshore N.V.	SNS REAAL N.V.	Punch Graphix N.V.
TNT N.V.	Koninklijke Ten Cate N.V.	Qurius N.V.
TomTom N.V.	Unit 4 Agresso N.V.	Sligro Food Group N.V.
Unibail-Rodamco S.A.	USG People N.V.	Spyker Cars N.V. ⁶
Unilever N.V.	VastNed Retail N.V.	Telegraaf Media Groep N.V.
Wolters Kluwer N.V.	Koninklijke Vopak N.V.	TKH Group N.V.
	Wavin N.V.	VastNed Offices/Industrial N.V.
	Wereldhave N.V.	Koninklijke Wessanen N.V.

⁶ As of June 15, 2011, Spyker Cars changed its name into Swedish Automobile N.V.

06 | Empirical results

This section briefly summarizes the main results and subsequent conclusions relating to the quality of disclosure. Our analysis focuses on disclosure of information (i) relating to the 'nature' of business, (ii) strategy, (iii) translation of strategy into performance measures, (iv) economic analysis, (v) SWOT and scenario analyses, (vi) prospective performance and (vii) sustainability.

Information with respect to the 'nature' of business

The first column of Figure I illustrates that almost three-quarter of the companies present information relating to their competitive position. Usually this information is not too extensive and does not contain much more information than 'a leading position' in 'a specific market'. Large- and Mid Cap funds are more transparent in this respect compared to Small Cap funds.

The second column of Figure I indicates that only 22% of the companies provide information on their competitors. Differences across index appear to be insignificant.

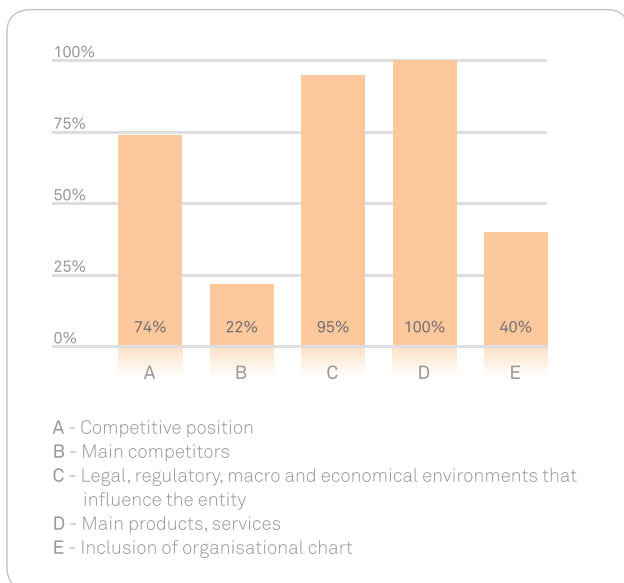
As clearly showed in the third column of Figure I, the vast majority of companies (95%) disclose legal, regulatory and/or macro-economic information conditions that influence the entity. We do note however that almost all this information was included in the risk paragraph (which is a part of the management commentary) of the

annual report. There are no significant differences across index.

The fourth column of Figure I present the disclosure of the entity's core activities. All companies provide information in this perspective.

Finally, the fifth column of Figure I details the attachment of an organisational chart in the annual report. 40% of the companies include an organisational chart in the annual report. Large- and Mid Cap funds relatively more frequently incorporate an organisational chart in the annual report than Small Cap funds. Furthermore, our results suggest there is a relationship between organisational structure (product/service, geographical) and a graphical representation of the organisational structure in the annual report. Virtually half of the companies applying a geographical structure present an organisational chart, while only one-third of the companies managing a product/service structure present such a chart.

Figure I: Information with respect to the 'nature' of business



Best practices in this perspective are respectively: *Mediq N.V.* (competitive position), *Imtech N.V.* (main competitors), *Wolters Kluwer N.V.* (legal, regulatory and macro-economical environments), and *VastNed Offices/Industrial N.V.* (also legal, regulatory and macro-economical environments). For a detailed description of the relevant best practices we refer to the full report.

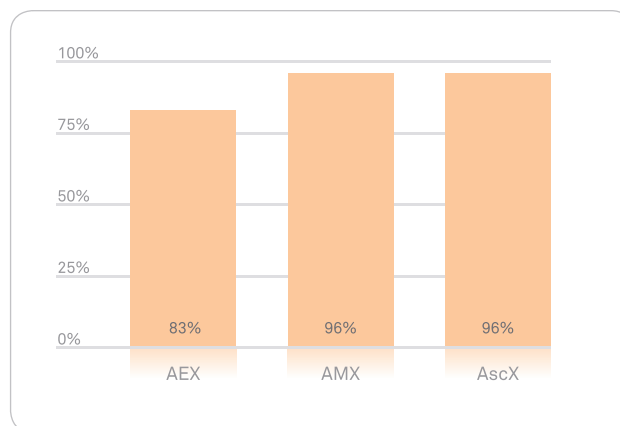
Strategy

On average, approximately 90% of the companies include a separate chapter or paragraph with a heading 'strategy' in the annual report. Remarkably, Large Cap funds less frequently include a separate strategy paragraph than Mid- and Small Cap funds.

There is a widespread variety in strategic objectives among our research population. Some companies focus more on financial and growth objectives, while others place more emphasis on (less tangible) brand-related or sustainability goals. Furthermore, some companies have a very general description of their strategic objectives, whereas others provide a more specific description.

Significant changes in strategic objectives are not frequently discussed in the annual report. On average, only 12% of the companies report a change in strategic objectives. Changes in strategic objectives appear to be more disclosed within Large Cap funds than within the Mid Cap – and Small Cap funds.

Figure II: Inclusion of a separate 'strategy' paragraph in the annual report



We consider the annual report of *Heijmans N.V.* a best practice of how a company can disclose significant changes in its strategy/strategic objectives. For a detailed description of this best practice, please check the full report.

Translation of strategy into performance measures

The first column of Figure III indicates that 93% of the companies present some kind of explanation on how the corporate strategy will be implemented.

Slightly more than half of the companies (53%) have translated their strategy into performance measures (see figure III, column 2). Large- and Mid Cap funds translate their strategy into performance measures clearly more than Small Cap funds do.

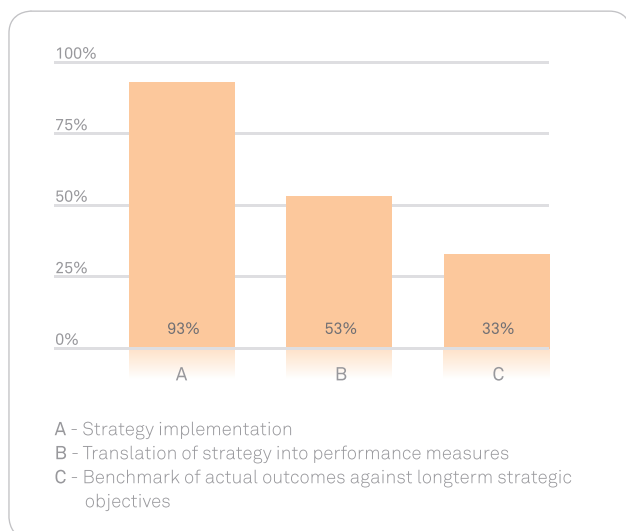
As mentioned, approximately half of the companies disclose performance measures. Financial performance measures (avg. 3.7) are more frequently used than non-financial measures (avg. 1.6). The number of financial performance measures is almost evenly distributed across the indexes. On the other hand, the number of non-financial measures is not evenly divided. Small Cap funds apply non-financial measures less often than Large- and Mid Cap funds.

On average, 61% of the companies apply performance measures that specify the period of realization. Typically, the period of realization varies from 1 to 5 years. There are limited differences across index.

Only 33% of the companies (Figure III, third column) include a benchmark of the company's current results against the long-term strategic objectives in the annual report. Large- and Mid Cap funds relatively more often include such a benchmark in the annual report than Small Cap funds.

The additional explanation of performance measures is extremely moderate. Just over 10% of the companies describe the relevance of the applied performance measures and only 1 company in our entire sample explains the impact of performance measures on the result. Furthermore, approximately 8% of the companies adjusted performance measures in the year under review, and of these only one identifies and explains those changes in the annual report.

Figure III: Information regarding the translation of strategy into performance measures



In our view, the annual report of *Koninklijke Boskalis Westminster N.V.* provides a good example of transparent disclosure on how strategy can be translated into realization (i.e. implementation).

With respect to benchmarking the company's actual outcomes against the long-term strategic objectives, we consider the annual report of *Akzo Nobel N.V.* best practice. Both best practices are described in detail in the full report.

Economic analysis

Financial position

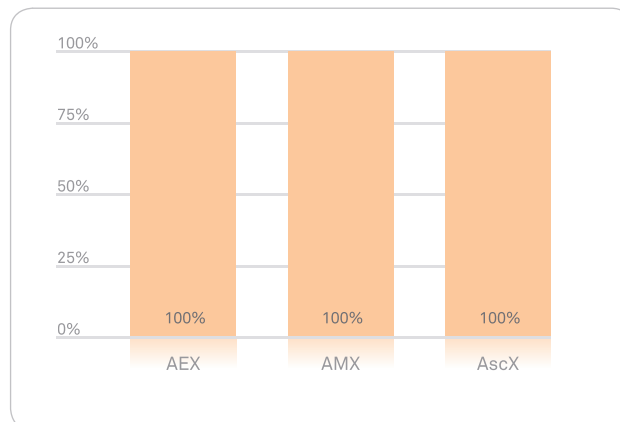
All companies present a discussion & analysis (D&A) of the company's financial position in the annual report (see Figure IV, Panel A).

The quality of the provided information was assessed with an average rating of 2.7 (Panel B). All quality assessments are based on a 5 point Likert scale, with a minimum score of 1 and a maximum score of 5. Large Cap funds relatively obtained the highest rating (3.0), followed by the Mid- (2.8) and Small Cap funds (2.3).

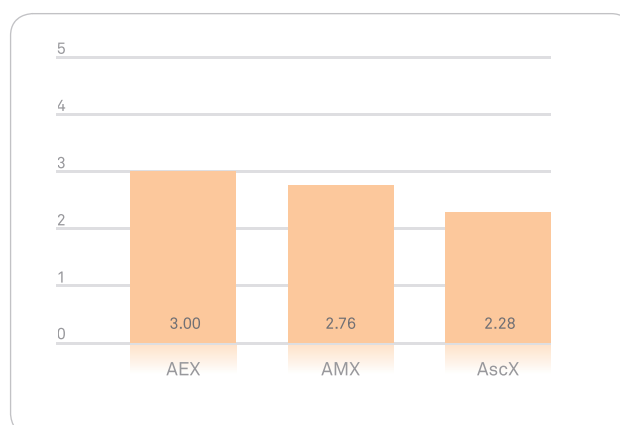
The most frequently discussed balance sheet items are: cash flow/liquidity (92%), explanation of external financing (75%) and solvency (55%). Differences across the indexes are limited, except for the disclosure of solvency information. Mid Cap funds disclose solvency information more often than Large- and Small Cap funds.

Figure IV: Discussion & analysis of financial position

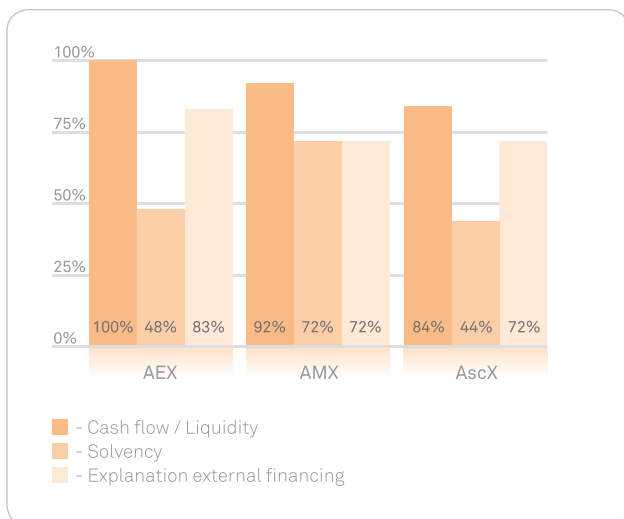
Panel A: D&A of entity's financial position



Panel B: Quality assessment of D&A



Panel C: Individual disclosure of quality assessment criteria



As best practice the following companies are nominated: *Royal Philips Electronics N.V.* (cash flow, liquidity), *Fugro N.V.* (Solvency) and *ArcelorMittal S.A.* (external financing). For a detailed description of these best practices we refer to the full report.

Result

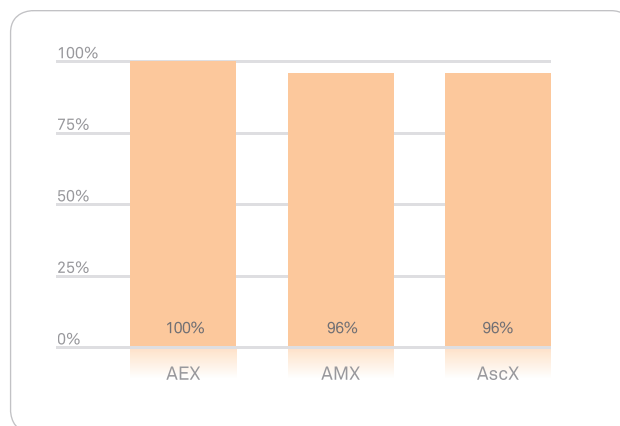
Panel A of Figure V indicates that 97% of the companies present a discussion & analysis of the company's result in the annual report.

The quality of the information provided was assessed with an average rating of 2.9 (Panel B). Large Cap funds obtained the highest rating (3.0), followed by Mid- and Small Cap funds (both 2.8).

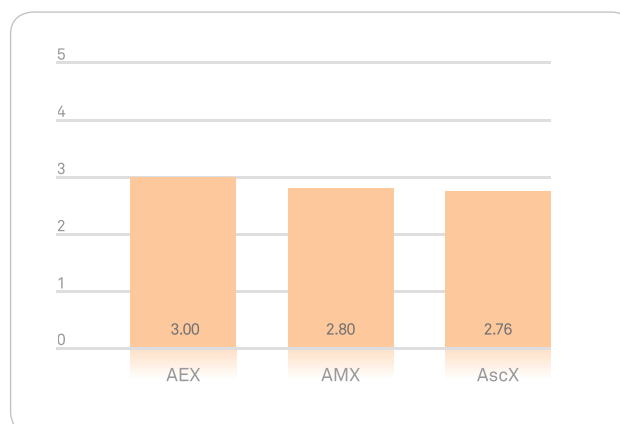
According to Panel C the two most discussed 'result' criteria are: (1) provide concrete reasons for the change(s) in result (95%) and (2) an explanation of factors that caused the change in result (93%). The remaining two 'result' criteria are much less frequently discussed. On average, only 40% of the companies that apply performance measures provide a link between the company's result and the applied performance measures. Just over 30% of the companies present an outline of the most significant movements during the year. Differences across index are limited, except for the last two criteria. Large Cap funds are more transparent when it comes to presenting an outline of the most significant movements compared to Mid- and Small Cap funds. Alternatively, Mid Cap funds provide a link between the company's result and the applied performance measures more frequently than Large- and Small Cap funds.

Figure V: Discussion & analysis of result

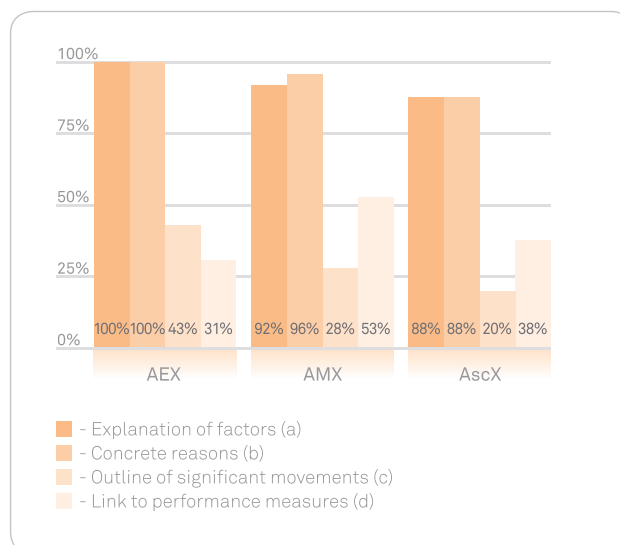
Panel A: D&A of company's result



Panel B: Quality assessment D&A



Panel C: Individual disclosure of quality assessment criteria



In our view, the annual report of *Nutreco Holding N.V.* provides a compelling example of a good discussion & analysis of the company's result. For a detailed description of this best practice we refer to the full report.

Revenue

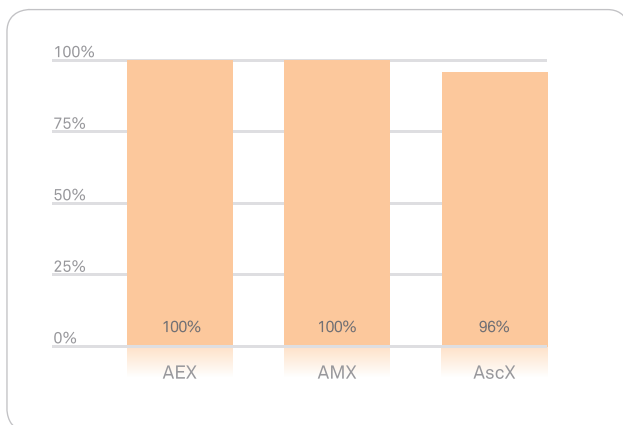
Except for one, all companies present a discussion & analysis of the company's revenue in the annual report (see Figure VI, Panel A).

The quality of the information provided was determined at 2.8 on average (Panel B) Large Cap funds again obtained the highest rating (3.0), followed by the Mid- (2.8) and Small Cap funds (2.6).

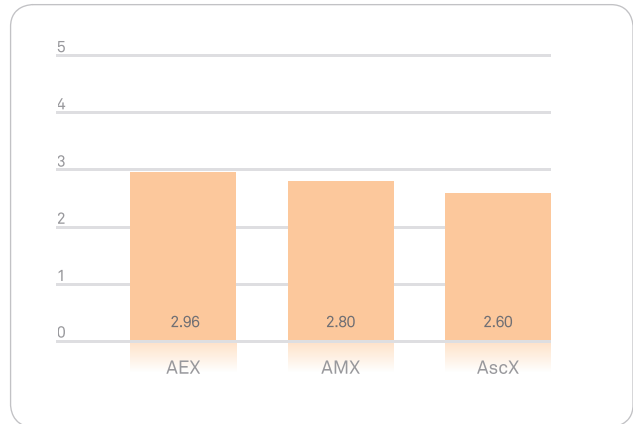
Panel C of Figure VI shows that the two most frequently discussed 'revenue criteria' are: a detailed comparison of revenue to the previous year (90%) and an explanation of factors that caused the change in result (89%). Similar to the previous items, the other two criteria are (much) less frequently conferred. Approximately 80% of the companies provide concrete reasons for the change(s) in revenue and only around 45% of the companies that apply performance measures present a link between the company's revenue and the applied performance measures. Differences across indexes are limited, except for the last two criteria. Large Cap funds are more transparent providing concrete reasons for a change in revenue than Mid- and Small Cap funds, while Mid- and Small Cap funds provide more frequently information on the link between the company's result and the applied performance measures than the Large Cap funds.

Figure VI: Discussion & analysis of revenue

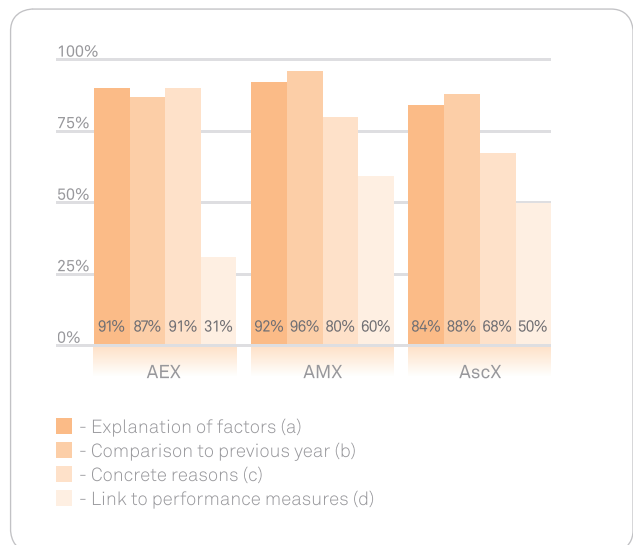
Panel A: D&A of the company's revenue.



Panel B: Quality assessment of D&A.



Panel C: Individual disclosure of quality assessment criteria.



The annual report of *Koninklijke Boskalis Westminster N.V.* is an example of a decent revenue discussion & analysis. A detailed description is provided in the full report.

Approximately 90% of the companies present an economic analysis both on consolidated and segment level (not tabulated). The rest are primarily Small Cap funds that only provide this information on a consolidated level.

In about 85% of the annual reports, the applied (profit) figure(s) in the management commentary reconcile with the financial statements, with limited differences across index (not tabulated as well). Large Cap funds most often provide reconciliation in case of diverging management commentary and financial statements.

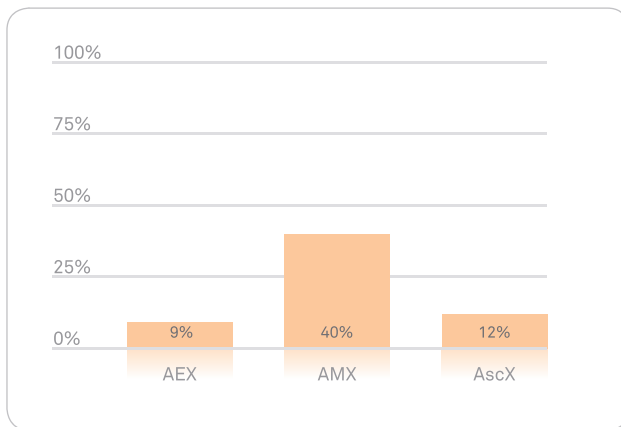
SWOT and scenario analyses

Figure VII illustrates that on average 21% of the companies present a SWOT analysis in the annual report. Mid Cap funds significantly more often include a SWOT analysis in the annual report than Large- and Small Cap funds.

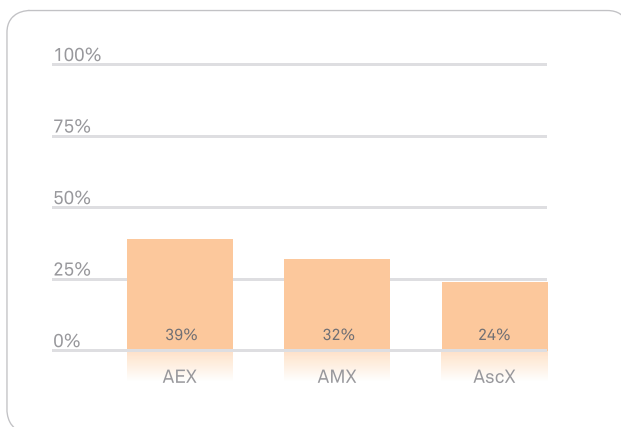
On average, just 32% of the companies present scenario analyses in the annual report (Panel B). Differences across index are limited. Taking into consideration that under the new regulations in the financial services industry scenario analyses (stress tests) are mandatory, the actual number of company's voluntarily providing scenario analyses is much lower. In general, Large Cap funds more frequently include scenario analyses in the annual report than Mid- and Small Cap funds.

Figure VII: Enclosure of SWOT- and scenario analyses

Panel A: Attachment of SWOT analysis



Panel B: Inclusion of scenario analyses



Given the fact that scenario analyses are mandatory for companies active in the financial services industry and that this regulation is not applicable for the other (non-financials) companies, we have opted to nominate

two best practices in this context: *SNS REAAL N.V.* and *Randstad Holding N.V.* Please check the full report for a detailed analysis.

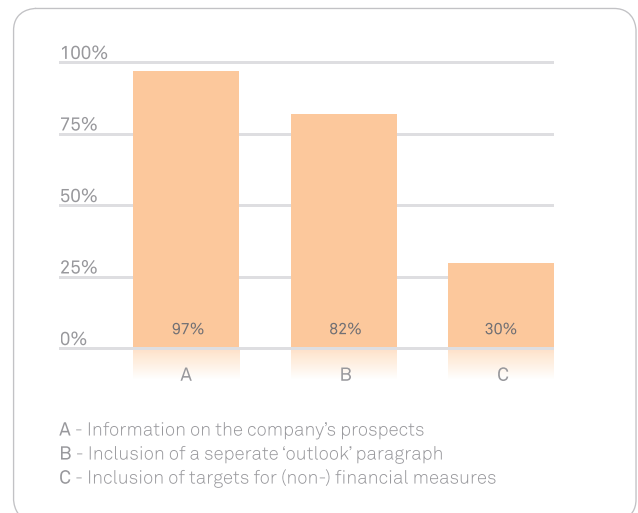
Prospective Performance

The first column of figure VIII illustrates that almost all companies provide information (97%) relating to the entity's prospective performance.

82% of the companies include a separate chapter or section in their annual report (usually referred to as 'outlook') on prospective performance in the annual report (See second column of Figure VIII). A typical outlook is brief, narrative and not offering much guidance. Targets for financial and non-financial measures are predominantly not provided. Most companies prefer to include 'expectations' rather than explicit targets. Remarkably, Mid- and Small Cap funds include a separate 'outlook' section more frequent than Large Cap funds.

The third column of Figure VIII illustrates that 30% of the companies present specific targets in the outlook section. There are significant differences across index. Large Cap funds most frequently provide specific targets, followed by the Mid Cap funds. None of the Small Cap funds provide specific targets in the outlook section. Only a few companies explain the risks and assumptions in order to assess the likelihood of achieving those targets.

Figure VIII: Information with respect to prospective performance



In our opinion, the outlook of *Koninklijke BAM Groep N.V.* can be seen as an example of best practice. Also this best practice can be obtained in the full version of this report.

Sustainability

Almost all companies in our sample (95%) present sustainability/social responsibility information in their annual report; as a consequence differences across indexes are limited. More than 90% of the companies have included a separate chapter or paragraph 'sustainability or corporate social responsibility' in the annual report. Again, differences across index are limited.

