



The State as Public Shareholder

On the management of State owned enterprises



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Introduction

This report presents the findings of our audit of the Dutch government's management of State owned enterprises (SOEs). It consists of a summary of the portfolio of companies, government policy on the management of SOEs and our opinion on the management of SOEs.

Policy on the management of SOEs is based on the principle of 'active shareholding'. The two key policy objectives are to protect the public interest and to manage the social capital represented by the SOEs. We note that the State does not yet make full use of the opportunities offered by company law and that an important aspect of shareholding, the assessment of major investments, is not sufficiently transparent: more care could be taken in the assessment process. Finally, the information provided to the House of Representatives on the results and management of SOEs is open to improvement.

This report builds on our earlier audits of State owned enterprises. We issued an overview of SOEs enterprises in 2005 (Netherlands Court of Audit, 2005) and subsequently audited certain SOEs.

Structure of this report

The report consists of two parts. The first presents our insights, conclusions and recommendations. They are based on the second part: our findings. Part II presents the audit outcomes and findings in more detail. It is in turn divided into three parts: the context of SOEs, the management of SOEs and the information provided to the House of Representatives. The annexes present a summary of the conclusions and recommendations, a description of the audit approach, a list of abbreviations, a bibliography and factsheets with detailed information on the SOEs we audited.

Part I

I The State as Public Shareholder

I.1 Introduction

See chapter 2 for further information on State owned enterprises.

The State of the Netherlands holds shares in a variety of companies.¹ These companies are known as ‘State owned enterprises’ (SOEs). The table below lists the 37 SOEs owned by the State in 2014. Thirty-five of them are limited companies (private or public) and two are foundations.² They differ significantly as regards their size, industry and operations. The size of the State’s shareholdings also differs. The State, for example, is the sole shareholder in the Royal Dutch Mint, holds nearly 70% of the shares in Schiphol airport but owns just 1% of Thales B.V., a defence electronics manufacturer.

We audited 26 of the 37 State owned enterprises. The 11 SOEs we did not audit were:

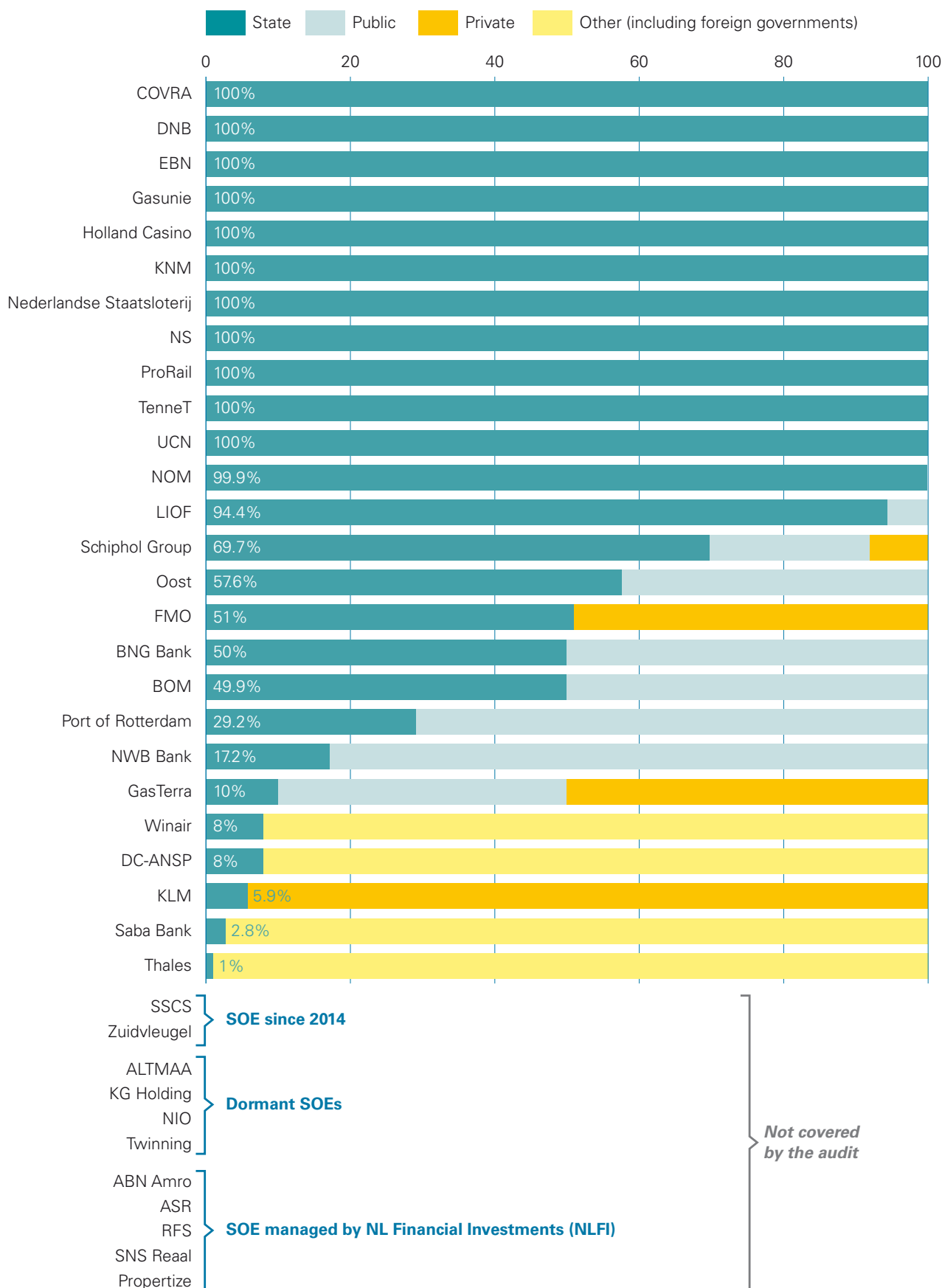
- two companies that were added to the portfolio in 2014;
- four organisations that are effectively ‘dormant’. These are companies without operations that will be sold or dissolved;
- five financial institutions that are owned by the State as a result of the financial crisis and are managed by an external shareholder, NL Financial Investments (NLFI).

We audited the practical aspects of how the government exercised its shareholder powers at two SOEs - Schiphol Group and EBN.

¹ References to the ‘State’ in this report are to the legal entity of the State of the Netherlands. An SEO is a company in which the State holds public shares.

² Although foundations do not have shareholders, they have been included in the portfolio and managed as SEOs since 2004. These foundations are therefore run as companies in so far as possible.

Table 1 State owned enterprises portfolio in 2014



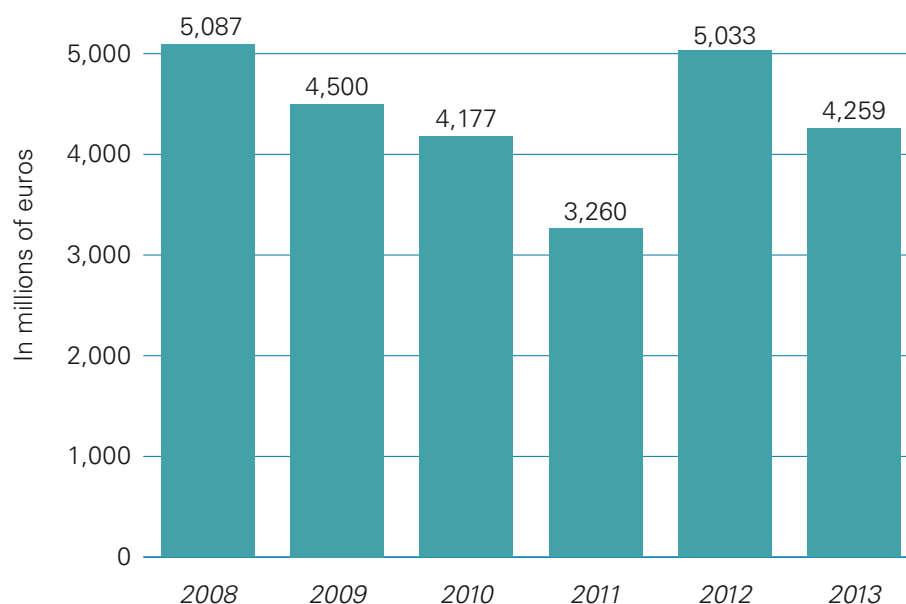
1.2 Audit background and objective

State owned enterprises have been considered in previous audits carried out by the Court of Audit. We have previously audited ProRail (Netherlands Court of Audit, 2009), Holland Casino (Netherlands Court of Audit, 2011), Gasunie (Netherlands Court of Audit, 2012a) and, more recently, TenneT (Netherlands Court of Audit, 2015). The audits of Gasunie and TenneT found that the responsible ministers did not always transparently and auditably consider the public interest when the companies made major investments. In the light of this conclusion. We decided to audit the management of SOEs.

See chapter 2 for more financial information on State owned enterprises.

A second reason to audit SOEs is that they are an important source of revenue for the government. Figure 1 shows that the government received between €3 billion and €5 billion per annum in dividend from its portfolio between 2007 and 2013.³

Figure 1 **Income from SOEs, 2008-2013**



Source: Annual Reports on the Management of State Owned Enterprises (Ministry of Finance, 2011a and 2014a), excluding super dividend from NS of €1.4 billion in 2009.

This audit is also in keeping with our audits of the risks to the sustainability of public finances (Netherlands Court of Audit, 2011b, 2012b and 2013a). Those audit reports revealed that the House of Representatives received incomplete information on the risks to public finances. The State's risk exposure is increased by the SOEs in which it invests risk-bearing capital.

This audit sought answers to the following questions:

1. In which companies does the State hold shares?
2. What is the policy on the management of SOEs and how does the State exercise its role as public shareholder in practice?
3. What is the quality of the information provided to the House of Representatives on SOEs and their management?

³ Not including dividend from the financial institutions managed by NLI and from dormant companies.

1.3 Audit approach

Factsheets on each State owned enterprise are presented in annexe 5.

To determine the powers of shareholders, we studied company law and the 26 SOEs' articles of association.⁴ We based our study of the composition of the portfolio of SOEs principally on the figures and data presented in the Annual Reports on the Management of State Owned Enterprises issued by the Ministry of Finance. We also studied policy documents to gain an understanding of how SOEs are managed, and analysed reports on parliamentary debates to gain an impression of the information provided to the House of Representatives.

To assess the practice of shareholdership, we drew on the findings of our previous audits and carried out detailed audits of two SOEs, Schiphol Group and EBN. This part of the audit concentrated on how the State assessed its SOEs' investment proposals. We also reviewed the State's assessment of the commercial aspects of investments proposed by Schiphol Group and EBN.

A detailed description of our audit approach is provided in annexe 2.

1.4 State shareholdership in brief

Before presenting our audit conclusions, we discuss three aspects of shareholdership: the shareholder's powers, the organisation of shareholdership and the government's policy on State owned enterprises.

Company law is considered in chapter 3.

Rights and powers of the State as a shareholder

The State holds shares in a company in order to influence its business performance and so - as a supplement to legislation and regulation - protect the public interest. Shareholdership is a civil-law management instrument that company law offers to shareholders.

The State is subject to company law as a shareholder. The public interest must therefore be protected by means of the instruments provided by company law and the State can exercise the powers that company law confers on the general meeting of shareholders. Shareholders can exercise certain powers available under company law only if they are specifically laid down in the company's articles of association.

Models of shareholdership

The government holds the State owned enterprises in three ways. The two main forms are the centralised model and the decentralised model.⁵ They are shown in figure 2.

See chapter 5 for more information on the organisation of shareholdership.

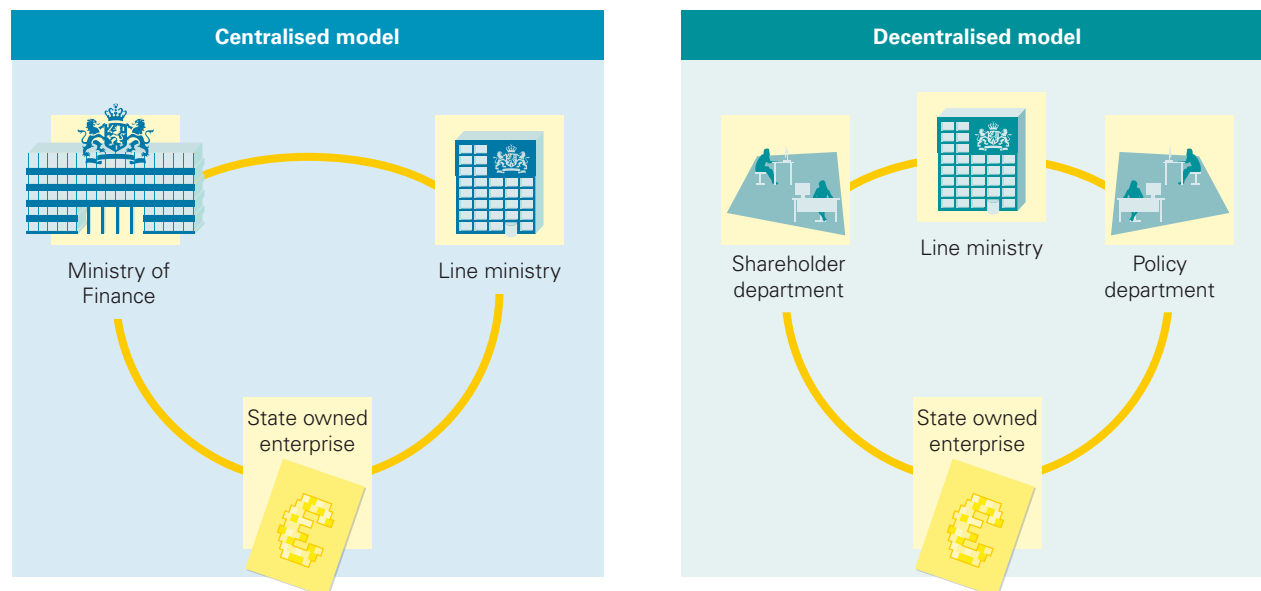
In the centralised model, the Financing Department of the Ministry of Finance is responsible for shareholdership. Policy responsibility lies with the line ministries responsible for the industries in which the SOEs are active. In the case of Schiphol Group, for example, the Ministry of Infrastructure and the Environment is responsible for the policy on aviation and the Ministry of Finance acts as shareholder.

⁴ We received the articles of association of Winair after we had sent the draft of this report to the Ministry of Infrastructure and the Environment. We considered them in the report by revising the text in section 1.5.1 and figure 10.

⁵ The third model is external share ownership. This model is described in section 5.1.3. We did not include external shareholder ship in our audit.

SOEs that are held for to implement policy ('policy-based SOEs') are organised according to the decentralised model, with the same ministry exercising both shareholdership and policy responsibility. In the case of EBN, the Ministry of Economic Affairs is responsible for both energy policy and shareholdership, with the two roles being exercised by two different departments within the ministry.⁶

Figure 2 **Models of shareholdership: centralised model and decentralised model (policy-based SOEs)**



Government policy on the management of State owned enterprises is considered in chapter 4.

Protecting the public interest at the heart of policy

The government believes the principal instrument to protect the public interest is the legislation in force in the policy field in which a company is active, with share ownership providing additional assurances. Share ownership is therefore regarded as a form of government intervention. As a shareholder and owner, the State is a source of capital for the companies. The primary role of a company shareholder is to protect the capital that it contributes.

One characteristic of the State's shareholdership is that it does not hold the shares to earn a profit but chiefly because the company serves the public interest. The State can use its powers as a shareholder to influence the company's operations and so protect the public interests served by an SOE.

See chapter 4 for an explanation of active shareholdership.

The government has been actively managing its shareholdings since 2007 (Ministry of Finance, 2007, p. 2). Through its 'active shareholdership', the State wishes to protect the public interest more emphatically than in the past. It brings the companies' strategies into line with the public interests defined by the line ministries by ensuring the SOEs are financially healthy, by approving (or rejecting) investment proposals, by adopting the remuneration policy and by appointing good executive and supervisory directors.

⁶ This report follows the structure of the *Policy Document on State Owned Enterprises 2013*. KNM, NWB and BNG are considered to be centralised holdings in this report even though both share ownership and policy responsibility are exercised by the Ministry of Finance.

The government confirmed the principles adopted in 2007 and elaborated upon the principles of active shareholdership in its most recent Policy Document on State Owned Enterprises (Ministry of Finance, 2013a).

Government policy on State owned enterprises applies in principle to all 37 SOEs. In practice, however, parts of the policy are not always applied because the State tailors its measures to the SOEs' specific circumstances. A separate required rate of return, for example, has been set for some companies. In the Policy Document on State Owned Enterprises 2013 the government seeks to bring policy and practice into line. The policy document refers to the use of such specific measures as 'tailoring'.

1.5 Audit conclusions

We drew the following three conclusions from our audit:

1. The State does not yet have the power it needs to implement its policy of active shareholdership.
2. The decision-making process to approve major investment proposals by SOEs is not always transparent and carefully implemented.
3. The information on SOEs provided to the House of Representatives is open to improvement.

We consider these conclusions in more detail below.

1.5.1 The State does not yet have the power it needs to implement its policy of active shareholdership

The State does not always have the powers it needs to implement its policy of active shareholdership. There are inconsistencies between the powers company law confers on shareholders and the powers laid down in the SOEs' articles of association.

Amendment of articles of association needed

The government wishes to exercise its 'active shareholdership' by making full use of the powers provided for in company law. To this end, the SOEs' articles of association must be amended. Company law provides various powers to shareholders (including the State) but they can be exercised only if they are specifically laid down in the company's articles of association. One of these is the power to approve investment decisions above a certain threshold; another is the power to influence a company's strategy. We found that the threshold in the articles of some SOEs, such as NS (Dutch Rail) and Schiphol Group, was so high that shareholders were rarely involved in the formal approval of investments. At 13 of the 26 SOEs, moreover, the articles of association made no reference whatsoever to the shareholders' right to approve investments. The State's formal involvement in decisions on non-core and foreign investments is currently laid down in the articles of association of only two SOEs. The State's ambition of being involved in setting strategy at an early stage is laid down in the articles of just three organisations.

Amending the articles of association tends to be a complex and lengthy process. Although the general meeting of shareholders has formal power under company law to amend a company's articles, in practice it tends to follow the lead taken by the

Chapter 4 explains what aspects of the articles of association are not yet consistent with the powers required to implement policy.

company's executive and supervisory boards. The State has even less influence if it is not the sole shareholder, which is the case at nearly half the SOEs.

The government announced in the *Policy Document on State Owned Enterprises 2013* that the articles of virtually all SOEs would be amended so that they better reflected the State's position as an 'active shareholder'. The House of Representatives does not know which SOEs need to amend their articles of association. We have prepared factsheets for each SOE explaining what powers the State can exercise. The factsheets are presented in annexe 5.

1.5.2 **Decision-making on major investment proposals by State owned enterprises not always transparent or carefully implemented**

Decision-making on investment proposals by State owned enterprises not always transparent or carefully implemented

The State has inadequate information to assess major investment proposals. Greater care should be taken when assessing investments and more attention should be paid to all the public interests. In particular, an investments' financial consequences and risks to the government are not fully recognised.

See chapter 6 for a consideration of investment decisions.

Under company law, shareholders have the power to approve major investment decisions that determine a company's direction. The *Policy Document on State Owned Enterprises 2013* states that both the public and the financial interests of a proposed investment should be comprehensively and transparently assessed in order to arrive at a well-considered decision. The investment's benefit and relevance to the public interest must be clear, as must its financial consequences and risks. As a shareholder, the State must take a measured decision on the basis of both these considerations.

To make this decision as clear-cut as possible, the shareholding function must be separated from the policy-making function. Only then can each party assess its own interests and responsibilities to arrive at a comprehensive and transparent decision (Ministry of Finance, 2013, p. 41). In the past (Netherlands Court of Audit, 2005 and 2009), we recommended that the function of the shareholder should be clearly separated from that of the policy maker in order to strengthen transparency and independence. This recommendation was consistent with the principles set out in the *Policy Document on State Owned Enterprises* (Ministry of Finance, 2007). Ministers who manage policy-based SOEs have acted on this recommendation by placing the two functions in different departments. We concluded from the present audit that this solution is suboptimal. In practice, the functions are inadequately separated within a ministry, with insufficient attention being paid to the financial interest in particular. The *Policy Document on State Owned Enterprises* lacks a vision of the relationship/cooperation between shareholder and policy maker.

We have studied the decision-making process for seven investment proposals made by Schiphol Group and EBN. We also considered the findings of our previous audits of investments.⁷ All these investments proposals had been approved by the shareholder.

⁷ Audits of investments by TenneT (Netherlands Court of Audit, 2015) and by Gasunie (Netherlands Court of Audit, 2012a).

We looked at whether both the public interest and the financial consequences of an investment proposal had been assessed separately so that a definite decision could be taken. We found that the various public interests, including the financial interest, had rarely been considered specifically. It was impossible for the State, in its capacity as shareholder, to make the required consideration because the necessary information displayed three kinds of shortcoming.

1. *The investment's contribution to the public interest was inadequately worked out*
The information on how an investment would protect the public interest lacked nuance and contained uncertainties. It therefore could not be considered in the further decision-making process. The shareholder's assessment of the public interest did not provide clear and substantive reasons for the ultimate decision. In most cases it was decided that the investment was 'in keeping with the public interest'. In another case, which was again inadequately substantiated, the decision was based on reversed reasoning: the investment was not expected to have an adverse effect on the public interest.

In some cases, moreover, the shareholder assessed only one aspect of the public interest and ignored potential conflicts of interest. The State's assessment of the share swap between Schiphol Group and Aéroports de Paris, for example, considered the effect on the quality of the airports' networks but did not consider other public interests, such as the environment and security. In other cases, the assessment of the public interest concluded that the public benefit was uncertain or that the company relied on other parties and protection of the public interest was therefore uncertain.

2. *The shareholder did not systematically recognise the financial consequences and risks to the State*
We found that the State's assessment of investment proposals gave extensive consideration to their commercial consequences but rarely to the financial consequences for the government, such as compulsory capital contributions and guarantees or the loss of revenue (dividend). The shareholder (the Ministry of Finance), however, wishes to set conditions on the approval of investments so as to control the financial risks to the government.

3. *Information on the various steps in the decision-making process was not systematically documented*
Finally, the steps in the decision-making process and the reasons for the final decision are not systematically and transparently documented. Documentation is important because the minister must always be able to account for major investment decisions and, secondly, because government records must be complete. The State has not yet adequately incorporated the assessment process into its organisation. The lack of agreement between the shareholder and the line ministry also represents a risk to the care taken in the decision-making process.

1.5.3 Value of information provided to the House of Representatives on State owned enterprises is open to improvement

The information provided to the House of Representatives on SOE is open to improvement. The financial information is currently too fragmented. The Annual Report on the Management of State Owned Enterprises is not complete and transparent owing to the lack of reference values. Information is also missing on the cost and risks of major investments made by SOEs. Furthermore, the SOEs have not been valued since 2006.

Chapter 7 looks at the information submitted to the House of Representatives.

The private-law regime in which State owned enterprises are owned and the choice of a private-law management instrument in the form of shareholding create a chasm between the government and the SOEs. The use of this instrument therefore has consequences for the management relationship between the government and an SOE and thus for the position of the House of Representatives. The House receives only retrospective information on the management of an SOE: information on its results and on the management conducted. We investigated the information the House received on SOEs and concluded that it should be more insightful and transparent for the House to exercise its control function properly.

Financial information on SOEs is fragmentary

The House of Representatives does not receive full information on the market value of the portfolio as a whole or on the revenue received from SOEs. This information is spread across the budgets and annual reports of several ministries and is often disclosed in umbrella items so that information cannot be gained on individual SOEs. The financial information therefore fails to provide the House with sufficient insight.

Annual Report on the Management of State Owned Enterprises incomplete and not very informative owing to lack of reference values

The minister responsible for an SOE must report on its management every year. The Annual Report on the Management of State Owned Enterprises has been submitted to the House of Representatives every year since 2009. Issued by the Minister of Finance, it contains more information on the SOEs managed by the Minister of Finance (centralised model) than on the policy-based SOEs (decentralised model) managed by the Ministries of Infrastructure and the Environment, and of Economic Affairs. No information is disclosed on the shareholding of policy-based SOEs, only financial information. The House does not receive this information systematically from other documents either.

The annual report does provide information on the 'active shareholding' of SOEs that are managed by the Ministry of Finance's Financing Department, State owned enterprises division. It includes explanatory notes on the SOEs' results and on appointments to executive and supervisory boards. There are no explanatory notes, however, on the investment proposals put to shareholders for approval. The House of Representatives therefore does not know how the shareholder weighed up the public interest and the financial consequences (return on investment or dividend). Risks, too, are not known.

Reference values are not given for the key financial data on State owned enterprises, such as return on equity. Without reference values or multiyear data the information is of limited value to the House. We therefore supplemented the data in the Annual Reports on the Management of State Owned Enterprises with information from the SOEs' own annual reports and presented the information more clearly by adding reference values and multiyear trends (see the factsheets on each company in annexe 5). The disadvantage of tailoring the management of each SOE is that the House can no longer see where the measures diverge from the general policy framework. Without this insight, it is difficult for the House to assess the management of SOEs properly.

No evaluation of SOEs since 2006

No evaluations have been carried out since 2006. Evaluations are important to the House because they provide the only insight into the functioning of shareholdership as an instrument when an SOE is established or evaluated. The government announced in the Policy Document on State Owned Enterprises 2013 that it would evaluate every SOE at least once every seven years (Ministry of Finance, 2013a, p. 65). No evaluations were submitted to the House in 2014.

1.6 Recommendations

In the light of the conclusions above, we make the following recommendations.

Make the management of the SOE portfolio and tailored measures transparent to the House of Representatives

The House of Representatives is aware of the general principles of the management of SOEs as laid down in the Policy Document on State Owned Enterprises 2013. The practice of shareholdership, however, reveals that the shareholder takes a different approach to the management of each SOE. The House has not been informed of this tailored management approach to SOEs. The risk of excessive tailoring is that little remains of the policy framework agreed with the House. We recommend that the House of Representatives be better informed of this tailored management of SOEs.

Document the assessment of investment proposals orderly and auditably to show how the public interest is protected and what risks there are to the State

We found that the information required to assess investment proposals was not documented orderly or auditably enough. We therefore recommend that the State, in its capacity of shareholder, formalise the reporting lines. A decision on an investment proposal with conflicting public interests and risks to the State could then be taken at cabinet level if necessary. The State would thus strengthen its overall decision-making and its position as a shareholder.

Separate share ownership from the policy ministries

To strengthen shareholder transparency and independence, we recommend that ministries with policy responsibility not act as shareholders. With a view to consistency, the Ministry of Finance should be the shareholder wherever possible.

Improve the information provided to the House of Representatives on the management of SOEs in general and of policy-based SOEs in particular, and share information on investment decisions and the revenue from SOEs more transparently.

We recommend that line ministers who manage policy-based SOEs and are responsible for both the financial interest and the public interest make arrangements with the House of Representatives on how they account for their management of the SOEs.

The ministers should provide the House with more insight into their consideration of the public interest and the financial consequences and risks when approving major investments. More information should also be provided on non-core and foreign investments.

We further recommend that the key financial data disclosed in the Annual Report on the Management of State Owned Enterprises include reference values, such as required rates of return and multiyear trends. The annual reports would then provide more substantive information on the management of SOEs. The Minister of Finance should ensure that the House of Representatives receives up-to-date figures every year on the value, profitability, dividends and risks of all companies.

Periodically evaluate the choice of instrument

We recommend the ministers draw up an evaluation plan with a timetable for the SOEs. The evaluations should take account of shareholdership at policy-based SOEs.

1.7 Response of the ministers and the Court of Audit's afterword

The Minister of Finance responded to our draft report on behalf of the Minister of Economic Affairs and the Minister and State Secretary for Infrastructure and the Environment on 24 March 2015.⁸ His response is summarised below. The full text is available in Dutch at www.rekenkamer.nl. We close this chapter with our afterword.

1.7.1 Response of the Ministers of Finance and of Economic Affairs and of the Minister and State Secretary for Infrastructure and the Environment

The ministers and state secretary wrote that the Court of Audit's recommendations largely mirrored the government's policy intentions laid down in the *Policy Document on State Owned Enterprises 2013*. They observed that the recommendations and the draft report supported the implementation of their policy on State owned enterprises. They found, however, that the conclusions were too firm and were difficult to draw from the audit. They thought the report focused on only a handful of aspects of the management of SOEs and did not give a comprehensive view of the management of SOEs and the protection of public interests. They pointed out that the audit looked chiefly at the period before the adoption of the new policy on State owned enterprises. They also noted that the Court of Audit overlooked the use of legislation to protect the public interest.

Powers and control

The ministers agreed with our conclusion that the State did not yet have the formal powers it needed to be an active shareholder at all SOEs. They endorsed the recommendation to amend the articles of association and noted that action was already being taken. The amendments related to the threshold values for investments, the distinction between national and international activities and the shareholder's right to be consulted on strategy. The Minister of Finance undertook to report on the progress made with the amendment of the articles of association in 2015.

Steps have also been taken to amend the articles of association of policy-based SOEs. An advisory report is being prepared on the further refinement of active shareholdership at the Ministry of Economic Affairs' policy-based SOEs. The Minister of Economic Affairs noted that the regional development companies had to comply not only with their articles of association but also with policy instructions that set conditions on their investments.

⁸ In addition to the substantive response, the minister suggested changes to the text, which, in so far as they were factual improvements, have been adopted.

Decision-making on major investments by SOEs

The ministers and state secretary share our position regarding the principles that must apply to the assessment of major investment proposals by SOEs. They do not agree with the firmness of our conclusions that the information to assess investments is inadequate and that the financial consequences of an investment are rarely taken into account. Where there is room for improvement in the assessment process, though, they will act on our recommendations. The assessment framework has been under development since 2007 and our recommendation to document the outcome of assessments in an orderly and auditable fashion complements the drive to further improve the assessment framework.

The ministers and state secretary agreed that a shareholder should always take account of the risks inherent in an investment, but internal and external uncertainties and the public interest could not always be expressed in hard figures. All assessments therefore included an element of subjectivity. However, they wrote, assessments must also be transparent.

According to the ministers and state secretary, the relationship between the shareholder and the policy maker is explained in the *Policy Document on State Owned Enterprise 2013*. In some cases it could be beneficial to reduce the relationship to writing in an agreement. They undertook to see how the assessment of investment decisions could be further embedded in the organisation making use of advances in digital archiving.

The ministers and state secretary thought our recommendation that line ministries not act as the shareholders of policy-based SOEs was inappropriate. They said the current policy-based SOEs were instruments to achieve policy objectives and it was therefore appropriate for just one minister to be responsible for them. They thought the ministries were sufficiently aware of the need to ensure a functional separation of the various roles. Separate departments within a ministry were responsible for shareholdership and there was strict segregation of the other functions, such as the policy-related function. The Minister and State Secretary for Infrastructure and the Environment undertook to further define the shareholder function at two policy-based SOEs, Winair and DC-ANSP. They also said that ProRail would be managed more strictly by shareholdership, as detailed in the Long-Term Rail Agenda.

Information provided to the House of Representatives

The ministers and state secretary thought it was both logical and necessary to tailor management to the SOEs' needs. They did not share our opinion that it created a risk of departing from the policy framework agreed with the House of Representatives. They agreed, though, that departures from the general policy should be reported and explained where necessary.

The ministers and state secretary agreed with our conclusion that the information provided to the House of Representatives could be improved. They appreciated the infographics and factsheets we had compiled for each SOE. They will act on our recommendation to improve the information provided to the House. The next Annual Report on the Management of State Owned Enterprises will name the SOEs that have amended their articles of association and will include a summary of the powers and required rates of return at each SOE and, if the House wishes, multiyear statements.

The criterion to be used for social capital, such as a multiyear statement of all dividends received, is still under consideration. The Minister of Finance will also consider how to report on the number of investment proposals put to shareholders for approval and the reasons for the assessments.

The Minister of Finance will make further agreements with the line ministries on the inclusion of additional information on policy-based SOEs in the Annual Report on the Management of State Owned Enterprises. The line ministers doubt that setting required returns for policy-based SOEs would be meaningful. Other agreements have been made on this matter.

Finally, the ministers and state secretary wrote that they would act on the recommendation to periodically evaluate the SOEs. The next Annual Report on the Management of State Owned Enterprises will include the plans for the seven-year evaluation of the added value of each SOE.

1.7.2 Court of Audit's afterword

We are pleased with the undertaking given by the ministers and state secretary to improve the information in the Annual Report on the Management of State Owned Enterprises. In our opinion, this will improve the account rendered to parliament. The Annual Report is the only document that presents SOEs alongside each other. It is the only means for the House of Representatives to form an opinion on how the shareholders have managed and run the SOEs. The report should therefore in any event state whether the SOEs have met the shareholders' expectations and what influence and powers the shareholders have exercised. Significant departures from the policy on SOEs should be explained. We assume that the next Annual Report on the Management of State Owned Enterprises will include information on the management of policy-based SOEs.

The undertaking to amend articles of association is important. A shareholder should have a solid legal foundation to exercise management and influence.

The ministers and state secretary agree with the principles we suggest to assess major investments by SOEs. Our case studies usually involved major, strategic decisions and it is beyond doubt that assessing them is far from simple. The ministers and state secretary correctly state that all assessments are based on information that contains uncertainties, projections and risk estimates. Any decision on a proposed investment must be explained to the House of Representatives precisely because an assessment has subjective elements. The ministers could explain to the House how the risks, public interests and financial consequences for the State were taken into account. We would note that the orderly and auditable documentation of the decision-making process and appropriate filing would strengthen transparency and accountability to the House. We are also pleased the ministries will improve the processes to assess major investment decisions, including the drafting of agreements between the shareholder and the policy maker.

The subjectivity and sometimes conflicting interests in the assessment of investments strengthen our stance that it would be desirable to separate shareholdership from the line ministries. In view of the public interests and the financial consequences for the national budget of major investments, it would be desirable to have more than one

minister take the decision. For the decision to be transparent, dissenting voices should also be heard. The shareholder is in the best position to fill this role provided it is not directly responsible to the line ministry.

The ministers and state secretary write that they intend to strengthen shareholdership at policy-based SOEs. We infer from this that they agree with us that the State's position as shareholder should be strengthened at policy-based SOEs. We therefore expect the periodic evaluations to pay specific attention to the management of social capital.

The ministers point out that the audit chiefly covered the period before the adoption of the new policy on State owned enterprises. Our audit found that the *Policy Document on State Owned Enterprises 2013* was mainly a continuation and intensification of the previous policy from 2007. Our audit findings are therefore still relevant.

The ministers also wrote that our recommendations agreed with the proposed improvements in SOE policy and the strengthening of active shareholdership. We will follow their undertakings with interest.

Part II

2 About State owned enterprises

2.1 What is a State owned enterprise?

More information on the rights and powers of shareholders is presented in chapter 3.

The State of the Netherlands has contributed risk capital in exchange for shares in several Dutch companies. Shareholders are the owners of a company. In exchange for the risk-bearing investment, shareholders, including the State, have certain rights and powers, as laid down in company law. As a shareholder, the State uses these powers to influence the company's activities and protect the public interests served by the company.

2.2 What is the State's portfolio of enterprises?

Figure 3 lists the 37 enterprises in which the State held an interest in 2014: 35 private or public limited liability companies and two foundations. Foundations do not issue shares, but Holland Casino and the National Lottery have been managed as State owned enterprises since 2004 and are therefore organised as companies in so far as possible. We audited 26 of the 37 enterprises in which the State has an interest. Figure 3 shows that the 11 we did not audit were:

- two SOEs that were added to the portfolio in 2014: Zuidvleugel Regional Development Company and Saba Satia Cable System;
- four dormant SOEs. These are companies without operating activities that will be sold or dissolved. One of them, Maastricht Aachen Airport (ALTMAA), was sold in 2014 and another, Twinning Holding, was dissolved (Ministry of Finance, 2014a, p. 9);
- five financial institutions owned by the State as a result of the financial crisis that are managed by an external shareholder, NL Financial Investments (NLFI).

Unless stated otherwise, the figures in the report present information on the 26 State owned enterprises covered by the factsheets in annexe 5. The State holds 100% of the shares of some companies and they are therefore wholly-owned by the government; in other cases, the State's holding is smaller or even a minority interest. Where the State is not the sole shareholder, the other shareholders are usually public sector bodies, as shown in table 1 in part I. At four companies the other shareholders are private commercial parties. This is the case at Schiphol Group, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO, a development cooperation bank), GasTerra and Royal Dutch Airlines (KLM).

Figure 3 State share portfolio in 2014

Popular name		Legal name
1	BNG Bank	N.V. Bank Nederlandse Gemeenten
2	BOM	Brabantse Ontwikkelings Maatschappij Holding B.V.
3	COVRA	Centrale Organisatie voor Radio-Aktief Afval (COVRA) N.V.
4	DC-ANSP	Dutch Caribbean Air Navigation Service Provider N.V.
5	DNB	De Nederlandsche Bank N.V.
6	EBN	EBN B.V.
7	FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
8	GasTerra	GasTerra B.V.
9	Gasunie	N.V. Nederlandse Gasunie
10	Havenbedrijf Rotterdam (Port of Rotterdam)	Havenbedrijf Rotterdam N.V.
11	Holland Casino	Nationale Stichting tot Exploitatie van Casinospelen in Nederland
12	KLM (Royal Dutch Airlines)	Koninklijke Luchtvaart Maatschappij N.V.
13	KNM (Royal Dutch Mint)	De Koninklijke Nederlandse Munt N.V.
14	LIOF	N.V. Industriebank Limburgs Instituut voor Ontwikkeling en Financiering
15	Nederlandse Staatsloterij (Dutch State Lottery)	Stichting Exploitatie Nederlandse Staatsloterij
16	NOM	N.V. NOM, Investerings- en Ontwikkelingsmaatschappij voor Noord-Nederland
17	NS (Dutch Rail)	N.V. Nederlandse Spoorwegen
18	NWB Bank	Nederlandse Waterschapsbank N.V.
19	Oost	Ontwikkelingsmaatschappij Oost Nederland N.V.
20	ProRail	Railinfratrust B.V. (ProRail B.V. = wholly-owned subsidiary)
21	Saba Bank	Saba Bank Resources N.V.
22	Schiphol Group	N.V. Luchthaven Schiphol
23	TenneT	TenneT Holding B.V.
24	Thales	Thales Nederland B.V.
25	UCN	Ultra-Centrifuge Nederland N.V.
26	Winair	Winair [legal name not known]

SOEs incorporated in 2014

27	Zuidvleugel	Regionale Ontwikkelingsmaatschappij Zuidvleugel B.V.
28	SSCS	Saba Statia Cable System B.V.

Dormant holdings

29	ALTMAA*	N.V. Aangewezen Luchtvaartterrein Maastricht Aachen Airport
30	KG Holding	K.G. Holding N.V.
31	NIO	De Nederlandse Investeringsbank voor Ontwikkelingslanden N.V.
32	Twinning*	Twinning Holding B.V.

* Sold/dissolved in 2014.

Holdings managed by NL Financial Investments (NLFI)

33	ABN AMRO	ABN AMRO Group N.V.
34	ASR	ASR Nederland N.V.
35	Propertize	Propertize B.V.
36	RFS	RFS Holdings B.V.
37	SNS REAAL	SNS REAAL N.V.

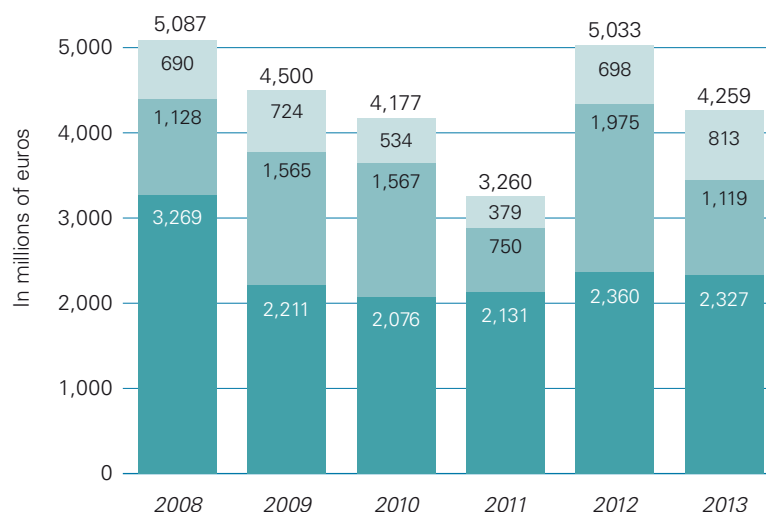
2.3 Income from State owned enterprises

The income received from the current portfolio of SOEs ranged from €3.27 billion to more than €5.1 billion per annum between 2007 and 2013. Most of the income was received from two SOEs: De Nederlandsche Bank (DNB, the Dutch central bank) and EBN (see figure 4). The income from DNB is largely interest. The income from EBN is generated by oil and gas extraction from Dutch territory. Figure 4 shows the fluctuations in income from the other State owned enterprises. The dividend from the other SOEs was €384 million in 2011 and €813 million in 2013.

Figure 4 Dividend from State owned enterprises

Dividend received by the State from:

- Other State owned enterprises
- DNB
- EBN



Source: *Annual Reports on the Management of State Owned Enterprises* (Ministry of Finance, 2011a and 2014a), excluding super dividend from NS of €1.4 billion in 2009.

2.4 Why did the State take share in companies?

Over time, the government has had various reasons to hold State owned enterprises, for instance because large infrastructure projects would not have gone ahead without financial support from the government, e.g. to facilitate the rapid growth of international air traffic at Schiphol Airport and to build the second Maasvlakte at the Port of Rotterdam (Ministry of Finance, 2013). In exchange for the financial support the State received shares in the companies.

The portfolio's composition has changed over time (POC, 2012). SOEs have been added - for example through the nationalization of banks - and have been sold, such as the transport company Connexxion in January 2013. An inquiry by the Parliamentary Inquiry Committee on Privatisation and Corporatisation (POC) found that the total number of State owned enterprises has remained fairly constant over the years (about 30).

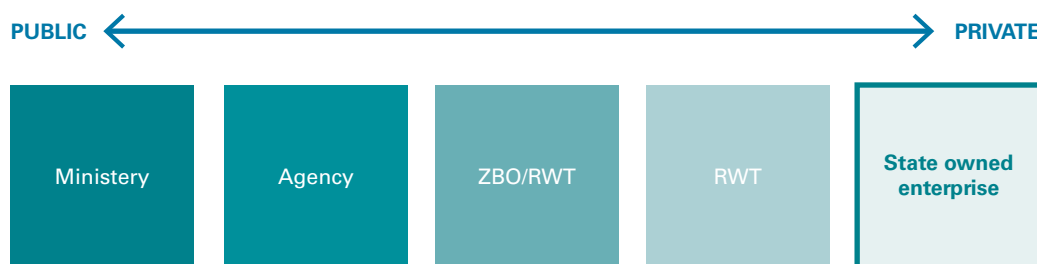
2.5 Relationship between the government and SOEs

The government can delegate operational responsibility for public tasks and/or public interests to a variety of parties. It can also keep public tasks in its own hands; the Netherlands Enterprise Agency, for instance, provides financial and other support to the business community. Corporatisation and privatisation have led to many public tasks being performed by institutions at arm's length from the government. These institutions are legal entities with a statutory task (RWTs) or privatised organisations.⁹

See chapter 4 for information on government policy on SOEs.

The government uses a range of regulatory instruments to protect the public interest if it does not perform a public task itself. The government believes the most appropriate instruments are laws and regulations. Other instruments to protect the public interest include concessions and contracts. Since 2007, the State has also used shareholder-ship as an additional instrument alongside laws and regulations. How the government uses State owned enterprises and share ownership to protect the public interest is explained in chapter 4.

Figure 5 Relationship between a ministry and an SOE



The decision to take a shareholding has consequences for the management relationship between the government and the company. In contrast to the relationship with, for example, an autonomous administrative authority (ZBO), the relationship is founded on a private law instrument: shareholdership. The performance, organisation and supervision of a ZBO or a legal entity with a statutory task (RWT) are governed by public law. As the owner of a State owned enterprise, the minister must comply with company law. Management is shaped by the powers that company law confers on the shareholder.

⁹ See the detailed report of the Parliamentary Inquiry Committee: *Verbindend verbroken* ('Connection Broken') (POC, 2012).

3 The State's rights and powers as a public shareholder

3.1 Shareholdership and company law

As a shareholder, the State must comply with company law and the public interest must be protected in accordance with the instruments it provides. The powers conferred on shareholders by company law are considered briefly below.

Day-to-day management of a company is exercised by the executive board, with, in the Netherlands, a supervisory board overseeing the executive board's performance. The shareholders provide the company with capital and are thus co-owners of the company. In exchange for the capital, they have a number of rights and powers, as laid down in company law.¹⁰

In principle, all powers that are not exercised by a company's executive board or supervisory board are held by the general meeting of shareholders. Company law confers specific powers on the general meeting. They allow the shareholders to exercise a certain amount of control and influence over the company in which they have invested their money. They include the power to:

- appoint and/or dismiss members of the supervisory board;
- adopt the remuneration policy for the executive board and the supervisory board, and approve major decisions (at public limited liability companies);
- approve important changes in the identity or character of the company;
- amend the articles of association;
- adopt the annual accounts and approve the proposed appropriation of the profit.

3.2 Specific shareholder powers

More information on the powers the State can exercise at each organisation is presented in the factsheets.

Company law lays down the general powers vested in the general meeting of shareholders. The powers the State can exercise in practice depend in part on the specific situation at each holding. Such specific powers are determined largely by:

1. The corporate regime of the company

A company may be subject to the 'two-tier board regime' if it meets certain size criteria. If it has more than 100 employees, for example, it must by law appoint a works council. A company subject to the two-tier board regime must appoint a supervisory board, which assumes certain powers from the general meeting, such as the appointment of executive directors.

In some cases a mitigated version of the regime applies. If all a company's capital is provided by one or more public bodies (such as the government or a municipality), partial exemptions are available from the two-tier board regime. This is the case at Gasunie, NS and the Port of Rotterdam. Under the mitigated regime, the supervisory board does not have the power to appoint and dismiss the executive directors; this power remains vested in the general meeting.

¹⁰ Company law in the Netherlands is laid down in Book 2 of the Civil Code.

More information on the amendment of articles of association in order to implement policy is presented in chapter 4.

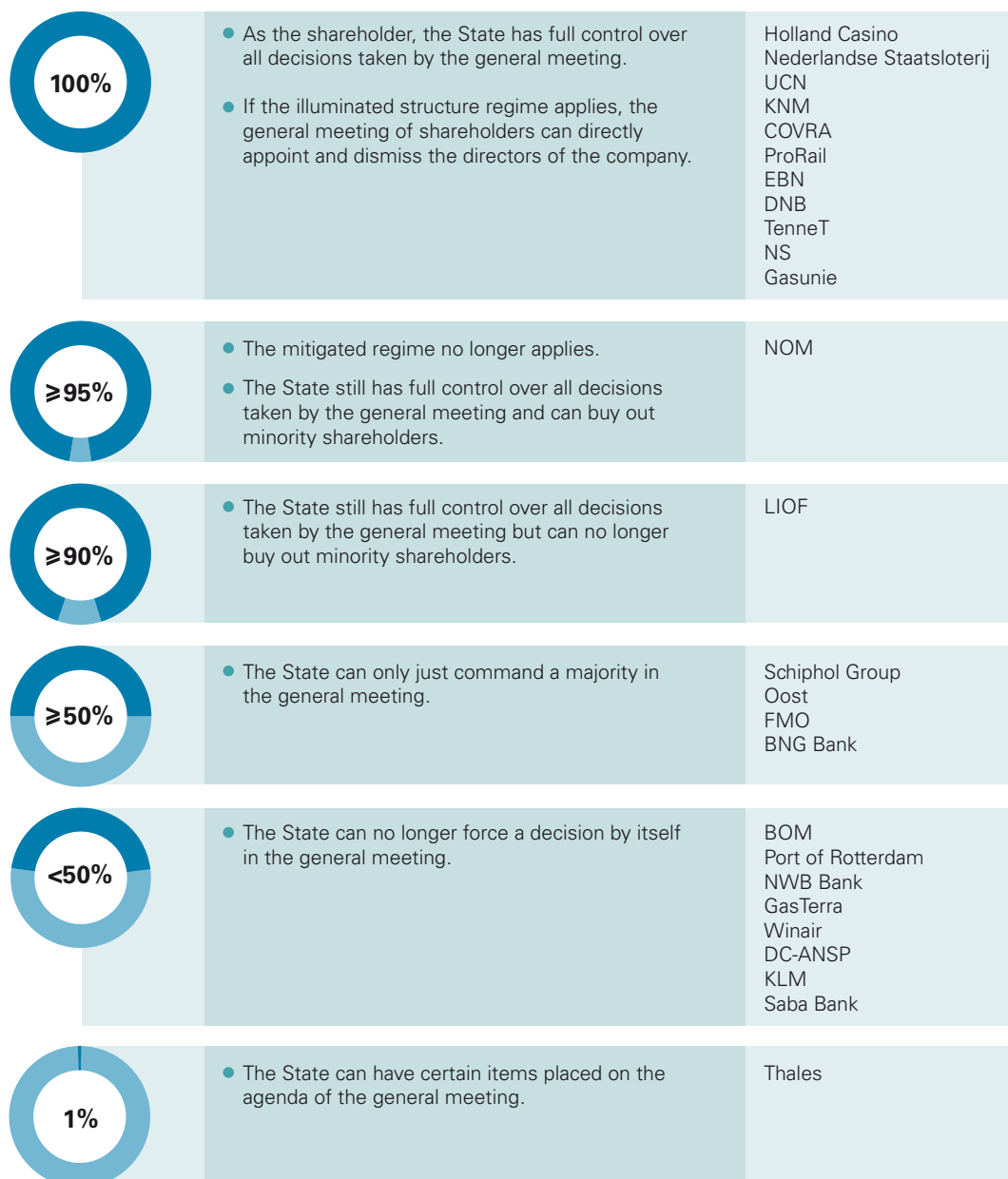
2. The provisions of the articles of association

Under company law, shareholders can exercise certain powers only if they are explicitly laid down in the articles of association. They include the power to approve investment proposals above a certain threshold. The general meeting of shareholders' specific powers - and thus those of the State in its capacity as shareholder - therefore differ from one company to another.

3. Other shareholders

The State's position and powers are also determined by the percentage of shares it holds. Figure 6 shows that the State is not the sole shareholder of 15 of the 26 SOEs. At their general meetings, the State must therefore take account of the interests, influence and powers of the other shareholders. The smaller the shareholding, the less power that can be exercised. Most other shareholders in the State owned enterprises, incidentally, are also public organisations, for example local authorities.

The relationship between the size of the shareholding and the shareholder's powers can be changed by means of agreements among the shareholders. The shareholders of Schiphol Group, for example, have agreed that Aéroports de Paris, despite its 8% minority interest, can block any amendment of the articles of association that would harm its interests. The House of Representatives should be informed of any agreement to amend the articles of association as a result of a share swap so that it knows what effect it will have on the shareholders' powers.

Figure 6 **Smaller shareholding, less power for the State**

4 Shareholder powers

4.1 Policy on the management of State owned enterprises in a nutshell

The government's capacity as shareholder and manager of the portfolio of State owned enterprises is laid down in a series of policy documents (Ministry of Finance, 1985; Ministry of Finance, 1996; Ministry of Finance, 2001; Ministry of Finance, 2007 and Ministry of Finance, 2013a), as shown in figure 7 below.

Figure 7 Policy on the management of State owned enterprises

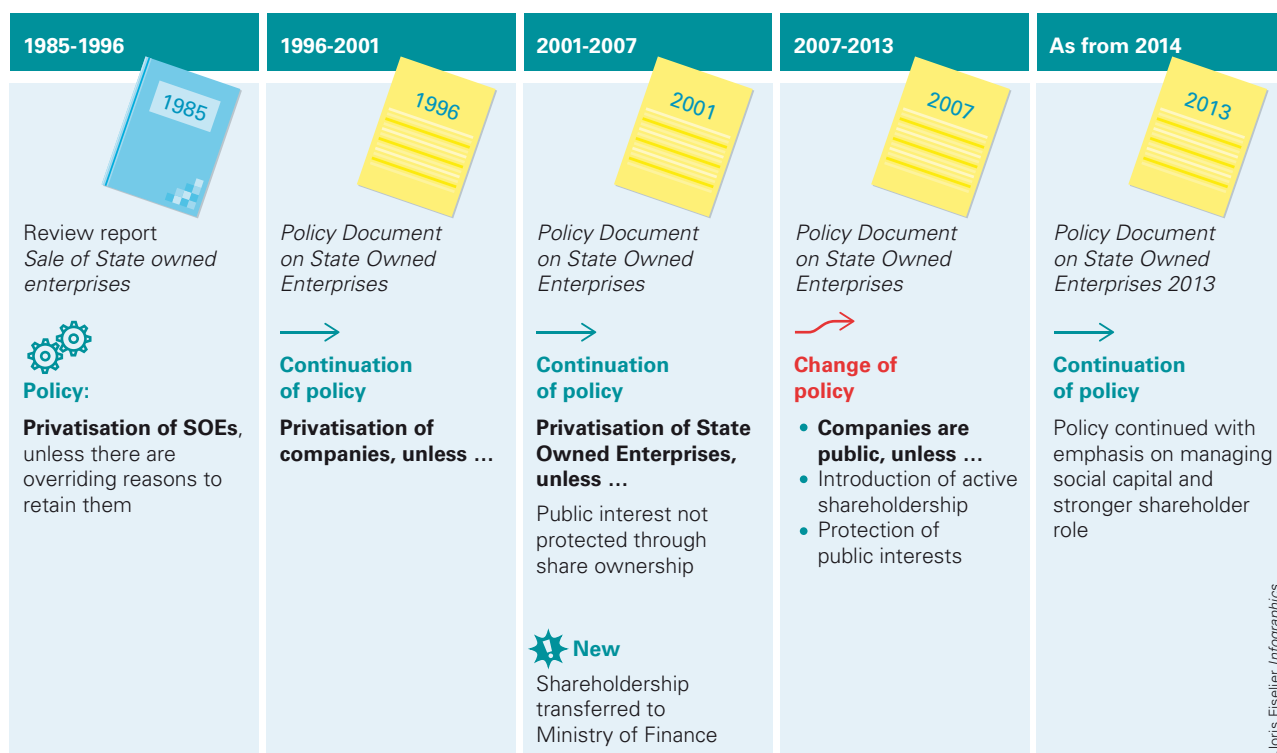


Figure 7 shows that before 2013 government policy was concerned chiefly with the disposal of SOEs unless there were overriding reasons not to do so. The policy was based on the principle that the government would not actively intervene in the private market (POC, 2012, p. 292). The policy changed in 2007. The government no longer adhered to the goal of holding the smallest possible portfolio. Emphasis was placed on the active management of the existing portfolio. The government considered legislation to be the most appropriate instrument to protect the public interest, with State ownership as a supplementary instrument. Protection of the public interest therefore became a more important element of State shareholdership (Ministry of Finance, 2007). To this end, the government would act as an 'active shareholder'.

The current policy on SOEs was set out in the *Policy Document on State Owned Enterprises 2013* (Ministry of Finance, 2013a). In it, the government reiterates its policy and stresses that its aim is to hold a financially healthy portfolio of SOEs.

4.2 Active shareholdership

The government's 'active shareholdership' is a means to protect the public interest. According to the government, there are four ways to do so: strategy, financially healthy companies, approval of investments and good corporate governance. These are not new. All but one of them had been included in the *Policy Document on State Owned Enterprises 2007* as a means to manage State owned enterprises.¹¹ They are elaborated upon in the 2013 policy document.

Below, we consider the current policy on the powers that an active State shareholder must have to exercise the most influence over a company's activities and policy.

1. Strategy

In the government's opinion, a State organisation's strategy must be geared to protecting the public interest. The State therefore wishes to be involved in any adoption or change of strategy at an early stage. The *Policy Document on State Owned Enterprises 2013* states that the shareholder wants the power to discuss strategy with the company rather than approve it. The power to be consulted on the strategy must be laid down in the articles of association. A formalised agreement that it is consulted on strategy in advance, however, does not automatically mean that the shareholder can influence the content of the strategy. This is not its role and, furthermore, the company must take account of other stakeholder interests when adopting its strategy.

The articles of four companies require the general meeting to be consulted before the strategy is set: the Port of Rotterdam, ProRail, Regionale Ontwikkelingsmaatschappij Zuidvleugel (incorporated in 2014) and Staatsloterij. The articles of three companies - Schiphol Group, Royal Dutch Mint (KNM) and Holland Casino - require the general meeting to be provided with adopted strategy documents for information purposes only. The articles of the other SOEs do not provide for the shareholder's involvement in the company's strategy.

2. Financially healthy companies

Government policy is to manage SOEs so that they are profitable and have strong balance sheets and so remain financially healthy.

Managing by profitability

The government thinks the State's core task as a shareholder is to retain the financial value present in an SOE. Achieving a healthy return on capital is a management responsibility. The shareholder is at some remove and can only set and monitor the required rate of return. Required rates of return are not set in the articles; they are an agreement between the State and the company.

Before 2013, the State's target had been that 70%¹² of the SOEs would achieve a required rate of return of 8% (Ministry of Finance, 2012b, p. 36). However, this target was not met between 2011 and 2013. Only 47% (2011), 40% (2012) and 46% (2013) of the SOEs achieved 8% (Ministry of Finance, 2012b, 2013c, 2014b).

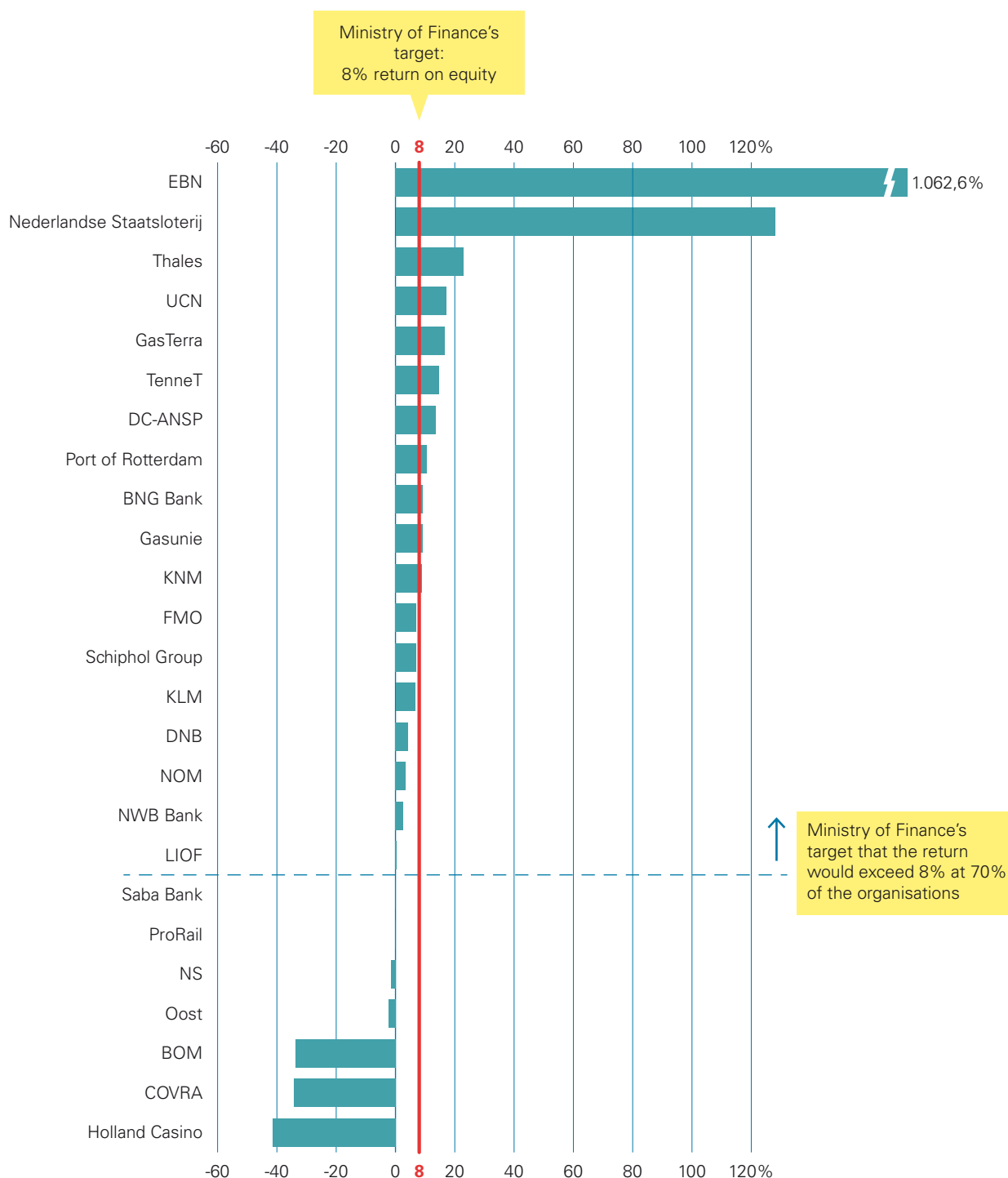
¹¹ The 2007 policy document did not refer to 'appointments'.

¹² The target had been 60% of the holdings in 2011 and 65% in 2012.

Figure 8 shows the returns achieved in 2013 by the 26 SOEs we audited (Ministry of Finance, 2014a, p. 74). The factsheets also present information on the SOEs, including the returns achieved over a series of years.

The government announced in 2013 that it would set individual required rates of return for each SOE. It intended to have done so for a large proportion of the SOEs by the end of 2014 (Ministry of Finance, 2014a, p. 21) but the returns have not yet been disclosed in the Annual Report on the Management of State Owned Enterprises.

Figure 8 **Return on equity of SOEs in 2013¹³**



¹³ Winair is not listed because its return on equity was not disclosed in the Annual Report on the Management of SOEs.

Managing by strong balance sheets

The shareholder can influence the balance sheet position by adopting the dividend policy and the annual dividend distribution. Under company law, the general meeting has the power to decide on the annual appropriation of the profit. The company proposes the dividend policy and discusses it with the shareholders before the latter approve it. This power is laid down in law and does not have to be provided for separately in the articles of association.

Since 2007, the government has applied a general target that SOEs must distribute 40% of their profits as dividend to shareholders. This 40% is the 'pay-out ratio'. The target set in the Ministry of Finance's budget for 2013 was that 90% of all SOEs would have a pay-out ratio of 40% (Ministry of Finance, 2012b, p. 36). The government announced individual targets for each SOE in 2013, but they were not disclosed in the *Annual Report on the Management of State Owned Enterprises 2013*.

Figure 9 Pay-out ratio of SOEs in 2013

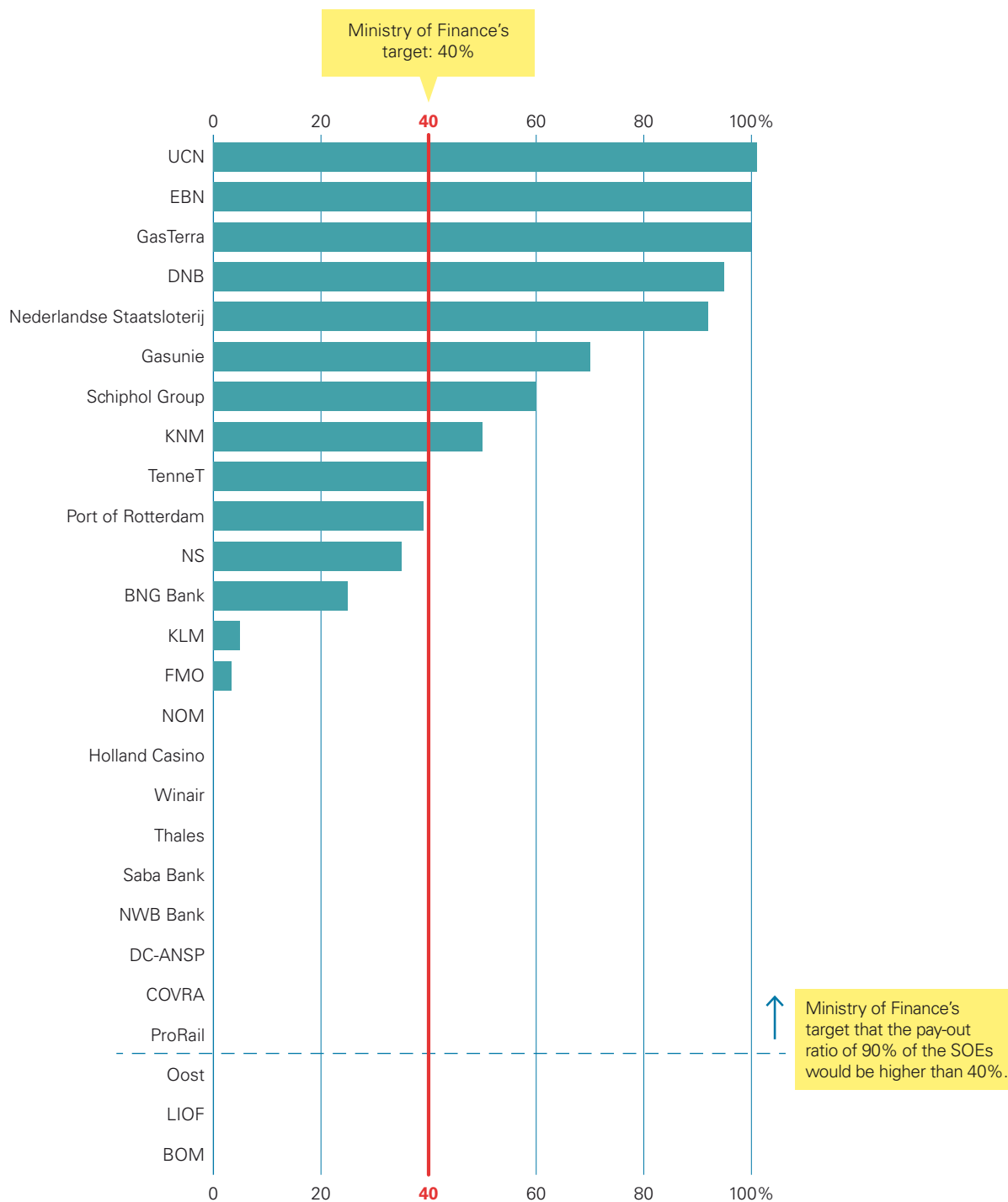


Figure 9 shows the pay-out ratios of the 26 SOEs we audited (Ministry of Finance, 2014a, p. 74). Only nine of the 26 SOEs distributed 40% of their profit as dividend to the shareholders.

Shareholders can opt for a lower pay-out ratio, for example if the company needs capital to invest. The dividend distribution is discussed every year with the company, with the general meeting taking the final decision.

If the company's financial position allows, shareholders can ask for the distribution of a super dividend. This is a dividend charged to the company's profit for the year or its reserves if the company's financial buffers are excessive in relation to the investments it expects to make. In the recent past, super dividends have been distributed by NS and Schiphol Group (see the factsheets in annexe 5). The opposite situation has also occurred. If the financial buffers or equity is in danger of becoming so low that the company's future as a going concern is in jeopardy, the shareholder can decide to contribute additional capital to the company. This happened at TenneT, which needed a capital injection from the State to finance investments without weakening its credit rating (Netherlands Court of Audit, 2015).

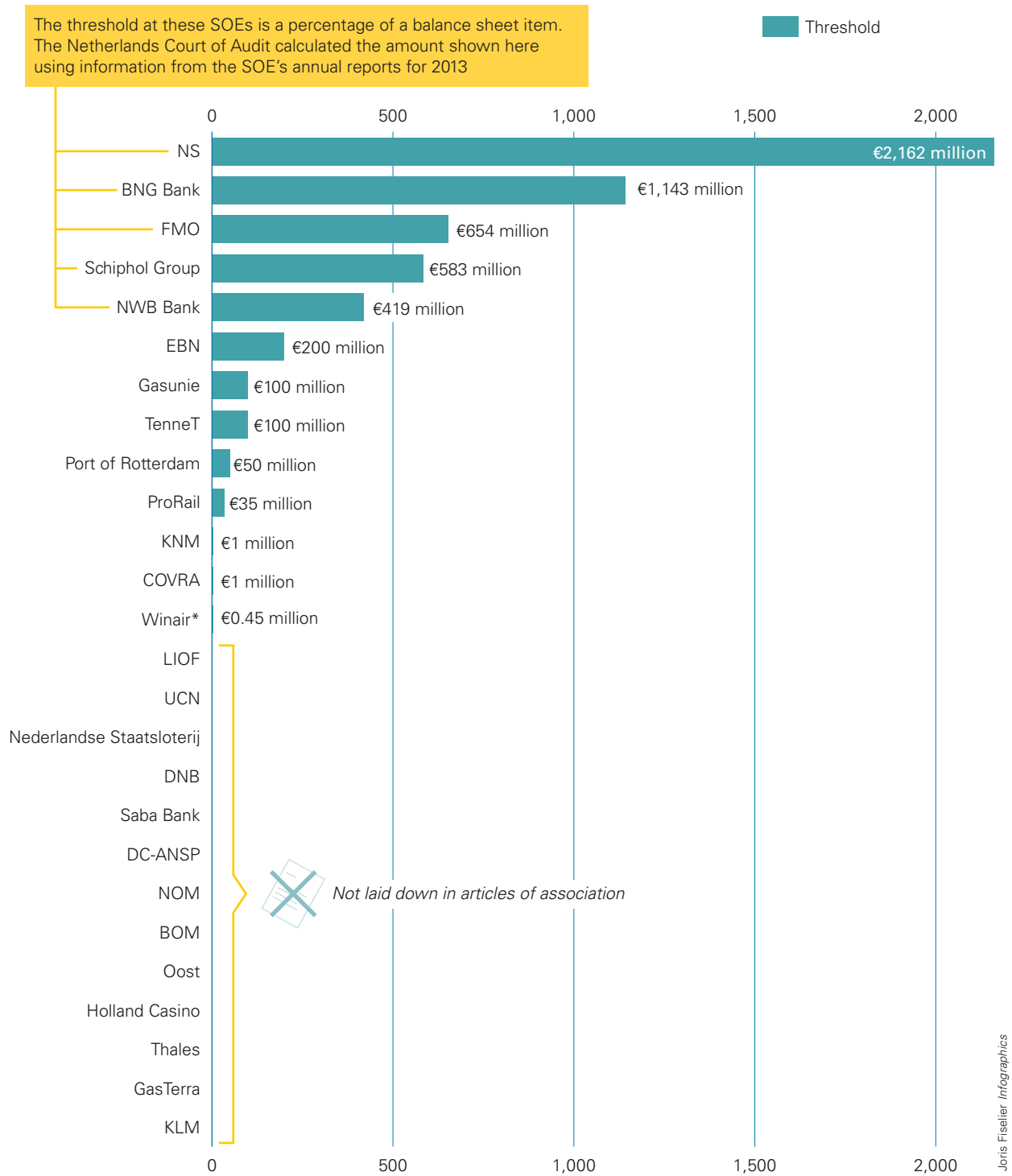
3. Approving investment decisions

The government wants the State to have a right to approve major investments that are new or critical to an SOE's strategy. The articles of association must provide for this right of approval and the thresholds above which shareholder approval is required.

Figure 10 shows the companies whose articles currently include a threshold and the amount of the threshold. Thirteen companies have not yet set a threshold for the shareholder's approval of investments and divestments. The threshold at some companies is so high that the shareholder will rarely have to approve an investment.

The government thinks foreign and non-core investments ought to be approved by the shareholder even if they are below the general investment threshold. The articles of association should accordingly set a threshold specifically for such investments. This is currently the case only at the Port of Rotterdam and Winair.

Figure 10 Thresholds for shareholder approval of investments (2013)



4. Managing by good governance

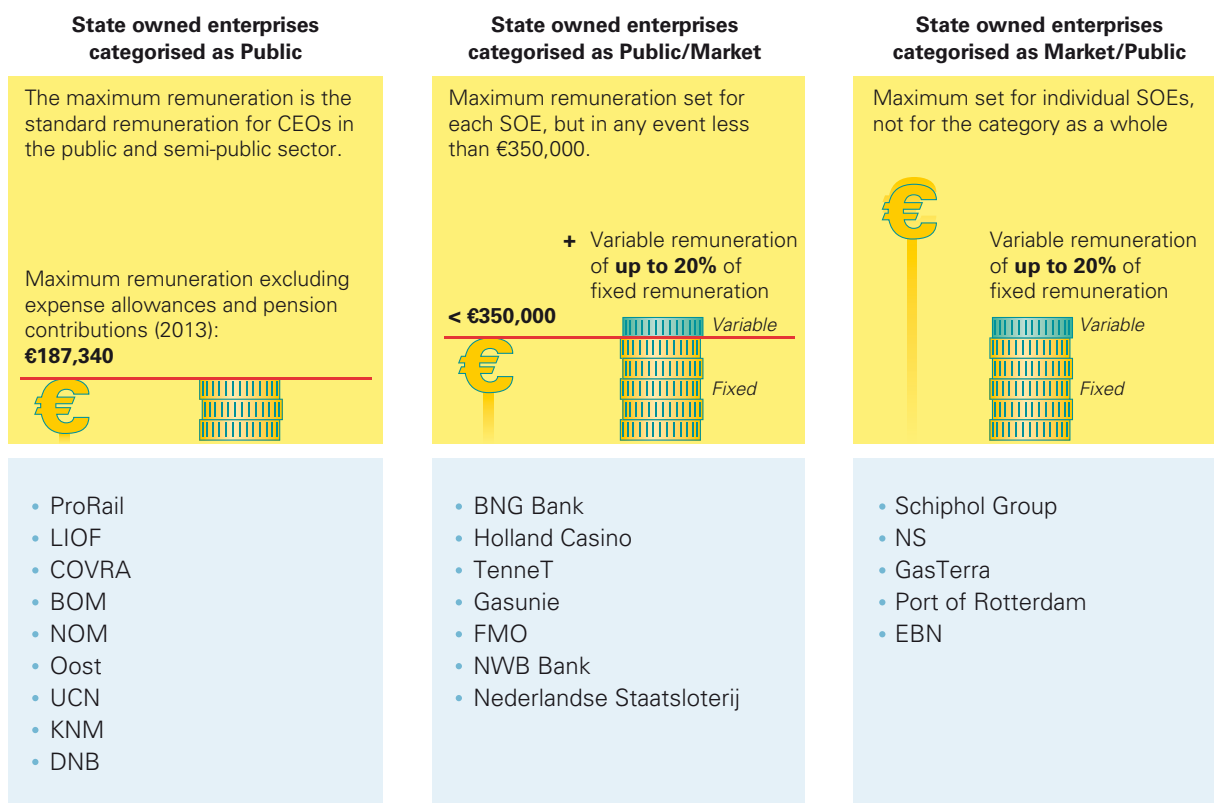
Appointments

The government thinks every SOE should have effective, diverse and balanced executive and supervisory directors. The State has the same statutory powers to make appointments at its holdings as other shareholders. The general meeting's precise power of appointment is determined by the company's legal structure. At four SOEs (BNG, FMO, Schiphol Group and TenneT), the State does not have power to appoint or dismiss members of the executive board if it thinks the company is not protecting the public interest. The shareholder's power to make appointments at each State owned enterprise is shown in the factsheets.

Remuneration policy for executive and supervisory directors

Under company law, the shareholder has the power to set the remuneration policy for members of the executive board. The government has drawn up a remuneration policy for the SOEs (Ministry of Finance, 2008), as shown in figure 11. As the shareholder, the State must ensure that the company's remuneration policy is consistent with the principles of government policy.

Figure 11 Remuneration policy of SOEs, 2013



The State holds too few shares in Thales, KLM, DC-ANSP, Winair and Saba Bank to influence the remuneration of executive directors. These five SOEs are therefore not shown in the figure.

The factsheets present the remuneration, including variable remuneration, of the chief executive officer at each SOE. In general, it can be seen that the CEO's remuneration was in line with the policy in 2013. The factsheets on each SOE also show what power the shareholders have to set remuneration.¹⁴

4.3 Tailored management

The government informed the House of Representatives in 2013 that it had decided to recognise the 'characteristic features of each SOE when setting a required rate of return instead of the current generic rate'. This decision to use individual rates was presented as a break with the past but the Ministry of Finance was actually bringing the policy into line with practice.

Experience shows that the shareholder tailors its management of each SOE. However, the refinement and departure from the policy brought about by individual required rates of return means that the House of Representatives is uncertain what aspects of the general policy framework apply to a particular SOE.

4.4 Amendment of articles of association in order to implement policy

The Ministry of Finance has drawn up standard articles of association laying down the powers that the shareholder, according to the ministry, needs in order to exercise maximum influence over the company's activities (Ministry of Finance, 2013a, p. 45). The ministry has indicated that it intends to phase in the standard articles of associations at policy-based SOEs so that the shareholder, the Ministry of Economic Affairs, has sufficient powers to manage them.

Adopting the articles of association is a statutory power of the shareholders. In practice, a shareholder initiative to amend the articles is a lengthy process because the shareholder must also allow for the company's own interests. If there are other shareholders any amendment or adoption of, for example, a standard rate of return must also take account of their interests.

¹⁴ Use has been made of amounts set in the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act in force in 2013. The Act does not apply to SOEs but the ministers make agreements with individual companies in the 'public' category to set the maximum remuneration at the level laid down in the Act. This footnote has been added because the figure in our draft report incorrectly suggested that the Act was applicable to SOEs.

5 Organisation of the shareholder function

5.1 Three models of shareholdership

The government has adopted three models of shareholdership. They are the centralised, the decentralised and the external models, as explained below.

5.1.1 Centralised model

Shareholdership at 15 SOEs is centralised (see figure 12).¹⁵ In the centralised model, the Ministry of Finance's Financing Directorate acts as shareholder. The shareholdership function is therefore separate from the government's other functions at an SOE, for example that of legislator for the sector in which the SOE is active. Policy responsibility for these SOEs lies with the line ministry under which the company falls.¹⁶ The Ministry of Economic Affairs, for example, is the legislator and awards permits to SOEs active in the energy sector, such as TenneT and Gasunie. The centralised model has been the standard management structure for SOEs since 2001 and is the government's preferred model (Ministry of Finance, 2013a, p. 38).

5.1.2 Decentralised model

Eleven SOEs (see figure 12) are decentralised.¹⁷ In the decentralised model, the same ministry is responsible for both the shareholding and the policy. These holdings are referred to as 'policy-based SOEs'. In the current portfolio of SOEs, the Ministries of Economic Affairs, of Infrastructure and the Environment, of the Interior and Kingdom Relations, and of Finance have one or more policy-based SOEs.

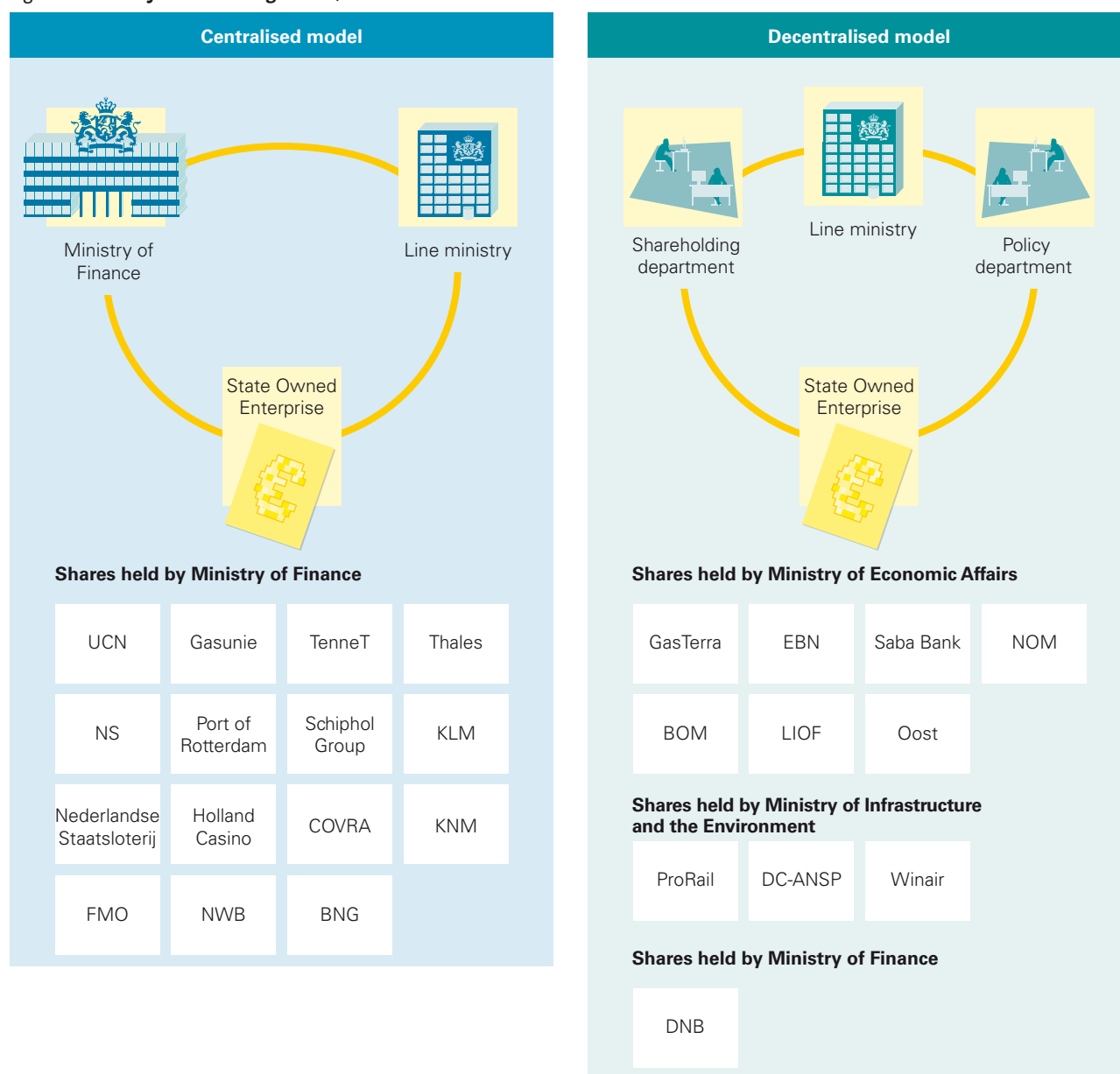
The government, however, does not prefer this model. The line ministries look upon their SOEs as an extension of policy, which makes it difficult to unravel the public interest from the commercial interest (Ministry of Finance, 2013, p. 38).

¹⁵ The four dormant holdings are not taken into consideration.

¹⁶ The information in this report is based on the *Policy Document on State Owned Enterprises 2013*. See also footnote 6.

¹⁷ Two policy-based holdings, Saba Statia Cable System BV and Regionale Ontwikkelingsmaatschappij Zuidvleugel, were incorporated in 2014 and are not considered here.

Figure 12 SOEs by shareholding model, 2014



5.1.3 External shareholdings

The share portfolio includes five financial institutions that are organised in accordance with a third model: external shareholding. Since 2011, NL Financial Investments (NLFI) has held the shares in the financial institutions the government nationalised during the financial crisis. Given the specific (statutory) tasks of NLFI, general policy on SOEs is not entirely applicable to these SOEs and we did not consider this form of shareholding in our audit.

5.2 Performance of the shareholder function

According to the Ministry of Finance, which formulates the policy on SOEs, and the shareholders at the Ministry of Economic Affairs, all SOEs are in principle subject to the same policy. The Ministry of Finance's shareholding of Schiphol Group (centralised model) and the Ministry of Finance's shareholding of EBN (decentralised model), however, display the following differences:

1. contact between the shareholder and the SOE;
2. the role of the policy department;
3. the level of civil servant representation at general meetings of shareholders;
4. active shareholdership at the general meeting of shareholders;
5. decision-making process for major investments.

The following section looks at the first four points in the two models. The fifth is considered in more detail in chapter 6.

5.2.1 Ministry of Finance's shareholdership of Schiphol (centralised model)

The Financing Directorate of the Ministry of Finance manages the shares in all centralised State owned enterprises. It applies the same procedures at all SOEs.

Contact between the shareholder and Schiphol Group

The Ministry of Finance is an 'active shareholder' in Schiphol Group. The shareholder, the Ministry of Finance, for example, arranges several meetings with the company every year. A meeting is held with the company's supervisory board every year in anticipation of the annual general meeting. A preparatory memorandum is drawn up for this meeting that is tailored to the company's circumstances. A report is also drawn up in anticipation of the general meeting itself. A memorandum is prepared for the general meeting but not for the other meetings. The ministry believes informal contacts between the company and the shareholder are very important. They are the most opportune moment for the shareholder to exercise influence.

The role of the policy department

For the past two years, the Ministry of Finance has involved the line ministry responsible for Schiphol Group (the Ministry of Infrastructure and the Environment) in the preparations for Schiphol Group's general meeting. The involvement has not been formalised and reports are not made of it.

Level of civil servant representation

The State is represented at the general meeting by the Director of the Ministry of Finance's Financing Directorate.

Active shareholdership

We determined how active shareholdership issues¹⁸ were dealt with at Schiphol Group's general meeting and what questions the shareholder (the Ministry of Finance) asked. Active shareholdership issues considered at the meeting included:

- the required return on equity set in 2012;
- distribution of a second tranche of a super dividend was passed in 2009 because Schiphol Group's credit rating would have been lowered by the deterioration in market conditions;
- since 2007, the Ministry of Finance has criticised the lack of transparency in the relationship between the executive directors' variable remuneration and how targets are set and achieved.

¹⁸ The issues are: managing the strategy, financially healthy businesses (rate of return and capital position), approval of investment decisions and good corporate governance (see section 4.2).

5.2.2 Ministry of Economic Affairs' shareholding of EBN (policy-based SOE)

The Ministry of Economic Affairs' Enterprises Directorate manages the shares in EBN and the other policy-based SOEs held by the ministry. The Energy Market Directorate is responsible for setting EBN's policy. The decentralised model has consequences for the influence the State can exercise. The Ministry of Economic Affairs' influence as shareholder over EBN is modest in comparison with the policy department's,¹⁹ as explained below.

According to the Ministry of Economic Affairs this was a deliberate choice because the SOE is a means to achieve policy (a policy-based SOE).

Shareholding of EBN is an instrument to steer the governance of the gas market. A study of the future of the governance of the gas market was carried out in 2014 on behalf of the Ministry of Economic Affairs (ABD Topconsult, 2014). It concluded that gas extraction was a source of conflict with the public interests of value maximisation, supply security and safety. The study underlined the importance of good coordination between the policy function and the shareholder function. The Ministry of Economic Affairs must also take specific and comprehensive account of the public interest to develop a forward-looking strategy that sets frameworks and a direction for the actors in the gas industry, such as EBN.

Contact between the shareholder and EBN

The shareholder (the Ministry of Economic Affairs) has formal contact with EBN once a year, at the annual general meeting. It also talks to the supervisory board at the meeting. There is informal contact with the company every quarter. A report is made only of the annual general meeting.

Contact between the policy department and EBN

The policy department, not the Ministry of Economic Affairs, determines whether EBN's strategy is in the public interest. The policy department also has more frequent contact with EBN than the Ministry of Economic Affairs, at least 12 times a year. It holds strategic and operational meetings with EBN's executive and supervisory directors twice a year. The Director-General of the Energy Market Directorate is present at these meetings but no report is made of them.

Level of civil servant representation at general meeting

The State is represented at the general meeting by two senior policy officers of the Ministry of Economic Affairs.

Active shareholding

Points raised by the Ministry of Economic Affairs during general meetings have included:

- EBN's expectation that its score on the transparency benchmark would be higher next year;
- questions about the content of the annual report and the lack of transparency on executive remuneration;
- the ministry/shareholder's decision on the composition and remuneration of the supervisory board;

¹⁹ The shareholder's modest role was also commented upon in our audit of ProRail (Netherlands Court of Audit, 2009), also a policy-based SOE. ProRail is managed by the Ministry of Infrastructure and the Environment.

- the ministry/shareholder agreed with the policy department's vision of the strategy and defended it at the general meeting.

We also found that the ministry insisted that EBN's non-statutory tasks be transferred to a separate legal entity, EBN Capital BV, in order to protect the income EBN earned on the tasks laid down in the Mining Act from potential losses incurred on its non-statutory tasks.

6 The State's assessment of investment proposals

We carried out an in-depth study of how the State exercised its power to approve major investment proposals by its SOEs. As shareholder, the State has the power to approve investments above a certain threshold. The amount is laid down in the articles of association and is often high. The government's different functions at its SOEs and its protection of the public interest come to the fore in the assessment of investment proposals.

The Policy Document on State Owned Enterprises 2013 (Ministry of Finance, 2013a) states that an investment proposal requires a comprehensive consideration of both the public and the financial interests. The roles of shareholder and policy maker therefore need to be separated so that each can take a responsible decision based on its own interests. Otherwise the decision will not be balanced and transparent. The government has introduced an assessment framework to support this decision-making process (Ministry of Finance, 2013a, p. 55). We studied the decision-making process based on the following criteria of the assessment framework:

1. the impact of the investment on the public interest must be convincingly analysed;
2. the figures underpinning the investment proposal must be realistic;
3. the financial consequences for the shareholder and the risks must be known and acceptable.

We found that the decision-making process to approve investment proposals was not always carefully implemented. The final decision was not based on a comprehensive, balanced consideration of the various public interests, including the financial interest. It was often impossible to consider all the interests because relevant information was lacking.

This conclusion is based on an analysis of the State's assessment of investment proposals at Schiphol Group and EBN and on earlier audits by the Court of Audit (Netherlands Court of Audit, 2012a; Netherlands Court of Audit, 2015). We set out our findings on the State's assessment of investment proposals below.

6.1 The investments

6.1.1 Investments by Schiphol Group

The general meeting of Schiphol Group currently has a formal right, as laid down in the articles of association, to approve proposals by the executive board to make investments or divestments worth at least 10% of the balance sheet total. The precise amount therefore differs from year to year. On the basis of figures from 2013, this threshold was equal to €583 million.

In its annual reports, Schiphol Group disclosed that it made 49 substantial investments between 2008 and 2013. None of them exceeded the threshold of 10% of the balance sheet total laid down in the articles and none of them was therefore put to the shareholders for formal approval. The 70MB project to improve baggage handling cost approximately €800 million in total and was therefore higher than the threshold but it was not put to the shareholders for approval because Schiphol Group's executive board did not consider it to be just one investment.

Between 2008 and 2013 only the proposed share swap (cross participation) between Schiphol Group and Aéroports de Paris (AdP) of France was put to Schiphol Group's general meeting for formal approval. A cross participation is an exchange of shares in order to participate in each other's share capital.²⁰ The share swap related to an 8% interest, with Schiphol Group paying €530.4 million to AdP and AdP paying Schiphol €369.6 million. Since AdP's market capitalisation was higher than Schiphol's at the time, Schiphol settled the balance of more than €160 million with AdP. Schiphol Group had to issue new shares in 2008 so that AdP could take an interest in it. The share issue diluted the interests held by the existing shareholders (the State, the municipality of Amsterdam and the municipality of Rotterdam). The cross participation reduced the State's interest in Schiphol Group from 75.8% to 69.7%.

We found that the shareholder (the Ministry of Finance) had assessed investments that Schiphol Group had proposed in foreign airports. The assessments, however, did not lead to the State giving its formal approval because none of the investments exceeded the threshold:

- in the USA: in JFK/New York airport, net investment of €13 million;
- in Brazil: in Guarulhos/Sao Paulo airport, maximum investment of €128 million; and
- in Argentina: in Galeiao/Rio de Janeiro airport, maximum investment of €143 million.

6.1.2 Investments by EBN

Under EBN's articles of association, the shareholder (the Ministry of Finance) has the right to approve investments valued at €200 million and higher. Between 2007 and 2013 the ministry assessed the following investments by EBN:

- acquisition of an interest in DSM Energy at a cost of €241 million;
- oil production in Schoonebeek with an initial investment of €422 million and a cost overrun of €198 million;
- gas storage in Bergermeer at a cost of €360 million; and
- expansion of gas storage in Norag at a cost of €350 million.

6.2 Assessment of the public interest

We supplemented our case study with the findings of previous audits of the assessment of investments made by two State owned enterprises, TenneT (Netherlands Court of Audit, 2015) and Gasunie (Netherlands Court of Audit, 2012a). The findings are explained below.

a. Poor substantiation of the public interest

Our previous audits had found that the policy department responsible for assessing the public interest of investments did not have access to underlying studies, facts or detailed scenarios that clearly explained how the investments would serve the public interest (Netherlands Court of Audit, 2015 and 2012a). In its assessment of the share swap between Schiphol Group and AdP, moreover, the Ministry of Infrastructure and

²⁰ Strictly speaking, an 'investment' and a 'participation' are distinct terms in the articles of association. The Ministry of Finance conceded though that in practice the terms were virtually synonymous since participations are sometimes taken in order to make investments.

the Environment had only a limited analysis of the relationship between the share swap and its potential benefit to the quality of Schiphol's network.

A clear, well-founded substantiation of how the investments would protect the public interest was not available. In most cases, the assessments concluded that the investment was 'in line with the public interest'. In one case, the assessment relied on reverse reasoning to conclude that the investment was not expected to harm the public interest. In the case of the share swap between Schiphol Group and AdP, it was concluded that not making the investment might harm the public interest served by Schiphol Airport.

b. Conflict between public interests inadequately recognised

We found that the State sometimes opted to assess one specific aspect of the public interest and ignored potential conflicts between public interests. As a result, it was difficult to arrive at a well-founded decision on an investment proposal. In the share swap between Schiphol Group and AdP, the assessment of the public interest concentrated on just one aspect, the importance of Schiphol to the Dutch economy. The consequences for other public interests, such as the environment and safety, were not considered.

When TenneT purchased a German network, the Ministry of Finance concluded that the acquisition would have added value regarding the affordability of energy supplies in the Netherlands but not the reliability and sustainability of supply (Netherlands Court of Audit, 2015). These aspects were not touched upon in later documents or in the report submitted to the House of Representatives. It was stated that the investment served the public interests because it would make energy supplies more affordable, reliable and cleaner (Ministry of Economic Affairs, 2009, p. 1).

c. Uncertainties and interdependencies not considered

Some assessments concluded that it was uncertain whether the investment was in the public interest because the benefits were not clear and the company relied on other parties to protect the public interest. These two situations arose in the assessment of Gasunie's acquisition of the German gas transmission network. The shareholder concluded that the acquisition was in the public interest as it would make energy supplies more affordable, but this was dependent on external parties and circumstances such as transmission fees in Germany (Netherlands Court of Audit, 2012a, p. 49). No reference was made to these external circumstances in the final assessment.

6.3 Financial consequences and risks to the government

Although the State shareholders (the Ministry of Finance and the Ministry of Economic Affairs) did not always consider all aspects of the public interest, they did give full consideration to the commercial consequences of an investment.

6.3.1 Financial considerations

An external consultancy reviewed all the financial considerations underlying the Minister of Finance's formal approval of the investment proposals we audited. As the owner of the policy-based SOE EBN, the Ministry of Economic Affairs itself assessed the figures in EBN's investment proposals. It thought that EBN's checks of the main commercial considerations were adequate. It also thought there were sufficient checks

and balances in place because EBN itself did not initiate projects but was required by law to participate in projects undertaken by market parties. Furthermore, it reasoned that the market parties bore 60% of the financial risk of an investment and investments in excess of €50 million also required the approval of EBN's supervisory board. We found that in its capacity as shareholder the Ministry of Economic Affairs assessed project plans and put additional questions to EBN regarding, for example, the gas prices used and the use of sensitivity analyses. It was also more critical about investments that were not related to EBN's statutory tasks.

6.3.2 Financial consequences

The SOEs themselves are responsible for financing their investments, by means of equity capital, by temporarily forgoing dividend distributions, by contracting loans or, as in the case of TenneT, by calling on its shareholders to make a capital contribution (see box). The shareholder must know what financial consequences an investment will have for the company's balance sheet and the dividend flows received by shareholders. This is also referred to in the policy document's assessment framework. The financial consequences for the government are rarely considered as a separate interest or taken into account when deciding whether or not to approve an investment proposal.

Capital injection to retain TenneT's credit rating in 2009

In 2009 TenneT called on its shareholder, the Ministry of Finance, to make an additional capital contribution in order to finance investments in its high tension network in the Netherlands. The ministry concluded that the capital injection was necessary to prevent TenneT's credit rating from being downgraded. Furthermore, the shareholder would have to forgo a dividend distribution. We did not find that forgoing the dividend had been quantified and taken into account in the financial consequences of the investment (Netherlands Court of Audit, 2015).

6.3.3 Estimates of the financial risks to the government

In accordance with the Ministry of Finance's assessment framework, the shareholder must make a risk analysis of investment proposals (Ministry of Finance, 2013a, p. 56). The company's executive and supervisory directors assess the investment from the company's point of view. The shareholder must assess whether the investment entails risks to the public and the financial interests. Our audit found that the shareholder identified risks to the government but did not take them into account as separate elements in the decision to approve investment proposals.

Gasunie's acquisition of German gas transmission network in 2008

Our audit of Gasunie's acquisition of the German gas transmission network found that the shareholder, the Ministry of Finance, was aware when it decided on the acquisition that tariff regulation in Germany represented a serious risk (Netherlands Court of Audit, 2012a). It was also aware that unfavourable regulation would lead to a downward revaluation of the network, an increase in interest expense and a reduction in dividend capacity for a long period of time. The Ministry of Finance also knew that the regulatory uncertainty was not factored into Gasunie's bid price and the German network might therefore have been overvalued. In the worst case, the Germany network might have to be written down by as much as €800 million. The shareholder assumed from informal talks between Gasunie and the German regulator that this worst case scenario would not materialise. Things turned out differently. In September 2012, €1.8 billion was written off the €2.1 billion consideration paid to acquire the German network (Netherlands Court of Audit, 2012c; American Appraisal, 2012).

Schiphol Group share swap with Aéroports de Paris in 2008

The shareholder, the Ministry of Finance, considered the consequences of the share swap between Schiphol Group and AdP. It looked at the general risks to the State's powers as a shareholder rather than at the specific financial risks. To mitigate these risks, the Ministry of Finance set additional conditions in the transition document regarding, for example, the marketability of the shares and the strategic information the ministry would receive. The shareholder also assessed investments that did not formally require its approval. We found that the ministry paid most attention to the political sensitivity of investment outside the Netherlands.

TenneT's acquisition of the German electricity network in 2009

On the acquisition of the German electricity network, the shareholder, the Ministry of Finance, did not wish to contribute additional capital to TenneT. TenneT financed the acquisition by coming to a financial arrangement, with the government's assistance, that entailed risks to public finances. The State provided guarantees worth €300 million. The shareholder tried to mitigate the risks by setting conditions for its approval but the financial risks ultimately could not be avoided. (Netherlands Court of Audit, 2015).

Investments by EBN

We could not find an analysis of the impact of investments on EBN's balance sheet or dividend flows. The shareholder, the Ministry of Economic Affairs, did ask EBN for an estimate of the risks of proposed investments to the company because it attached greater weight to some risks than the company itself. One was that the market supervisor did not have a formal opinion on the tariffs used to calculate the return. In this instance, the shareholder referred to the potentially serious financial consequences for the return on the investment. These financial consequences were not quantified in relation to, for instance, the consequences for EBN's profit, and thus the government's revenue.

Moreover, the shareholder paid specific attention to whether EBN's investments complied with the Mining Act. The Act allows EBN to carry on other activities but they may not be financed from EBN's statutory tasks. For this reason, one of the conditions set by the shareholder regarding the investment in gas storage in Bergermeer was that this non-statutory activity had to be transferred to a separate subsidiary. A separate limited company has been incorporated and the shareholder has reached agreement on its participation in it.

6.4 Decision-making process for investment proposals

Involvement of the policy department

The Policy Document on State Owned Enterprises 2013 states that the policy department should be involved in any assessment of investment proposals (Ministry of Finance, 2013a). We found that the shareholder contacted the policy department to learn whether investments would be in the public interest.

In its capacity as shareholder, the Minister of Finance also engaged an external bureau to assess investments in addition to the policy department's opinion. On behalf of the ministry, the external bureau assessed the benefit to the public interest, the financial reasoning, the financial consequences and the risks to the State. The ministry also requested an external opinion on two other investments we audited: Gasunie's acquisition of the German gas transmission network and TenneT's acquisition of the German electricity network. When we audited Gasunie's acquisition of the German gas transmission network, we did not find a dossier at the Ministry of Finance

regarding its approval of the acquisition. EBN's shareholder, the Ministry of Finance, accepted the policy department's opinion on the investment's benefit to the public interest.

Level of decision-making

The *Policy Document on State Owned Enterprises 2013* (Ministry of Finance, 2013a) states that the State's differing interests and responsibilities ultimately come together in the cabinet (Ministry of Finance, 2007, p. 40). However, we did not see this in any of the decision-making processes. This would have been expected though in the case of TenneT's investment in the Germany network given the financial risks involved.

Where investment decisions led to conflicts of interest between the line minister and the shareholder, we also found that the shareholder did not continue the decision-making process in the cabinet. At a policy-based SOE, where the policy department and shareholder are part of the same ministry, the minister is responsible for weighing the various public interests. They are not considered by more than one minister.

No structured documentation of information

Our audit found that shareholder decisions to approve an investment were not documented. We did not find documents explaining the reasons underlying the decision on the advantages and disadvantages of an investment, the opportunities and risks, the financial consequences and benefits to the public interest.

7 Provision of information to the House of Representatives

The government's decision to manage its SOEs by means of a private-law instrument, i.e. shareholding, has direct consequences for the position of the House of Representatives. Parliament does not have a say as co-legislator in the organisation of the SOEs. It does in the case of legal persons with statutory tasks. The use of this instrument is laid down in the Civil Code. Parliament must therefore be informed in advance of the powers conferred under an SOE's articles of association, the policy conducted for it and other matters. Parliament should also be informed in retrospect of how the SOEs are managed, including the management of their social capital. In our opinion, the information provided to the House of Representatives is open to improvement.

7.1 Provision of information on SOEs to the House of Representatives

Under the Government Accounts Act 2001, ministers must inform the House 30 days in advance of 'the establishment or joint establishment, or the causing of the establishment, by the State of a legal person constituted under private law'.²¹ They must also do so if the State intends to make a capital contribution to a legal person constituted under private law.²² During those 30 days, the States General can request more information on the minister's proposal to establish a legal person or strengthen its equity capital.

Under a recent amendment of the Government Accounts Act 2001, the Minister of Finance must inform parliament every year of the policy implemented and to be implemented for 'the acquisition, ownership and alienation of assets of legal persons constituted under private law if fundamental characteristics of shareholders' capital attach to those assets'.²³ Under the explanatory memorandum to the sixth amendment of the Government Accounts Act 2001, the information can be provided in the Ministry of Finance's budget, the Annual Report on the Management of State Owned Enterprises or a separate letter or document. The Annual Report will in future also be submitted to the Senate.

We found that the Minister of the Interior and Kingdom Relations and the Minister of Economic Affairs did not inform parliament on time of the establishment of a holding in Saba Statia Cable System BV and the Zuidvleugel regional development company (Innovation Quarter) respectively (Netherlands Court of Audit, 2013b; Netherlands Court of Audit, 2014).

²¹ Government Accounts Act 2001, section 34.

²² Government Accounts Act 2001, section 34a. The Government Accounts Act 2001 was recently amended (Sixth Amendment of the Government Accounts Act 2001, Government Gazette 2014, 310). Section 34a replaces section 34 (5) of the former Government Accounts Act 2001. Where a financial interest is greater than an amount to be set by the Minister of Finance, the State's acquisition of shares in a public or private company with limited liability in which the State holds or through such acquisition would hold 5% or more of the issued share capital shall not take place until at least 30 days after written notice of such a proposal has been given to the States General.

²³ Government Accounts Act 2001, Section 34c, paragraph 1 (a).

7.2 How is the House of Representatives informed of SOEs?

7.2.1 No information on the management of policy-based SOEs

In recent years, the Minister of Finance has submitted the *Annual Report on the Management of State Owned Enterprises* to the House of Representatives as well as his ministry's budget and annual report.

Undertakings given to the House of Representatives

In 2004, the Minister of Finance submitted the first *Annual Report on the Management of State Owned Enterprises* to the House of Representatives. No annual report was published in 2007 or 2008 but in 2009 the minister said during a policy meeting with parliament that he 'intended to restore a tradition that was going out of fashion, that we prepare an annual report every year on all State owned enterprises.' He said the annual report would pay specific attention to the shareholder's protection of the public interest, as described in the 2007 policy document, and consider the strategy and its implementation, involvement in major investment decisions, adoption of the remuneration policy and assessment of the balance sheet structure.

Further to TenneT's investment in Germany, the Minister of Finance said in April 2012 that the *Annual Report on the Management of State Owned Enterprises* would also consider the SOEs' major investments, capital position and significant financial risks that might affect the national budget.²⁴

The House of Representatives debated the 2012 *Annual Report on State Owned Enterprises* and the *Policy Document on State Owned Enterprises 2013* in February 2014. The Minister of Finance said the annual report would include an evaluation of SOEs, the planning of future evaluations and the strategy talks with the SOEs, provided their commercial interests were not compromised (House of Representatives, 2014a).

Content of the Annual Report on the Management of State Owned Enterprises

As the *Annual Report on the Management of State Owned Enterprises* is issued by the Minister of Finance, it contains more information on the centralised SOEs it manages than on the decentralised policy-based SOEs managed by the Ministry of Infrastructure and the Environment and the Ministry of Economic Affairs. The report contains only financial information on the decentralised SOEs. There is no information on how the shareholders exercise their powers. The House does not receive this information in other parliamentary documents either. We therefore concluded that accountability for the management of SOEs is incomplete. Figure 13 shows the differences in the information provided to account for the management of SOEs by the *Annual Report on the Management of State Owned Enterprises* in 2013 (Ministry of Finance, 2014a).

²⁴ This undertaking arose from a statutory provision in the Government Accounts Act that obliges the Minister of Finance to inform the House of Representatives of the consequences of financial transactions that affect the national budget (Ministry of Finance, 2012c).

Figure 13 Differences in information reported in the Annual Report on the Management of State Owned Enterprises 2013

	General information	Financial statement	SOE-specific key figures	Corporate governance	Remuneration	Description of the SOE	Legal status and ownership	The public interest and its protection	Strategy	Investments	Remuneration policy	Capital structure	Foreign activities
Centralised model													
BNG Bank	●	●	●	●	●	●	●	●	●	●	●	●	●
COVRA	●	●	●	●	●	●	●	●	●	●	●	●	●
FMO	●	●	●	●	●	●	●	●	●	●	●	●	●
Gasunie	●	●	●	●	●	●	●	●	●	●	●	●	●
Port of Rotterdam	●	●	●	●	●	●	●	●	●	●	●	●	●
Holland Casino	●	●	●	●	●	●	●	●	●	●	●	●	●
KNM	●	●	●	●	●	●	●	●	●	●	●	●	●
NS	●	●	●	●	●	●	●	●	●	●	●	●	●
NWB Bank	●	●	●	●	●	●	●	●	●	●	●	●	●
Schiphol Group	●	●	●	●	●	●	●	●	●	●	●	●	●
Nederlandse Staatsloterij	●	●	●	●	●	●	●	●	●	●	●	●	●
TenneT	●	●	●	●	●	●	●	●	●	●	●	●	●
UCN	●	●	●	●	●	●	●	●	●	●	●	●	●
KLM	●	●	●	●	●	●	●	●	●	●	●	●	●
Thales	●	●	●	●	●	●	●	●	●	●	●	●	●
Decentralised model													
BOM	●	●	●	●	●	●	●	●	●	●	●	●	●
DC-ANSP	●	●	●	●	●	●	●	●	●	●	●	●	●
DNB	●	●	●	●	●	●	●	●	●	●	●	●	●
EBN	●	●	●	●	●	●	●	●	●	●	●	●	●
GasTerra	●	●	●	●	●	●	●	●	●	●	●	●	●
LIOF	●	●	●	●	●	●	●	●	●	●	●	●	●
NOM	●	●	●	●	●	●	●	●	●	●	●	●	●
Oost	●	●	●	●	●	●	●	●	●	●	●	●	●
ProRail	●	●	●	●	●	●	●	●	●	●	●	●	●
Saba Bank	●	●	●	●	●	●	●	●	●	●	●	●	●
Winair	●	●	●	●	●	●	●	●	●	●	●	●	●

The Annual Report on the Management of State Owned Enterprises informs the House of Representatives of the management of the social capital by disclosing company-specific key figures on the individual SOEs: total assets, shareholders' equity, debt, revenues and profit. The solvency ratio and the return on equity are indicative of the company's financial health. The report also names the dividend received by the government in monetary terms and as a pay-out ratio (the ratio of dividend to profit).

This information has only limited value, partly there are no standard rates of return to compare the SOEs with each other and partly because the information covers only a limited period, the financial year in question and the previous two years. This information is difficult to interpret without reference values or explanatory notes.

The Ministry of Finance's budget sets targets for the return on equity and the pay-out ratio (article 2.2.3 on financing activities in the public/private sector). The return on equity target for 2013 was that 70% of the SOEs would achieve a return of 8%. The target for the pay-out ratio was that 90% of the SOEs would distribute 40% of their profit. No target had been set for the solvency ratio.

The Annual Reports on the Management of State Owned Enterprises provide no information on whether the targets were met. The annual report the Ministry of Finance issues as part of its annual budgeting and accounting cycle discloses that these general targets are not met every year.²⁵ It also gives the causes for the failure to meet the targets. This important information should also be provided in the Annual Report on the Management of State Owned Enterprises in order to improve the House of Representatives' understanding of the management of SOEs.

7.2.2 Factsheets

Each year, the Ministry of Finance reports on the financial and non-financial performance and the development of SOEs in the Annual Report on the Management of State Owned Enterprises. We concluded that the report's information value could be improved if it included rates of return and multiyear data for each SOE in addition to the financial information already provided. Regarding the former, we have presented the return on equity and the pay-out ratio in figures 8 and 9 in chapter 4. The factsheets present multiyear data for the 26 SOEs in the portfolio (annexe 5). They show the public interest, the shareholders, the sector, powers, financial data with targets, remuneration, foreign activities and the legal structure of each SOE.

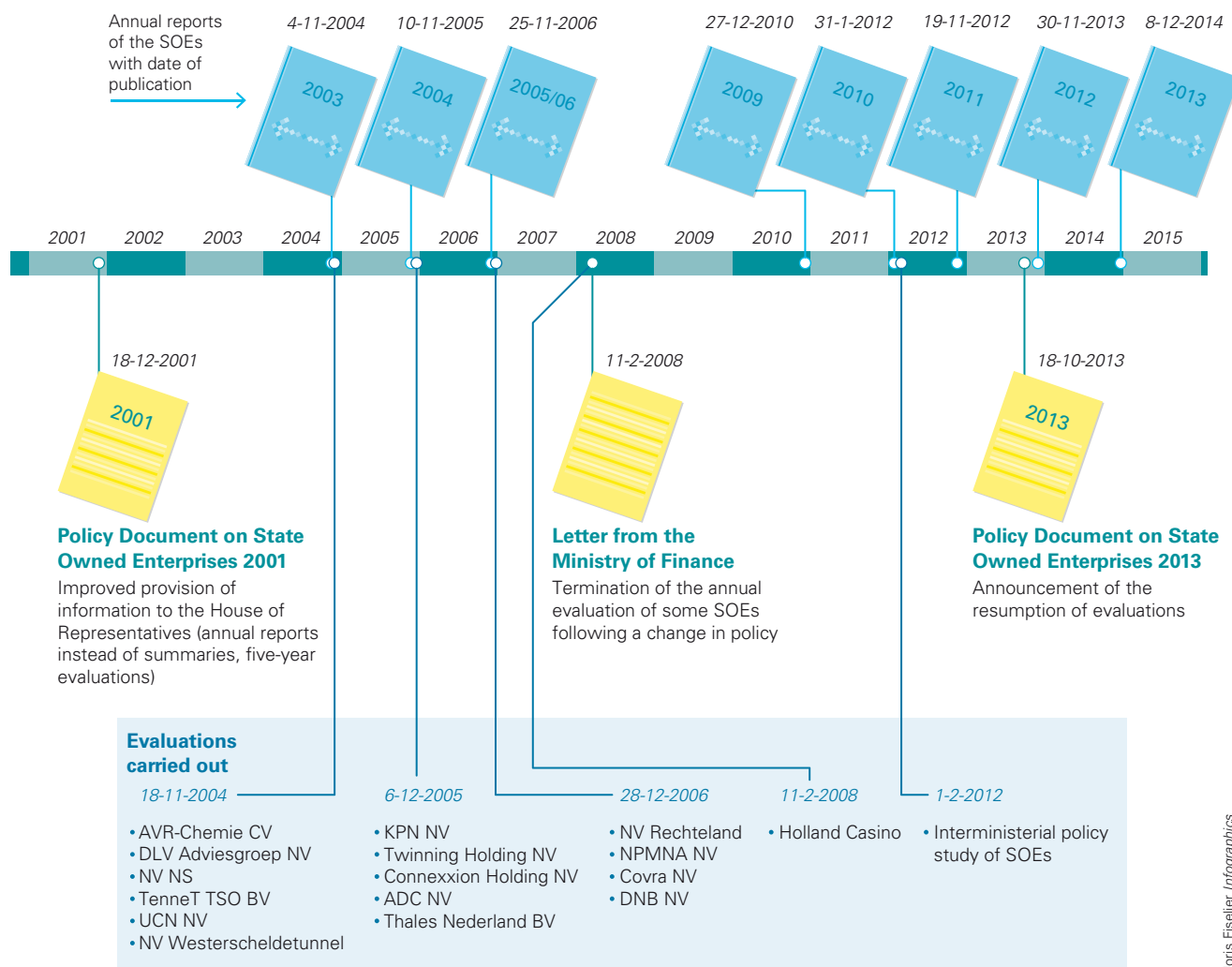
7.2.3 Budgetary information on SOEs provides little insight

The information provided to the House of Representatives on the value of the share portfolio and the income received from the SOEs is spread over the budgets and annual reports of several ministries. It is often presented in overarching items and specific information cannot be derived on individual SOEs. Parliament therefore cannot follow the information.

The capital represented by SOEs is disclosed only in the ministries' separate trial balances. They show that the capital of the SOEs we audited amounted to €13.3 billion (as at 31 December 2013). Two comments can be made regarding this amount. Firstly, the valuation is based on the original cost of acquisition or the nominal value of the issued share capital, not the market value. This is consistent with the government budgetary regulations of 2013. Secondly, not all State owned enterprises are included in the trial balances. Six of the 26 are missing: ProRail, DC-ANSP, Winair, Saba Bank, Holland Casino and Staatsloterij.

²⁵ See, for example, the Ministry of Finance's annual report for 2013 (Ministry of Finance, 2014b, p. 65).

Figure 14 Timeline of evaluations of SOEs



7.2.4

Information provided to the House of Representatives on the evaluation of SOEs

Figure 14 shows a timeline for the evaluation of State owned enterprises. It can be seen that the evaluation policy has been changed several times. Between 2004 and 2006, 16 evaluations were sent to the House of Representatives, but SOEs have not been evaluated since 2006. It was decided to stop evaluating the SOEs in 2008. An inter-ministerial policy study was sent to the House in 2012 (Ministry of Finance, 2012a). The Policy Document on State Owned Enterprises 2013 reintroduced the intention to evaluate a number of SOEs every year and to assess whether State ownership was still desirable. The Minister of Finance undertook in the subsequent Annual Report on State Owned Enterprises that he would inform the House of the plans to evaluate SOEs (Ministry of Finance, 2013a, p. 66). In December 2014 he announced that the House would receive the plans at a later date (Ministry of Finance, 2014a, p. 10).

Annexe 1 Conclusions, recommendations and responses

Conclusion	Recommendation	Response
The State does not have the power it needs to implement its policy of active shareholdership.		Agree that articles of association need to be amended. The <i>Annual Report on the Management of State Owned Enterprises</i> will inform the House of Representatives of the progress made amending the articles of association. It will also disclose the State's powers at each SOE.
The decision-making process for major investments by SOEs is not always transparent or careful.	Document the process to assess the SOEs' investment proposals in an orderly and auditable manner in order to explain how public interests are protected and the risks to the State.	The audit covers chiefly the period before the new policy on SOEs. The ministers believe there is room for further improvement in the processes to assess investment proposals. They recognise the importance of embedding the assessment process in the organisation and of digital filing.
	Separate shareholdership from the policy department.	This recommendation is undesirable for the current policy-based SOEs on account of the close ties between policy and its implementation at the policy-based SOEs. The departments pay adequate attention to the segregation of the different roles of the government. The Ministry of Infrastructure and the Environment and the Ministry of Economic Affairs, for example, provided examples of their intentions to strengthen the shareholders' position at the policy-based SOEs ProRail, Winair, DC-ANSP, EBN and GasTerra.
The information provided to the House of Representatives on SOEs is open to improvement.	Ensure the management of the portfolio of SOEs and tailored measures are transparent to the House of Representatives.	Tailored management measures are self-evident and are taken within the policy frameworks. If necessary, exceptions to the general policy will be reported and explained separately.
	Improve the provision of information to the House of Representatives on the management of SOEs in general and policy-based SOEs in particular, and share information on investment proposals and income from SOEs transparently.	The ministers made the following undertakings regarding the next <i>Annual Report on the Management of State Owned Enterprises</i> : amendment of articles of association, summary of powers at each SOE, standard returns per SOE, multiyear statements and summaries of dividends. They will consider what standards can be included for social capital and what substantive information on the assessment of investment proposals. They will consider how the assessment of investment proposals can be reported.
	Carry out a periodic evaluation of the choice of SOEs as policy instruments.	The next <i>Annual Report on the Management of State Owned Enterprises</i> will present plans for seven-year evaluations and consider the added value of each holding.

Annexe 2 About the audit

We carried out this audit between February and September 2014. The audit included an examination of seven investment decisions taken by two SOEs, Schiphol Group and EBN. This annexe provides more background information on the choices made during the audit.

Reasons to select Schiphol Group

With nearly 70% of the shares, the State holds a majority interest in Schiphol Group. Schiphol Group is a large company, also in financial terms. It has annual revenues of €1.2 billion and it distributes approximately €65 million in dividend to the State every year. The public interest lies chiefly in the infrastructure it owns; this enabled us to audit the working relationship between the Ministry of Finance and the Ministry of Infrastructure and the Environment to manage the SOE. This SOE regularly makes investments and is also active outside the Netherlands. We would expect the State to be an active shareholder in it.

Reasons to select EBN

We selected EBN because the Ministry of Economic Affairs holds the interest by means of the decentralised model. The Ministry of Finance does not play an active role in this model. EBN is also a relatively unknown SOEs but distributes the highest dividend. EBN is wholly owned by the State.

Reasons to focus on investment decisions

The State plays an important role in the assessment of investment proposals: it must make a clear, well-considered decision on the public interest and the financial consequences and risks. We therefore opted to put the State's shareholdership at the heart of our audit.

Shareholders, including the State, have the power to assess investments above a given threshold. Investments below the threshold are assessed by the supervisory board. The threshold at EBN is €200 million. The threshold at Schiphol Group is 10% of the balance sheet total, which on the basis of 2013 figures was €583 million.

Methodology

Insight into SOEs

We used the *Annual Report on the Management of State Owned Enterprises* to gain an insight into what SOEs the State held in its portfolio. The Minister of Finance has been submitting this report to the President of the House of Representatives since 2004.

We supplemented the information in the report with information from:

- files and dossiers, for example from the Chamber of Commerce;
- policy documents, annual reports of SOEs;
- knowledge from legal experts;
- interviews with shareholders and companies;
- third-party audits of SOEs.

We then compiled summaries with - where possible - explanations of the financial and non-financial key data. We also compiled factsheets for all the SOEs, showing developments over time. We held a meeting with the shareholders in order to discuss the added value of these summaries for the quality of the information provided to the House of Representatives.

The practice of state shareholdership: a case study

We analysed the State's shareholdership, paying particular attention to company law with regard to its exercise of the powers under the articles of association and to its policy on SOEs.

This audit drew extensively on three investment proposals we had previously investigated:

- Gasunie: acquisition of the German gas transmission network (Netherlands Court of Audit, 2012a);
- TenneT: Transpower (2015);
- TenneT: investments in the Netherlands (2015).

We supplemented these findings with in-depth audits of the State's assessment of investment proposals made by Schiphol Group and EBN that exceeded the threshold set in the articles of association. We investigated how the State and the party responsible for policy assessed investment proposals in practice. We audited seven investment proposals and drew on other studies we had made of investment proposals, albeit from a different angle.

We analysed seven investment proposals. Five of them exceeded the threshold values and the shareholder accordingly had a formal right of approval. Two proposals, both by Schiphol Group, were below the threshold but the State was involved informally chiefly because the investments related to foreign activities.

- EBN: bid for DSM Energy
- EBN: oil production in Schoonebeek
- EBN: gas storage in Bergermeer
- EBN: gas storage in Norg
- Schiphol: share swap with Aéroports de Paris
- Schiphol: participation in Brazilian airport
- Schiphol: acquisition of terminal at JFK airport

For each investment proposal we:

- studied the context: the Ministry of Finance requires an investment's impact on the public interest to be convincingly analysed and its impact on the capital position, dividend flow and risks to the government to be explained;
- analysed and evaluated the process of assessing, reviewing and weighting the financial consequences and public interests;
- described the relationship between the State, the SOEs and the policy;
- reviewed the commercial aspects of the investment proposals.

Provision of information to the House of Representatives

In addition to the case studies, we studied the information on SOEs provided to the House of Representatives. We held talks with policy officers at the Ministry of Finance,

the Ministry of Economic Affairs and the Ministry of Infrastructure and the Environment and with representatives of the SOEs.

We analysed the written information provided to the House on the SOEs and their management. The information was provided in ministerial budgets, annual reports on the management of SOEs, evaluations (until 2007) and from other sources, e.g. questions in parliament on SOEs.

Experts and expert meeting

Several experts shared their knowledge and experience of shareholding with us through a programme entitled Governance and Public Shareholders compiled especially for the Court of Audit in cooperation with the Erasmus School of Accounting & Assurance.

We hosted a roundtable on the *Annual Report on the Management of State Owned Enterprises* on 16 October 2014. It was attended by the State shareholders (Ministries of Finance, Economic Affairs and Infrastructure and the Environment) and the compilers of the annual report (Ministry of Finance). We held an expert meeting with external parties on 20 November 2014 in order to share and, where necessary, sharpen up the conclusions and recommendations. It was attended by relevant parties from the Ministries of Finance, Infrastructure and the Environment and Economic Affairs, and by experts and staff from EBN and Schiphol Group. We discussed three topics: 1) the State's power and influence in its capacity as shareholder, 2) the shareholder's assessment of investment proposals and the allocation of shareholding and policy-related tasks, 3) the provision of information to the House of Representatives and its influence.

Participants in the expert meeting on the State as public shareholder

Name	Organisation
Mr van den Berg	Ministry of Finance
Ms Busweiler	Ministry of Finance
Mr Heeren	Schiphol Group
Mr Hessels	Ministry of Economic Affairs
Mr Houtman	Ministry of Finance
Mr J. de Kuijf	Radboud University Nijmegen
Ms Molenaar	Ministry of Infrastructure and the Environment
Mr Mutsaers	Ministry of Infrastructure and the Environment
Ms van der Pauw	Allen & Overy
Mr Planken	Ministry of Infrastructure and the Environment
Ms Reekers	House of Representatives, Research and Government Expenditure Office
Ms Renier	Dutch Safety board
Ms Smaling	EBN
Mr Smits	Ministry of Finance
Mr Theeuwes	Schiphol Group
Mr Wateler	Kempen & Co
Mr van der Zalm	Ministry of Infrastructure and the Environment

Annexe 3 Abbreviations

Abbreviations of SOEs

Popular name	Official name
BNG Bank	N.V. Bank Nederlandse Gemeenten
BOM	Brabantse Ontwikkelings Maatschappij Holding B.V.
COVRA	Centrale Organisatie voor Radio-Aktief Afval (COVRA) N.V.
DC-ANSP	Dutch Caribbean Air Navigation Service Provider N.V.
DNB	De Nederlandsche Bank N.V.
EBN	B.V.
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
GasTerra	GasTerra B.V.
Gasunie	N.V. Nederlandse Gasunie
Havenbedrijf Rotterdam	Havenbedrijf Rotterdam N.V.
Holland Casino	Nationale Stichting tot Exploitatie van Casinospelen in Nederland
KLM	Koninklijke Luchtvaart Maatschappij N.V. (Royal Dutch Airlines)
KNM	De Koninklijke Nederlandse Munt N.V. (Royal Dutch Mint)
LIOF	N.V. Industriebank Limburgs Instituut voor Ontwikkeling en Financiering (Industriebank LIOF)
Nederlandse Staatsloterij	Stichting Exploitatie Nederlandse Staatsloterij
NOM	N.V. NOM, Investerings- en Ontwikkelingsmaatschappij voor Noord-Nederland
NS	N.V. Nederlandse Spoorwegen (Dutch Rail)
NWB Bank	Nederlandse Waterschapsbank N.V.
Oost	Ontwikkelingsmaatschappij Oost Nederland N.V.
ProRail	Railinfratrust B.V. (ProRail B.V. = 100% subsidiary)
Saba Bank	Saba Bank Resources N.V.
Schiphol Group	N.V. Luchthaven Schiphol
TenneT	TenneT Holding B.V.
Thales	Thales Nederland B.V.
UCN	Ultra-Centrifuge Nederland N.V.
Winair	Winair [official name not known]

State Owned Enterprises incorporated in 2014

Zuidvleugel	Regionale Ontwikkelingsmaatschappij Zuidvleugel B.V.
SSCS	Saba Statia Cable System B.V.

Dormant SOEs

ALTMAA*	N.V. Aangewezen Luchtvaartterrein Maastricht Aachen Airport
KG Holding	K.G. Holding N.V.
NIO	De Nederlandse Investeringsbank voor Ontwikkelingslanden N.V.
Twinning*	Twinning Holding B.V.

*Sold/dissolved in 2014.

SOEs managed by NL Financial Investments

ABN AMRO	ABN AMRO Group N.V.
ASR	ASR Nederland N.V.
Propertize	B.V.
RFS	RFS Holdings B.V.
SNS REAAL	SNS REAAL N.V.

Other abbreviations

AdP	Aéroports de Paris
AGM	Annual General Meeting
BV	Private limited liability company
JFK	John F Kennedy Airport
NV	Public limited liability company
NLFI	NL Financial Investments
POC	Parliamentary Inquiry Committee on Privatisation/Corporatisation of Public Services
RWT	Legal person with statutory tasks
ZBO	Autonomous administrative authority

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Annexe 5 Factsheets on the SOEs

Every year the Ministry of Finance reports on the results and performance of SOEs in the Annual Report on the Management of State Owned Enterprises. In our audit report we concluded that the information on the management of SOEs could be improved through the inclusion of required rates of return and multiyear data. We worked these out for the SOEs in the portfolio in 2014.

The factsheets present the following information:

- public interest;
- shareholders and sector;
- powers;
- financial data;
- remuneration;
- foreign activities;
- legal structure.

Factsheets have been prepared for 26 SOEs. They have not been prepared for dormant SOEs, SOEs managed by NLFİ and the SOEs that were added to the portfolio in 2014, as explained in the report.

The information is taken from the Annual Reports on the Management of State Owned Enterprises published by the Ministry of Finance. Information on shareholder powers is taken from the companies' articles of association. We consulted a number of sources to determine the legal structure: annual reports and the LexisNexis and Companyweb databases. The information provided by these sources was not consistent and we were unable to form a complete and accurate picture of the legal structure. We therefore present the main points. The Court of Audit accepts no responsibility for the accuracy of this information. The remuneration of chief executive officers is taken from the SOEs' 2013 annual reports.²⁶

²⁶ This paragraph was not included in our draft report. The text was added because we wanted to clarify the source of the figures and their limitations.

BNG Bank

N.V. Bank Nederlandse Gemeenten

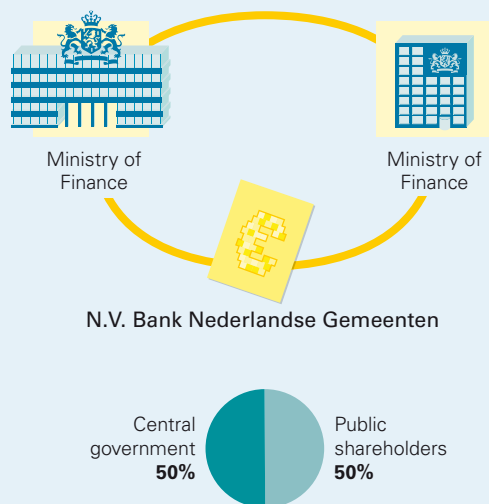
Public interest

BNG Bank's mission is to minimise the financing costs for the public sector. It provides profitable financial services at low rates to public authorities and institutions in the semi-public sector, in good and bad times.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

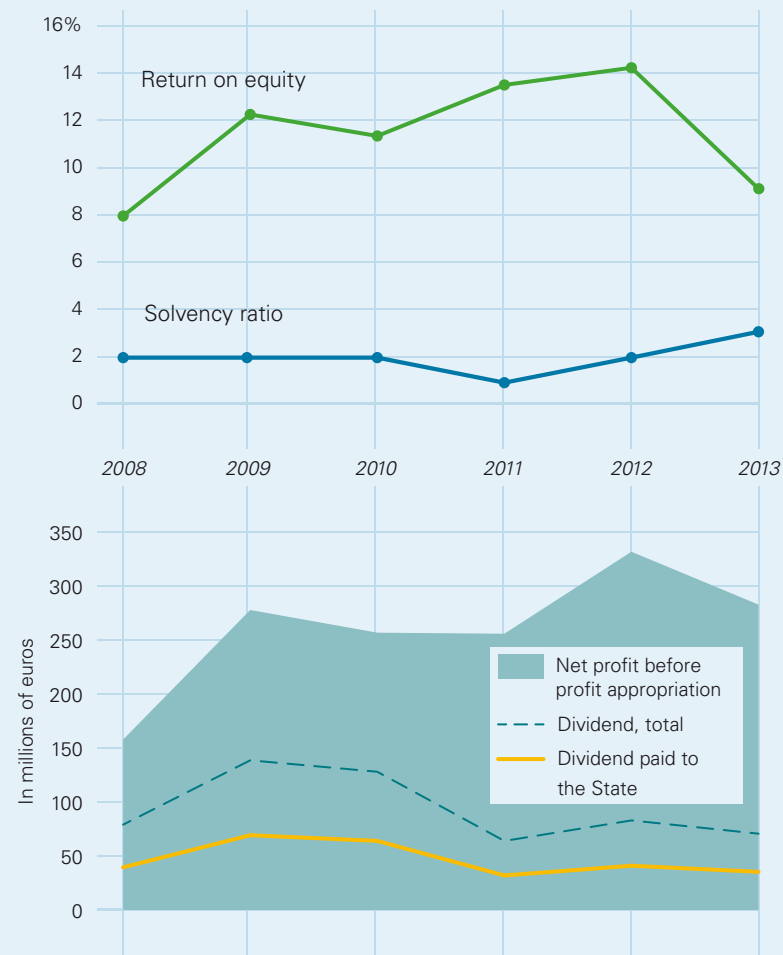


Shareholder powers

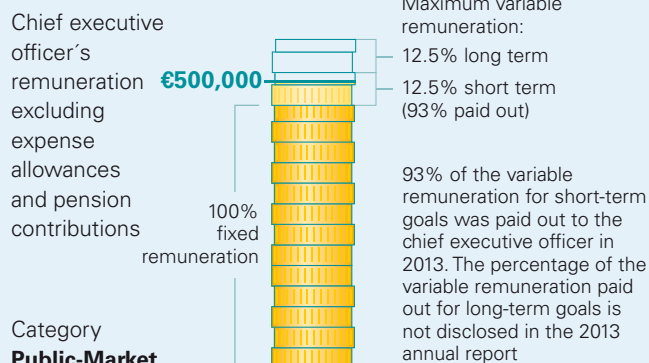
Under BNG's articles of association (2005, two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board		●
	Supervisory board	●	
Investment threshold		>1/3 shareholders' equity	>1/4 shareholders' equity
Executive board	Appointment		●
	Suspension		●
	Dismissal		●
Supervisory board	Appointment	●	nomination
	Suspension	not laid down in articles	
	Dismissal	●	
	Profile		●

Financial information



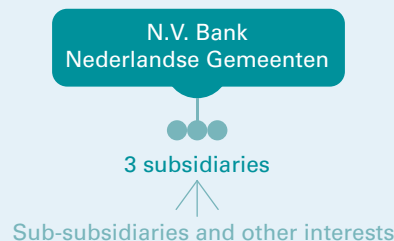
Remuneration in 2013



Foreign activities in 2013

BNG has awarded loans to foreign parties. This loan portfolio is being wound down and currently represents 1% of the overall loan portfolio.

Legal structure in 2013



BOM

Brabantse OntwikkelingsMaatschappij Holding B.V.

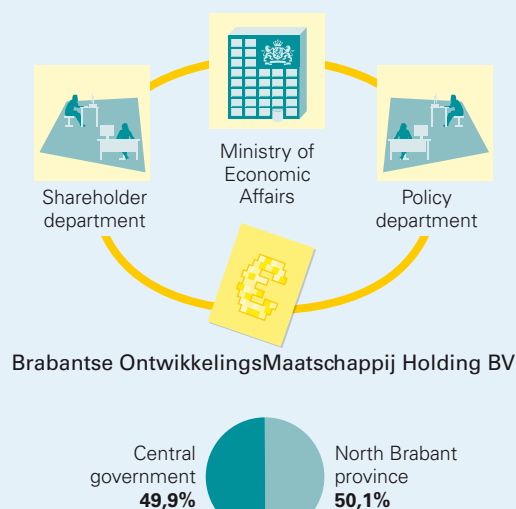
Public interest

Regional development companies strengthen regional economic structures by stimulating economic activity and creating jobs by encouraging investments, promoting development and innovation, providing venture capital (participation and management) and restructuring and developing industrial estates.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model



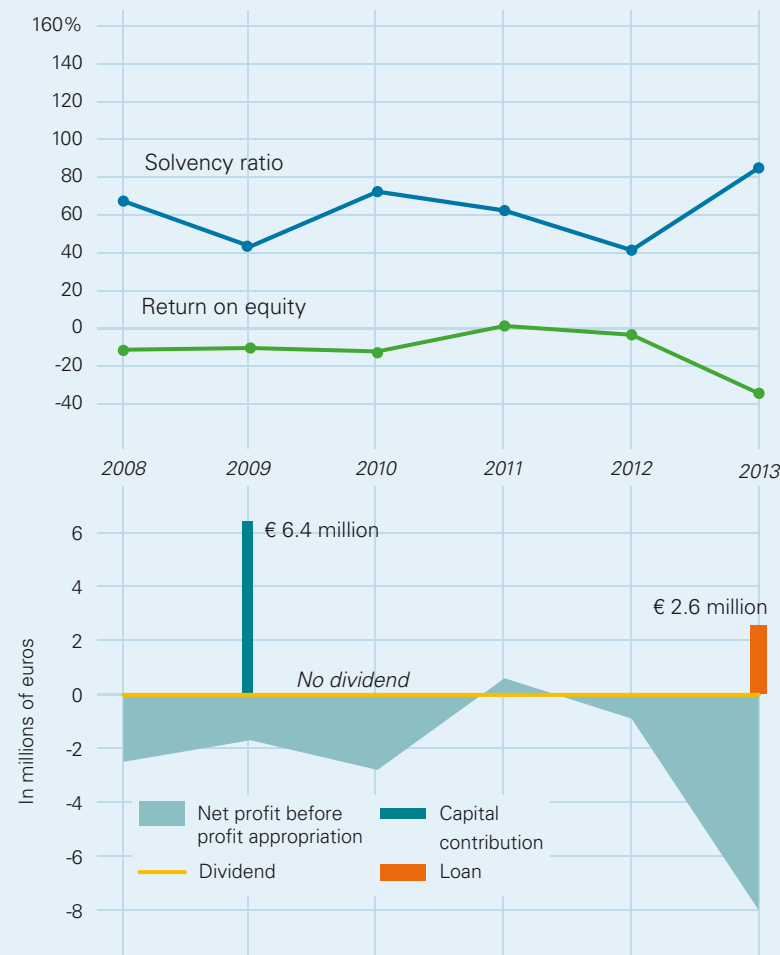
Shareholder powers

Under BOM's articles of association (2012, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

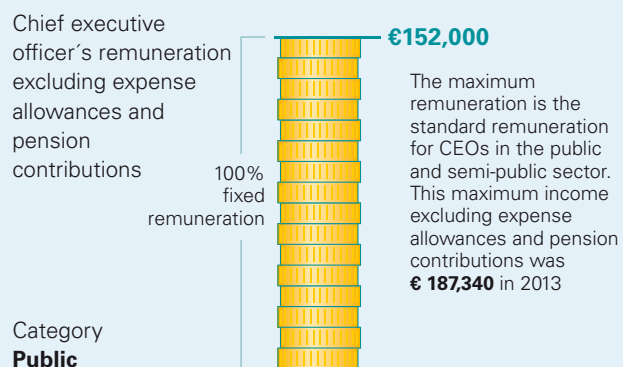
		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		not laid down in articles	
Executive board	Appointment	●	nomination
	Suspension	●	●
	Dismissal	●	●
Supervisory board	Appointment	● *	binding nomination if supervisory board >4 members
	Suspension	●	
	Dismissal	●	
	Profile	not laid down in articles	

* On the basis of nomination by provinces and the Ministry of Economic Affairs

Financial information



Remuneration in 2013



Foreign activities in 2013

Not disclosed

Legal structure in 2013



COVRA

Centrale Organisatie voor Radio-Aktief Afval (COVRA) N.V.

Public interest

To provide good and continuous care for radioactive waste under controlled conditions.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

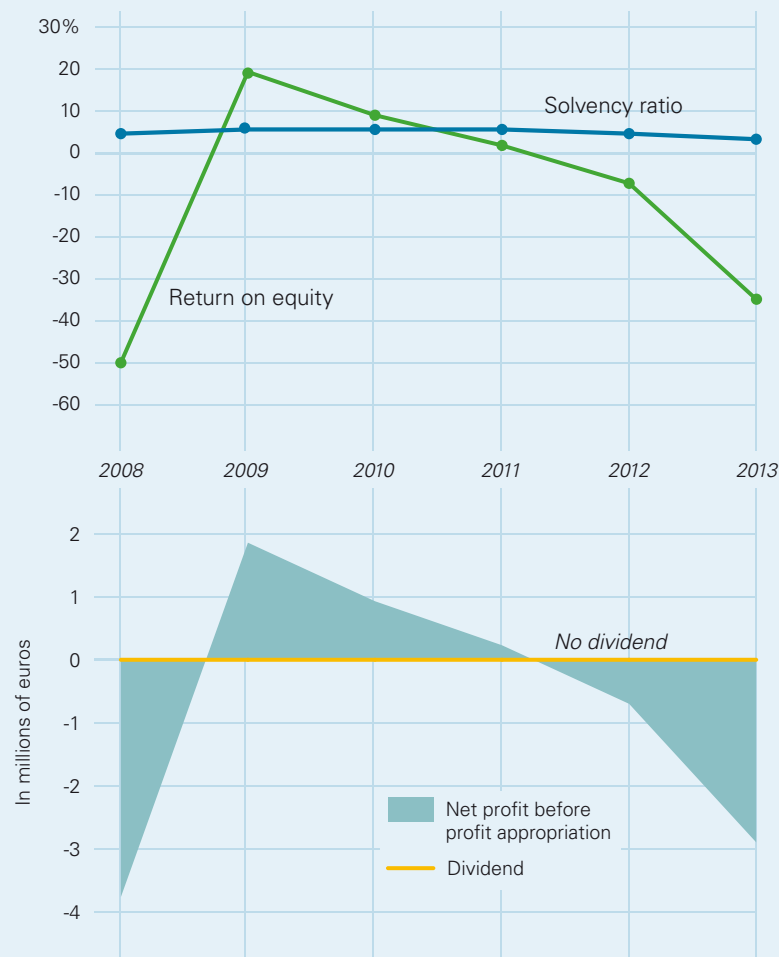


Shareholder powers

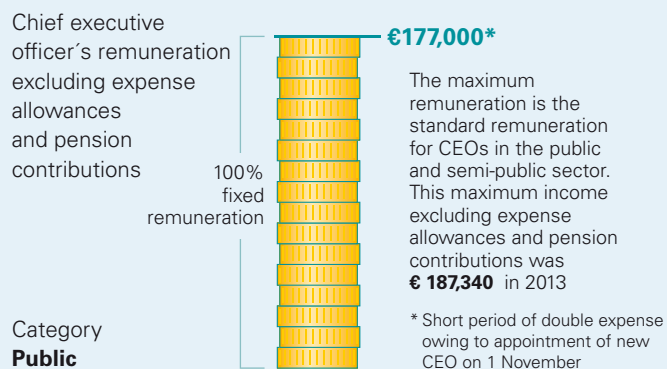
Under COVRA's articles of association (2002, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles of association</i>	
	Executive board		●
	Supervisory board	●	proposal
Investment threshold		> €1 million	>0.25 million
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	
	Suspension	●	
	Dismissal	●	
Profile		<i>not laid down in articles</i>	

Financial information



Remuneration in 2013



Foreign activities in 2013

No foreign activities

Legal structure in 2013

Centrale Organisatie voor Radio-Aktief Afval (COVRA) N.V.

DC-ANSP

Dutch Caribbean Air Navigation Service Provider N.V.

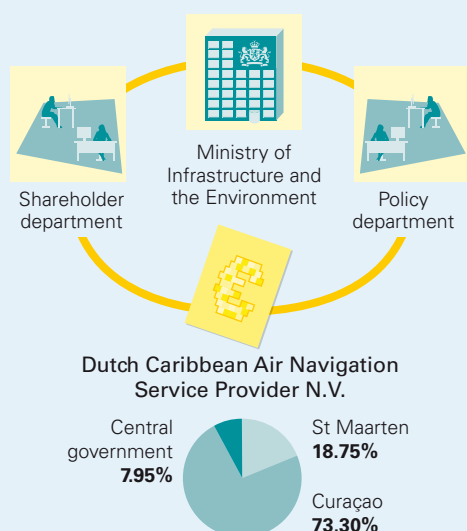
Public interest

DC-ANSP provides air traffic services and all related activities (e.g. informing and advising on air navigation) chiefly around Bonaire, Curaçao and Aruba.

Source: articles of association

Shareholders

Decentralised model

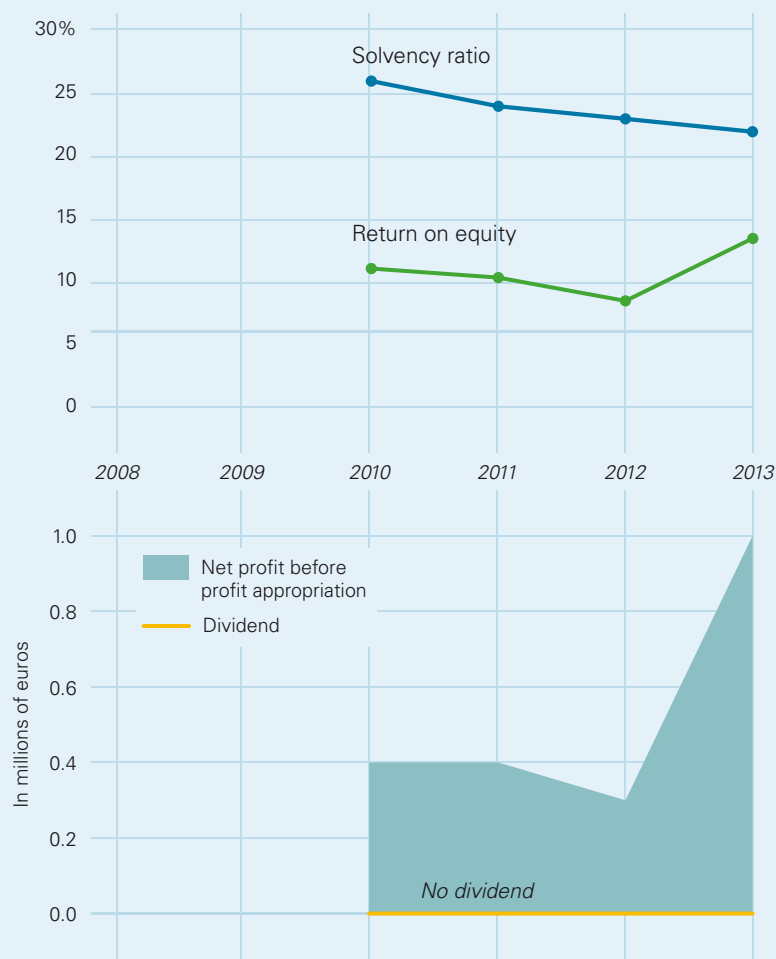


Shareholder powers

Under DC-ANSP's articles of association (2012), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	not laid down in articles	
Investment threshold		not laid down in articles	
Executive board	Appointment	●	
	Suspension	●	
	Dismissal	●	
Supervisory board	Appointment	●	
	Suspension	●	
	Dismissal	●	
	Profile	●	●

Financial information



Remuneration in 2013

The State of the Netherlands holds too few shares to influence the remuneration of directors.

Foreign activities in 2013

Not disclosed

Legal structure in 2013

Dutch Caribbean Air Navigation Service Provider N.V.

Legal structure not further disclosed

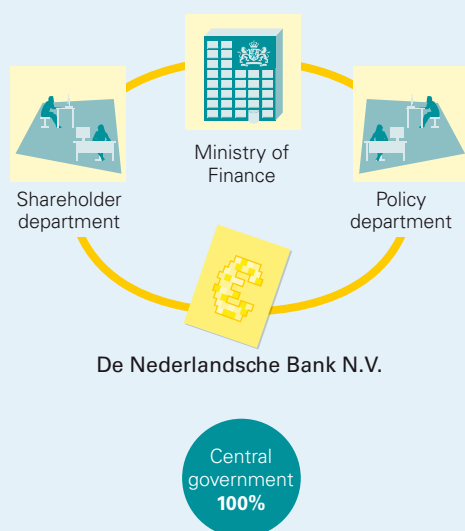
Public interest

De Nederlandsche Bank is responsible for financial stability. It shares responsibility for setting and implementing the common monetary policy of the euro area, promotes the efficient operation of payment transactions and exercises prudential supervision of financial institutions and their robustness.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model

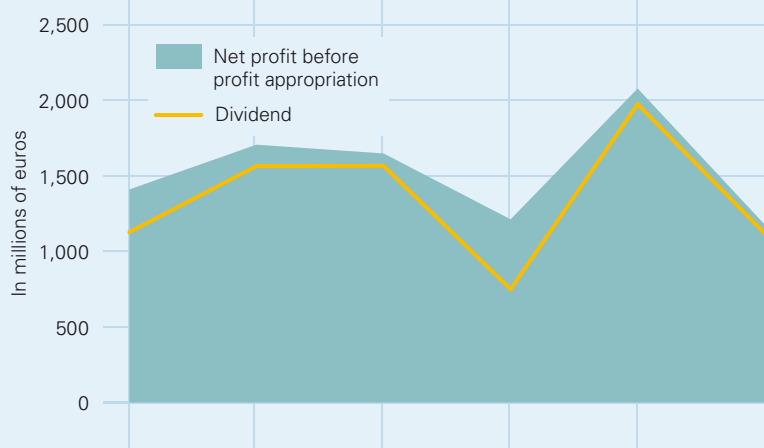
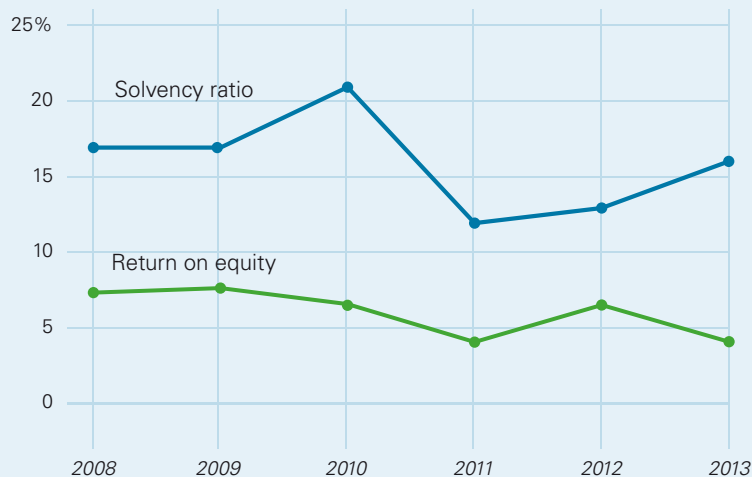


Shareholder powers

Under DNB's articles of association (2012, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

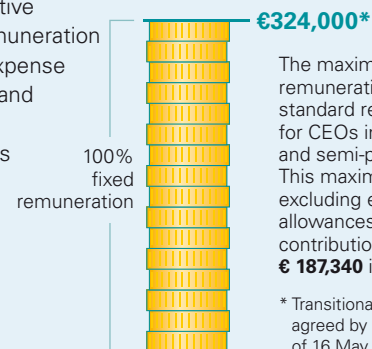
		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board	Minister	●
	Supervisory board	●	nomination
Investment threshold		not applicable	
Executive board	Appointment	Minister	
	Suspension	not laid down in articles	
	Dismissal	not laid down in articles	
Supervisory board	Appointment	●	nomination
	Suspension	●	
	Dismissal	●	
	Profile	●	proposal

Financial information



Remuneration in 2013

Chief executive officer's remuneration excluding expense allowances and pension contributions



The maximum remuneration is the standard remuneration for CEOs in the public and semi-public sector. This maximum income excluding expense allowances and pension contributions was €187,340 in 2013.

* Transitional right: remuneration agreed by ministerial order of 16 May 2011

Category
Public

Foreign activities in 2013

Not disclosed

Legal structure in 2013

De Nederlandsche Bank N.V.

1 subsidiary

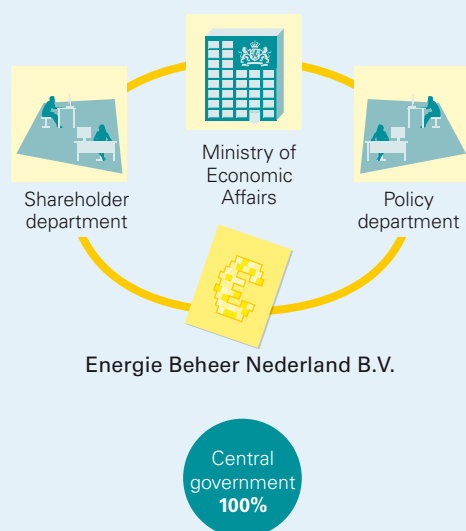
Public interest

Given the importance of natural gas to Dutch energy supplies and government revenues, EBN is closely involved in the production, distribution and sale of natural gas. As the State itself does not have the necessary industrial and commercial know-how and experience, it was decided to transfer the government's interest to EBN.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model

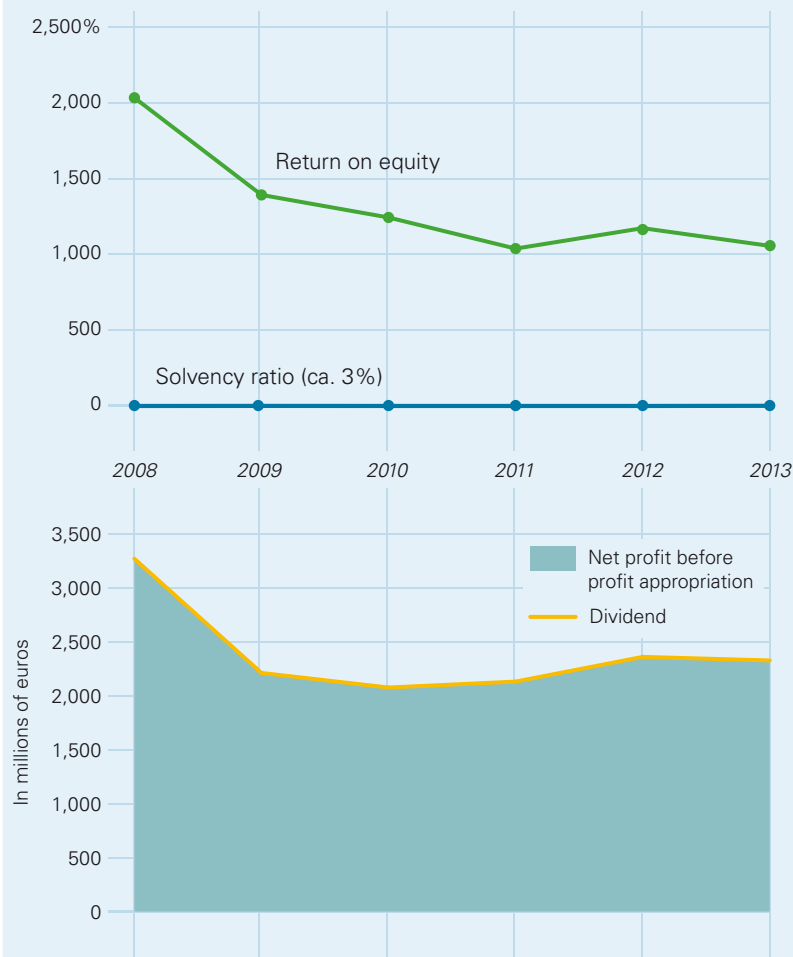


Shareholder powers

Under EBN's articles of association (2006, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		> €200 million	> €50 million
Executive board	Appointment	●	nomination
	Suspension	●	
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension	not laid down in articles	
	Dismissal	not laid down in articles	
	Profile		●

Financial information



Remuneration in 2013

Chief executive officer's remuneration excluding expense allowances and pension contributions

€295,000

Maximum variable remuneration:
?% long term
?% short term (20.1% paid out)

The variable remuneration paid out to the CEO in 2013 for short-term goals was 20.1%. The annual report did not disclose the maximum variable remuneration. The paid-out and maximum variable remuneration percentages for long-term goals are not stated in the 2013 annual report.

Category
Market/Public

Foreign activities in 2013

Not disclosed

Legal structure in 2013

Energie Beheer Nederland B.V.

1 subsidiary

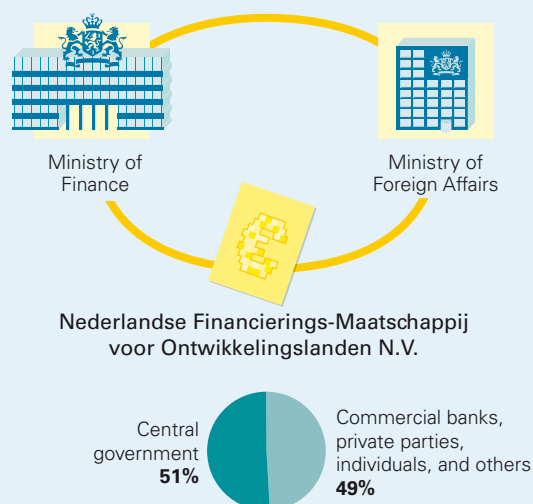
Public interest

The public interest is to promote sustainable economic growth and, indirectly, to combat poverty by strengthening the private sector in developing countries: taking equity interests, providing loans and guarantees, funding technical assistance, training courses, investment incentive activities and other activities that promote private sector development in developing countries.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

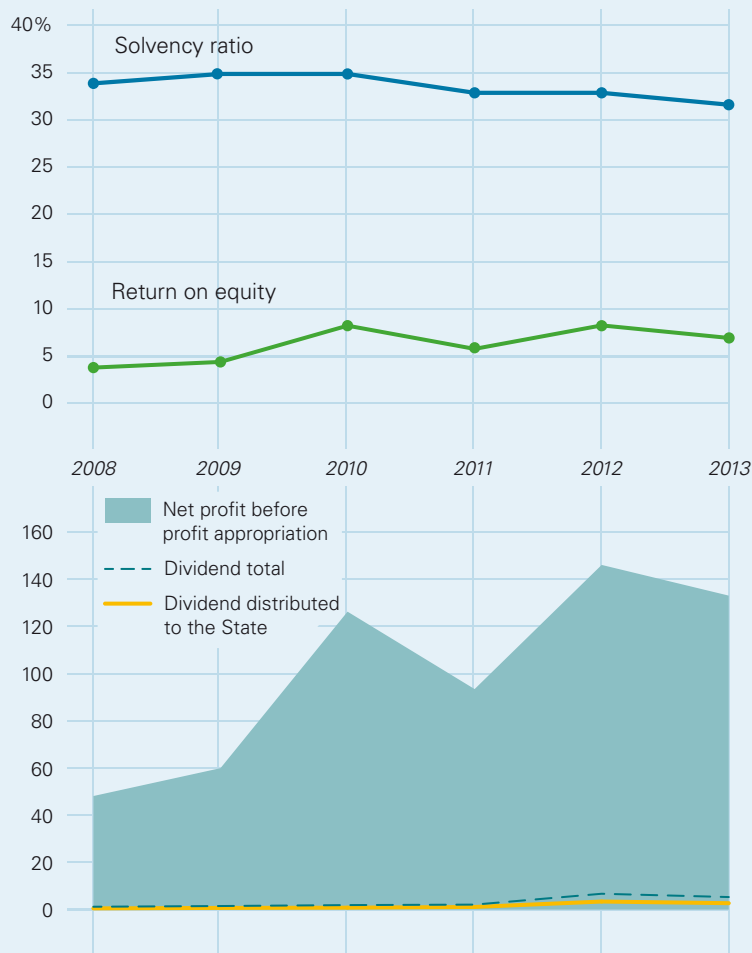


Shareholder powers

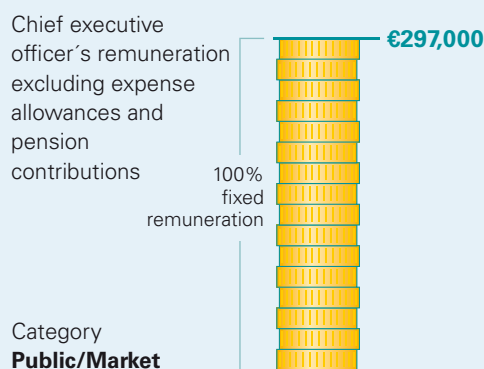
Under FMO's articles of association (2009, two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		> 1/3 shareholders' equity	> 1/4 shareholders' equity
Executive board	Appointment		●
	Suspension	consulted	●
	Dismissal	consulted	●
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	
	Profile	discussion	●

Financial information



Remuneration in 2013



Foreign activities in 2013

FMO's core activity is to grant loans abroad.

Legal structure in 2013

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

2 subsidiaries

GasTerra

GasTerra B.V.

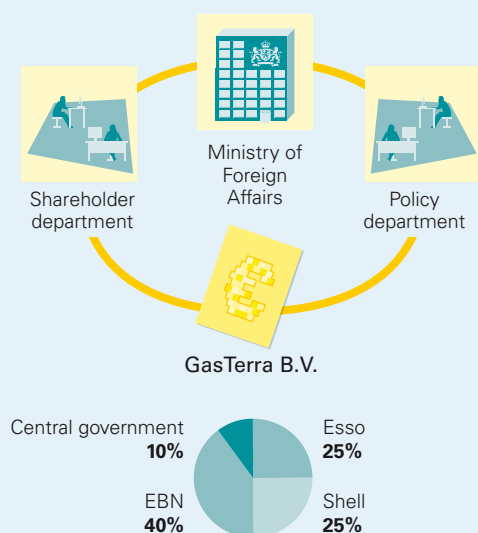
Public interest

The public interest is related to the planned management of the national natural resources, including the small fields policy (see section 5.4 of the Gas Act), maintaining the government's share in the revenue from natural resources, with the gas revenues from the small fields policy being laid down in the Mining Act and revenues from the Groningen fields in the Gas System

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model



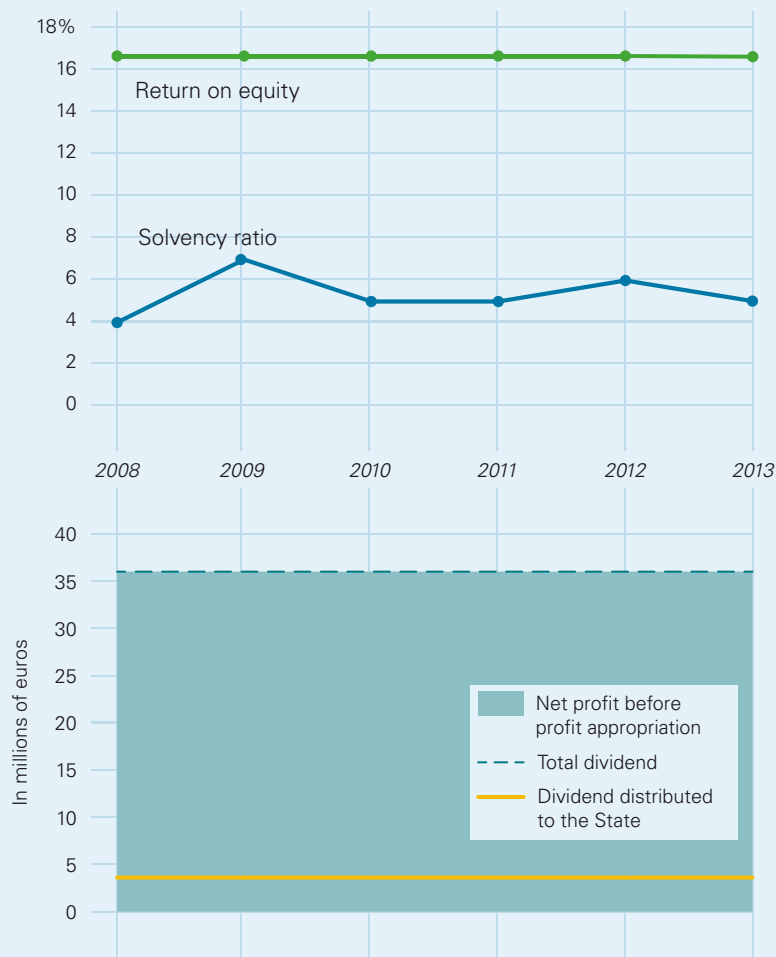
Shareholder powers

Under GasTerra's articles of association (2006), the annual general meeting (AGM) and the supervisory board have the following powers:

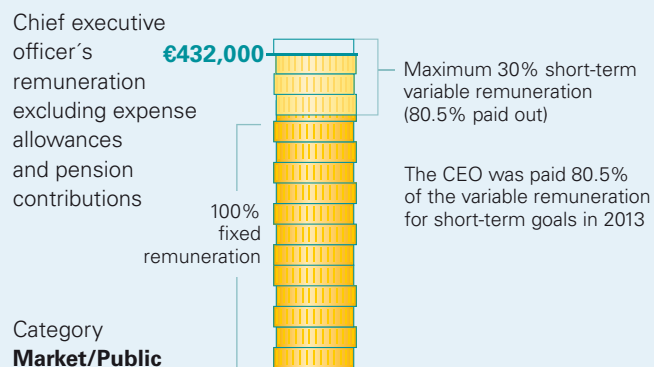
		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles</i>	
	Executive board		●
	Supervisory board	●	
Investment threshold		<i>not laid down in articles</i>	
Executive board	Appointment	●	binding nomination*
	Suspension	●	
	Dismissal	●	
Supervisory board	Appointment	● (1 or 2 members by Min. Econ. Affairs)	
	Suspension	● (except members of Min. Econ Affairs)	
	Dismissal	● (except members of Min. Econ Affairs)	
	Profile	<i>not laid down in articles</i>	

* plus approval by Ministry of Economic Affairs

Financial information



Remuneration in 2013



Foreign activities in 2013

Not disclosed

Legal structure in 2013

GasTerra B.V.

Gasunie

N.V. Nederlandse Gasunie

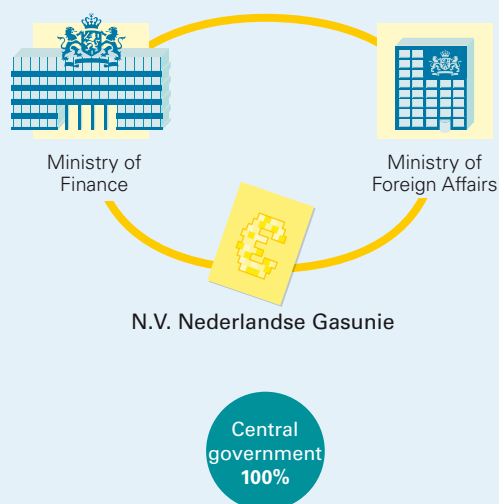
Public interest

The gas transmission network is a vital link in the infrastructure of the Netherlands. Specific public interests are: transmission security (supply security) and long-term supply security, with the affordability of gas and the security of the gas infrastructure as the main preconditions.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

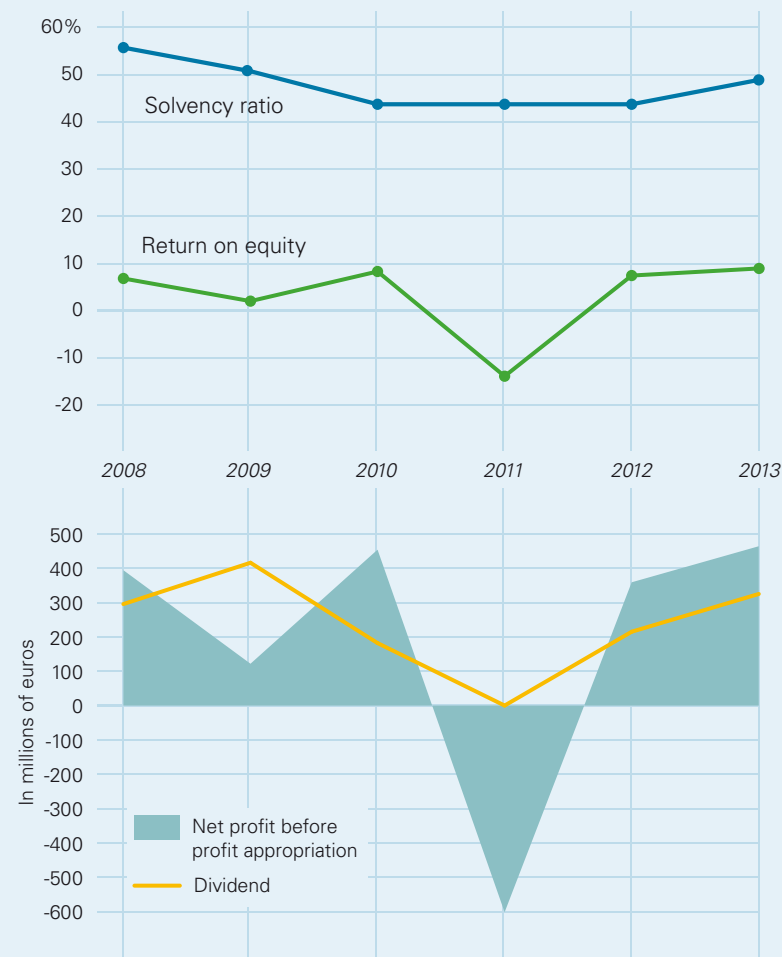


Shareholder powers

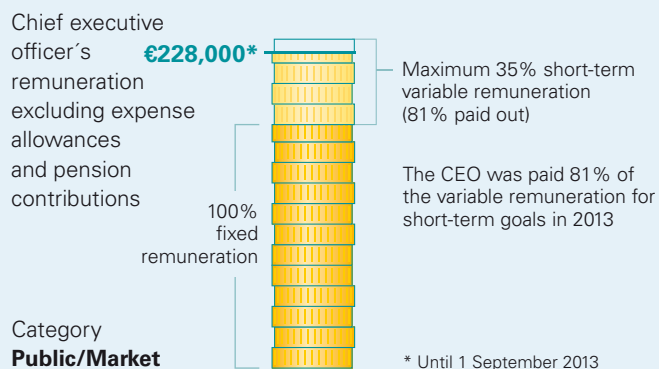
Under Gasunie's articles of association (2008, compulsory two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board		●
	Supervisory board	●	
Investment threshold		> € 100 million	> € 50 million
Executive board	Appointment	●	nomination
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	vote of no confidence	request suspension
	Profile	discussion	●

Financial information



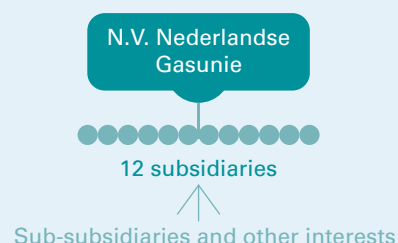
Remuneration in 2013



Foreign activities in 2013

Gasunie owns a German gas network and has interests in international submarine pipelines

Legal structure in 2013



Port of Rotterdam

Havenbedrijf Rotterdam N.V.

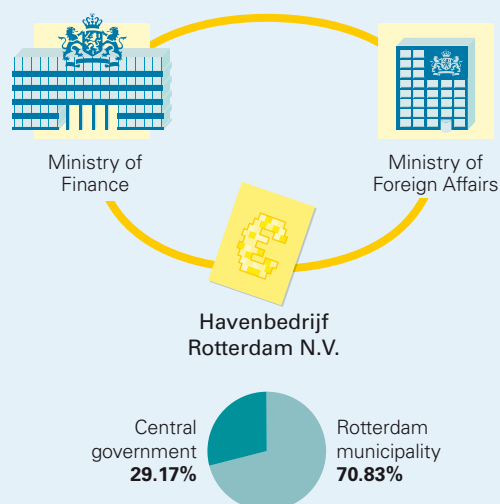
Public interest

The Port of Rotterdam is responsible for the continuity and quality of Rotterdam as a vital link in the mainport strategy. It is responsible for efficient market conditions: fair competition and free access to the infrastructure, and nautical safety and sustainable use of space.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

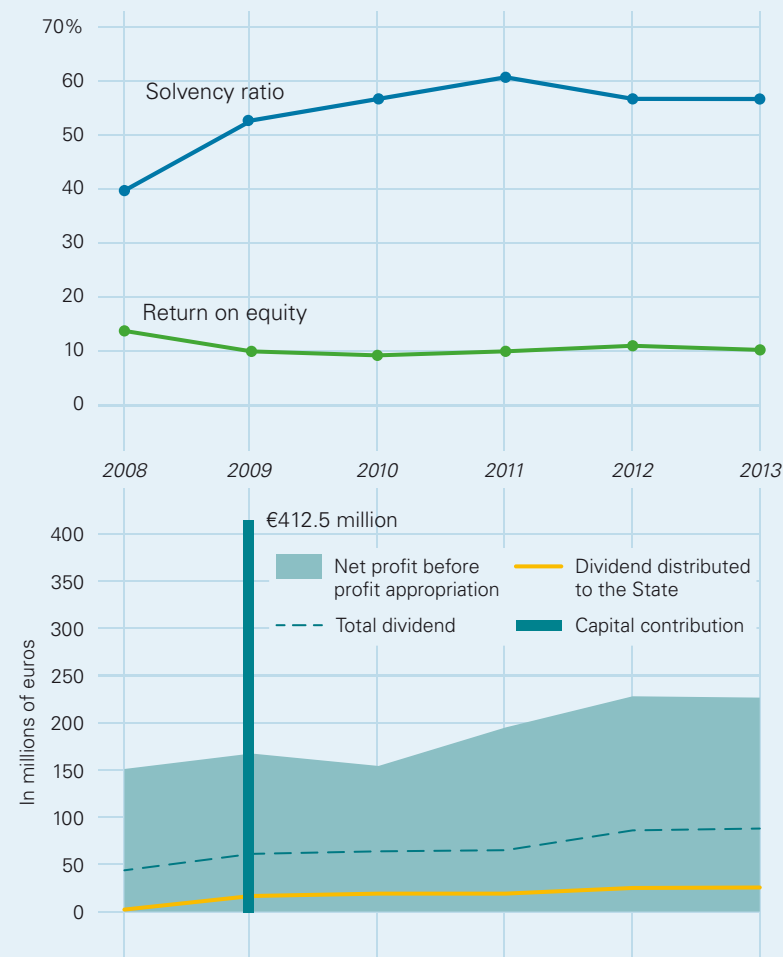


Shareholder powers

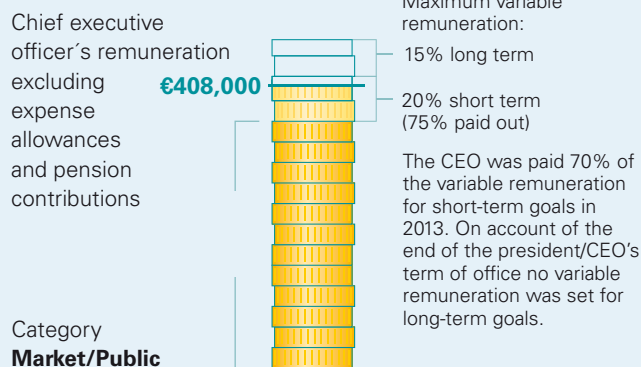
Under the Port of Rotterdam's articles of association (2014, compulsory two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		> €50 million	> ¼ shareholders' equity or €10 million
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	vote of no confidence	
	Profile		●

Financial information



Remuneration in 2013



Foreign activities in 2013

Joint venture partner in SoHar Industrial Port Company

Legal structure in 2013



Holland Casino

Nationale Stichting tot Exploitatie van Casinospelen in Nederland

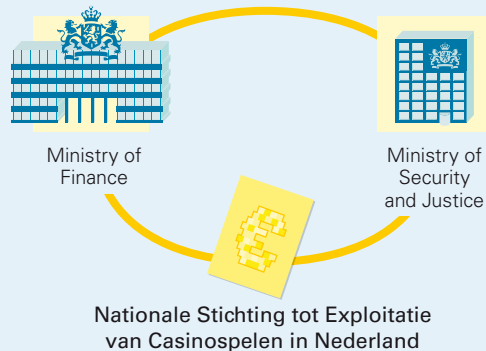
Public interest

Holland Casino guides demand to bona fide and controlled legal casino games, protects consumers and combats gambling addiction by preventing the sector from being corrupted by unfair, irresponsible and dishonest gaming.

Source: Annual Report on State Owned Enterprises 2012

Shareholders

Centralised model



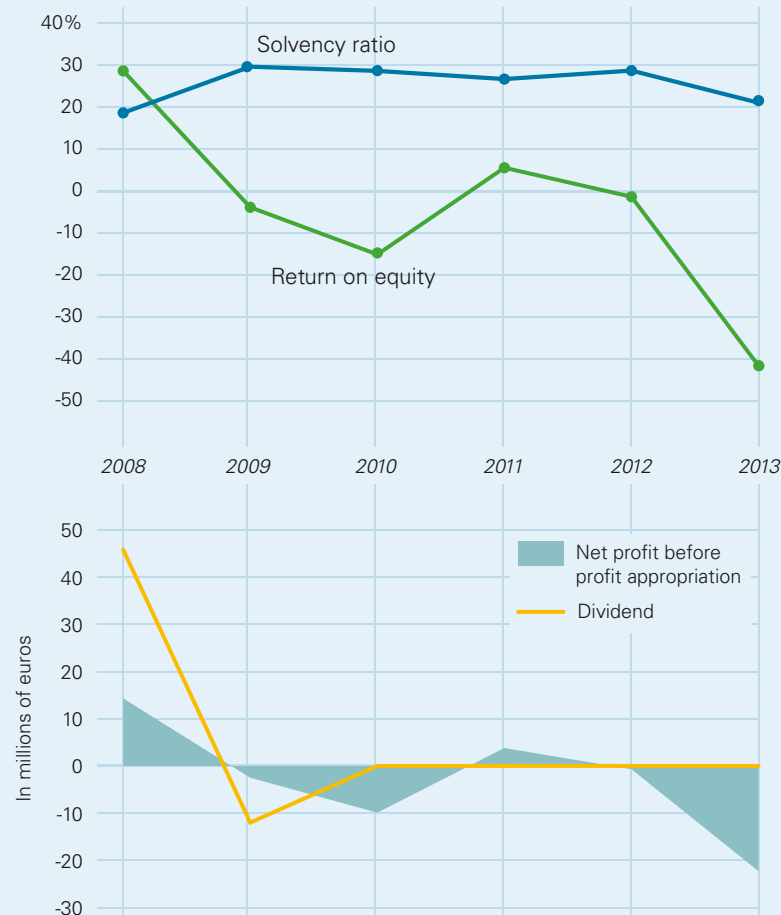
Although foundations are generally not subject to the policy on State owned enterprises, Holland Casino is.

Shareholder powers

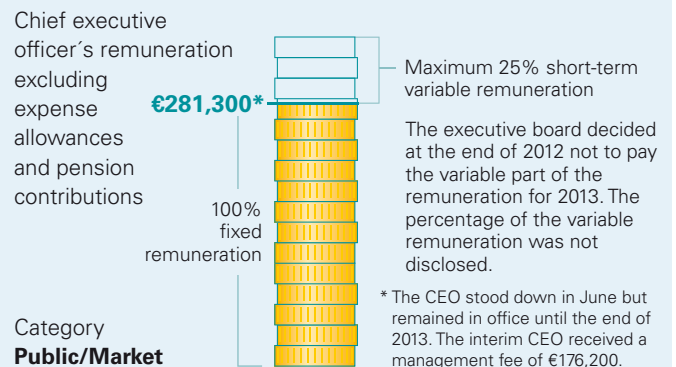
Under Holland Casino's articles of association (2006, foundation), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board		●
	Supervisory board	permission	●
Investment threshold		not laid down in articles of association	
Executive board	Appointment	objection	●
	Suspension		●
	Dismissal		●
Supervisory board	Appointment	●	consulted
	Suspension	●	consulted
	Dismissal	●	consulted
	Profile	not laid down in articles of association	

Financial information



Remuneration in 2013



Foreign activities in 2013

No foreign activities.

Legal structure in 2013

Nationale Stichting tot Exploitatie van Casinospelen in Nederland

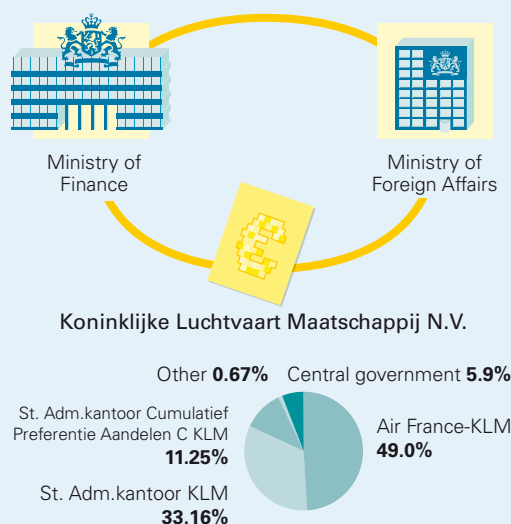
Public interest

The network of international connections served from Schiphol is of great importance to the accessibility of the Netherlands, its economy and competitiveness. As the home carrier, KLM is a key pillar in Dutch aviation with an extensive intercontinental and European network.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

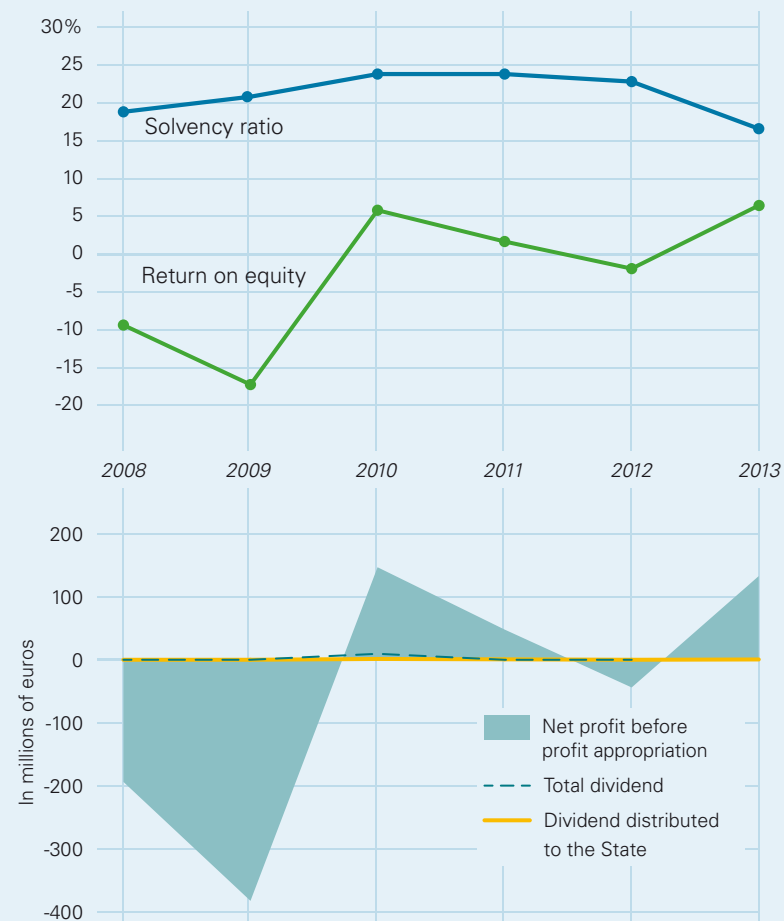


Shareholder powers

Under KLM's articles of association (2011, mitigated two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board	●	proposal
	Supervisory board	●	
Investment threshold		not laid down in articles	> ¼ of shareholders' equity
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	proposal
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	●
	Profile	discussion	●

Financial information*



* KLM worked with split financial years until 2011.

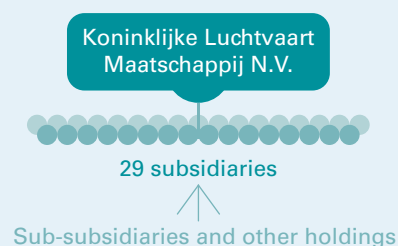
Remuneration in 2013

The Dutch State holds too few shares to influence the remuneration of the executive directors.

Foreign activities in 2013

The Air France-KLM holding company is a multinational. By definition, it carries on foreign activities.

Legal structure in 2013



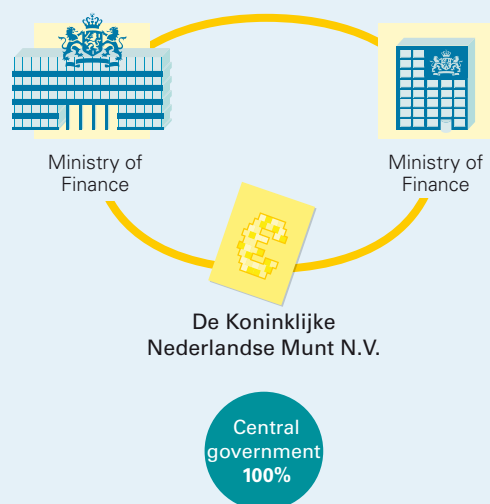
Public interest

De Koninklijke Nederlandse Munt has the exclusive right to strike coins. It mints and circulates Dutch euro coins and issues official commemorative coins and medals. It is responsible for the security of production (prevention of counterfeiting) and is the designated national analysis centre for coins.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

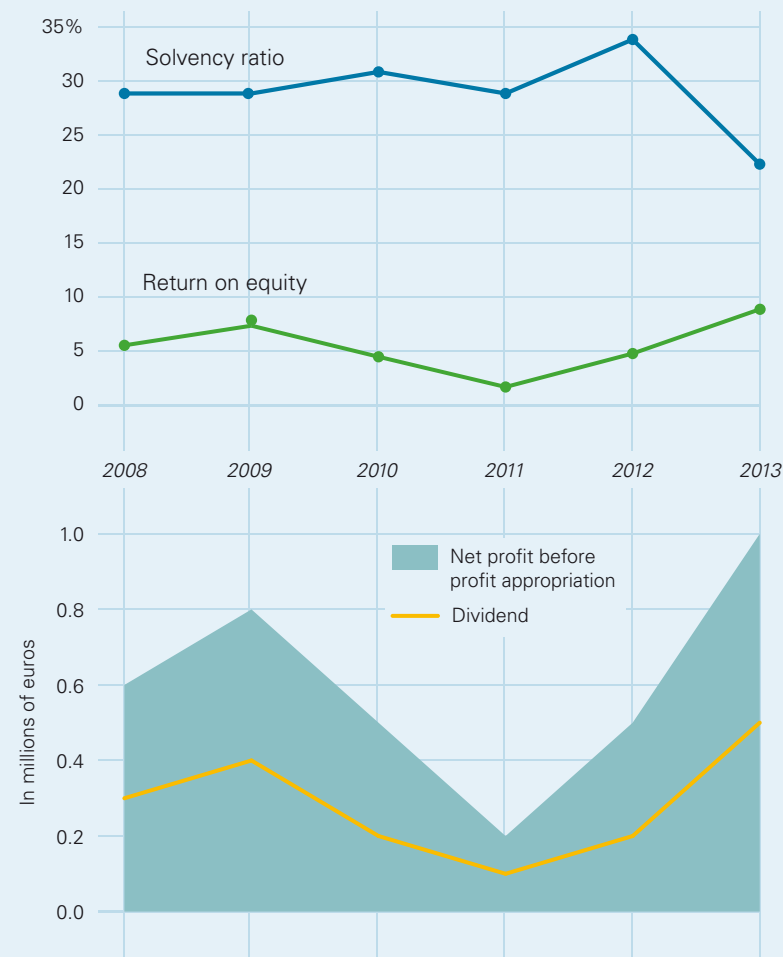


Shareholder powers

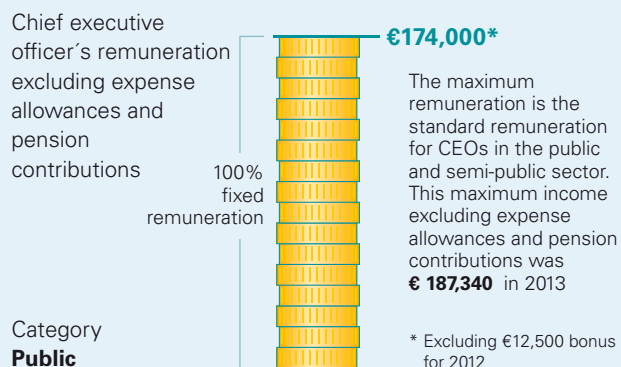
Under KNM's articles of association (2011, mitigated two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	proposal
Investment threshold		> €1 million	> €0.1 million
Executive board	Appointment	●	proposal
	Suspension	●	consulted
	Dismissal	●	consulted
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	
	Profile		●

Financial information



Remuneration in 2013



Foreign activities in 2013

KNM has a 16.7% interest in World Money Fair, Basle, Switzerland. The interest is worth €88,000

Legal structure in 2013

De Koninklijke
Nederlandse Munt N.V.

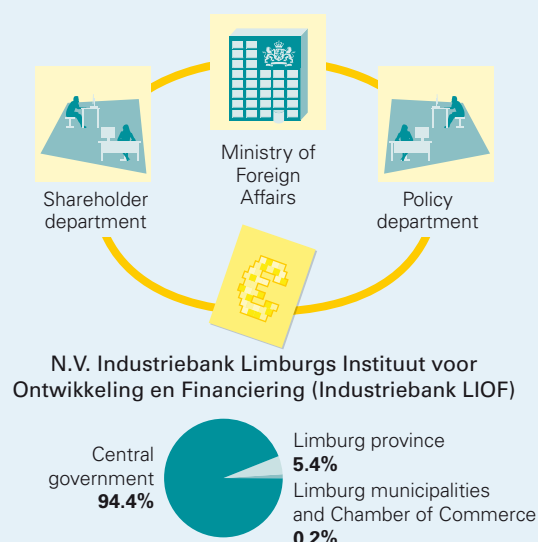
Public interest

Regional development companies strengthen the regional economic structure by encouraging investment, development and innovation, participation and management (providing venture capital) and restructuring and developing industrial estates to create economic activity and jobs.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model



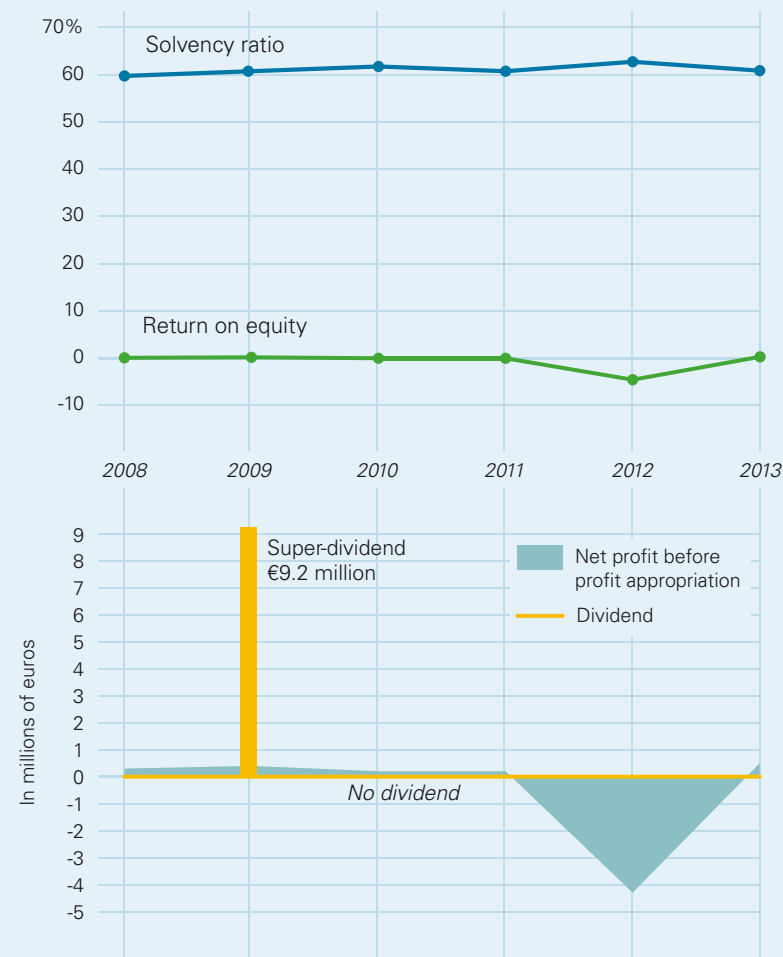
Shareholder powers

Under LIOF's articles of association (2010, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board	consulted	●
	Supervisory board	●	
Investment threshold		not laid down in articles of association	
Executive board	Appointment	●	binding nomination
	Suspension	●	●
	Dismissal	●	consulted
Supervisory board	Appointment	●*	
	Suspension	●	
	Dismissal	●	
	Profile	●	

* On the basis of nomination by provinces and 2 ministries

Financial information



Remuneration in 2013

Chief executive officer's remuneration excluding expense allowances and pension contributions

€186,000

The maximum remuneration is the standard remuneration for CEOs in the public and semi-public sector. This maximum income excluding expense allowances and pension contributions was € 187,370 in 2013

Category
Public

Foreign activities in 2013

Not disclosed

Legal structure in 2013

N.V. Industriebank Limburgs Instituut voor Ontwikkeling en Financiering (Industriebank LIOF)

7 subsidiaries

Sub-subsidiaries and other interests

Nederlandse Staatsloterij

Stichting Exploitatie Nederlandse Staatsloterij

Public interest

Channelling demand for lottery games by providing a reliable, government-managed providing. Setting standards for other lottery games.
 Combatting illegal provision by providing a reliable provision. Protecting consumers.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Centralised model

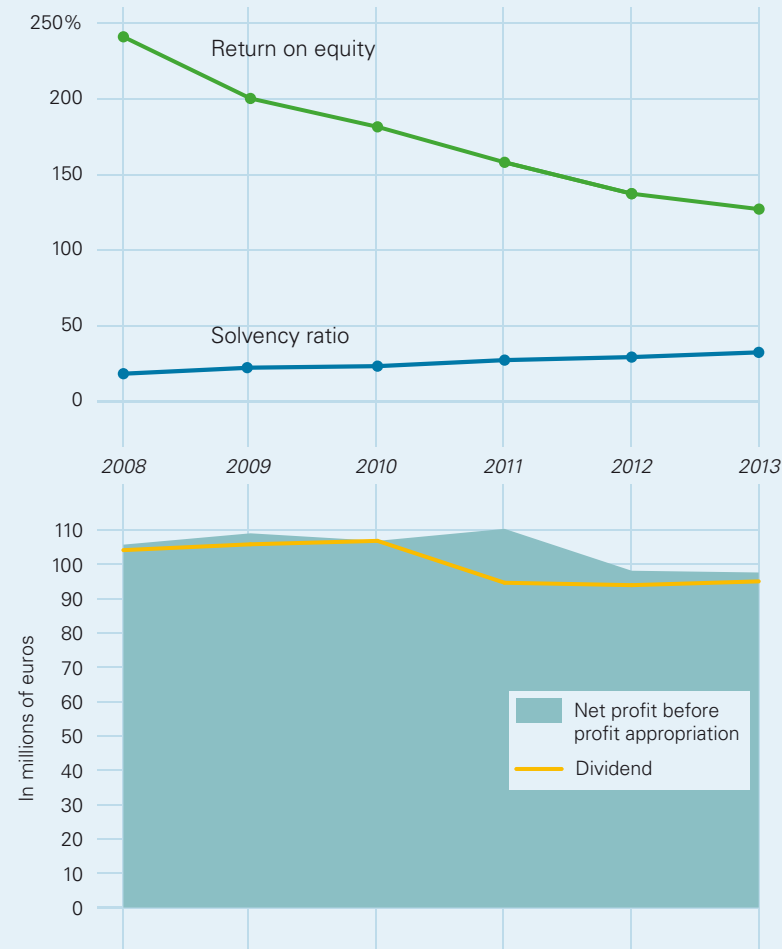


Shareholder powers

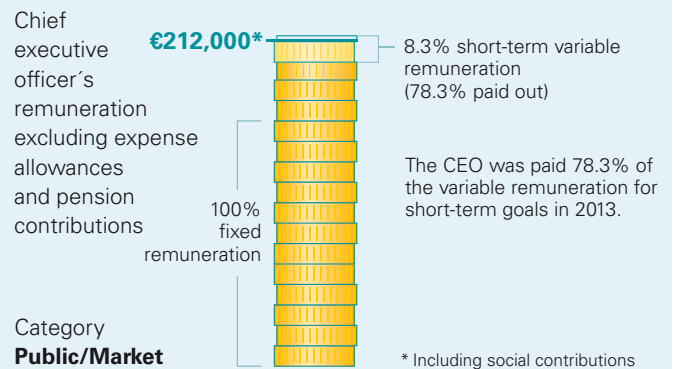
Under Nederlandse Staatsloterij's articles of association (2007, foundation), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board		●
	Supervisory board	●	proposal
Investment threshold		not laid down in articles of association	> €0.5 million
Executive board	Appointment	approval	●
	Suspension	approval	●
	Dismissal	approval	●
Supervisory board	Appointment	●	nominatio
	Suspension	●	nominatio
	Dismissal	●	nominatio
Profile		not laid down in articles of association	

Financial information



Remuneration in 2013



Foreign activities in 2013

No foreign activities

Legal structure in 2013

Stichting Exploitatie Nederlandse Staatsloterij

1 subsidiary

NOM

N.V. NOM, Investerings- en Ontwikkelingsmaatschappij voor Noord-Nederland

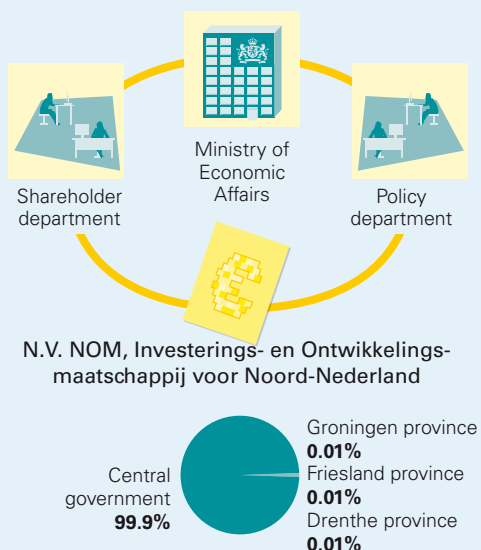
Public interest

Regional development companies strengthen the regional economic structure by encouraging investment, development and innovation, participation and management (providing venture capital) and restructuring and developing industrial estates to create economic activity and jobs.

Source: Policy Document on State Owned Enterprises 2013

Shareholders

Decentralised model



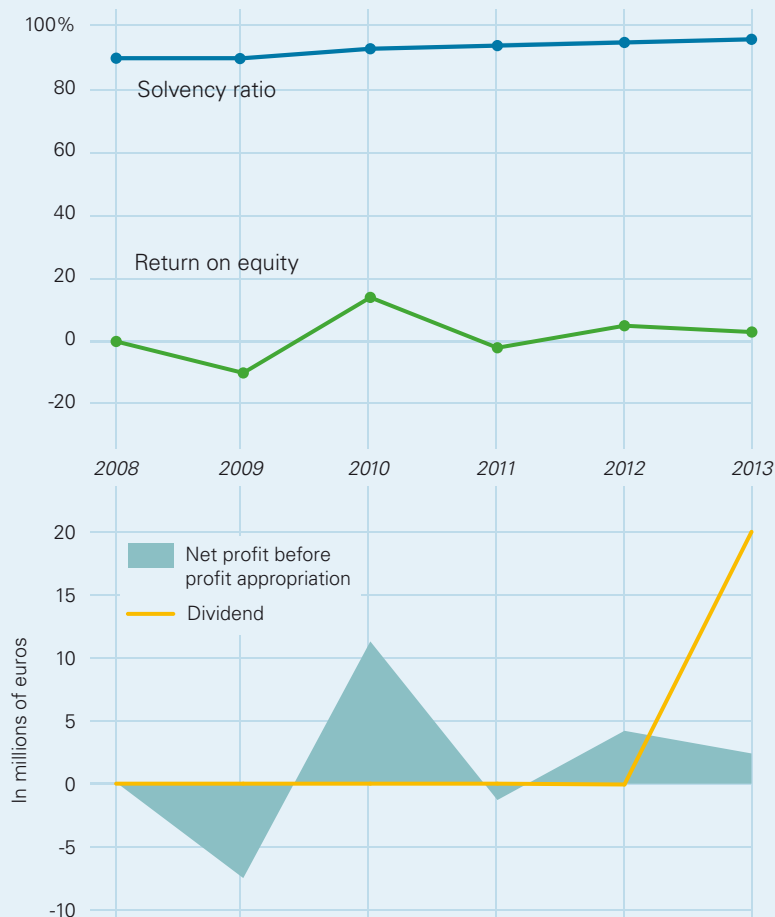
Shareholder powers

Under NOM's articles of association (2005, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

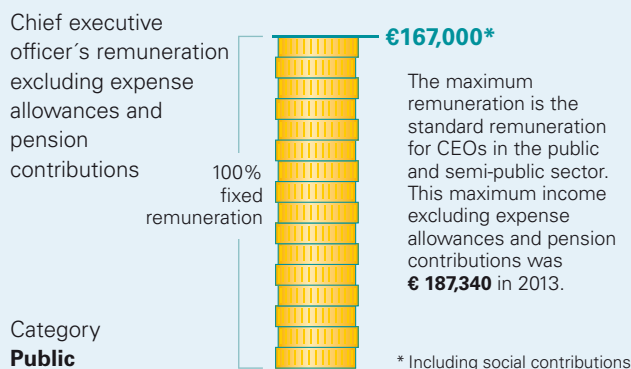
		AGM	Supervisory board
Remuneration	Policy	●	consulted
	Executive board		●
	Supervisory board	●	
Investment threshold		<i>not laid down in articles of association</i>	
Executive board	Appointment	●	consulted
	Suspension	●	●
	Dismissal	●	consulted
Supervisory board	Appointment	● *	nomination
	Suspension	●	
	Dismissal	●	
	Profile	discussion	●

* On the basis of recommendation by provinces and the Ministry of Economic Affairs

Financial information



Remuneration in 2013



Foreign activities in 2013

Not disclosed

Legal structure in 2013

N.V. NOM, Investerings- en Ontwikkelingsmaatschappij voor Noord-Nederland

9 subsidiaries

Sub-subsidiaries and other interests

Public interest

NS provides accessible, reliable, practical, high quality, affordable and safe rail transport (e.g. to urban networks, mainports and greenports) and is responsible for passenger safety.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

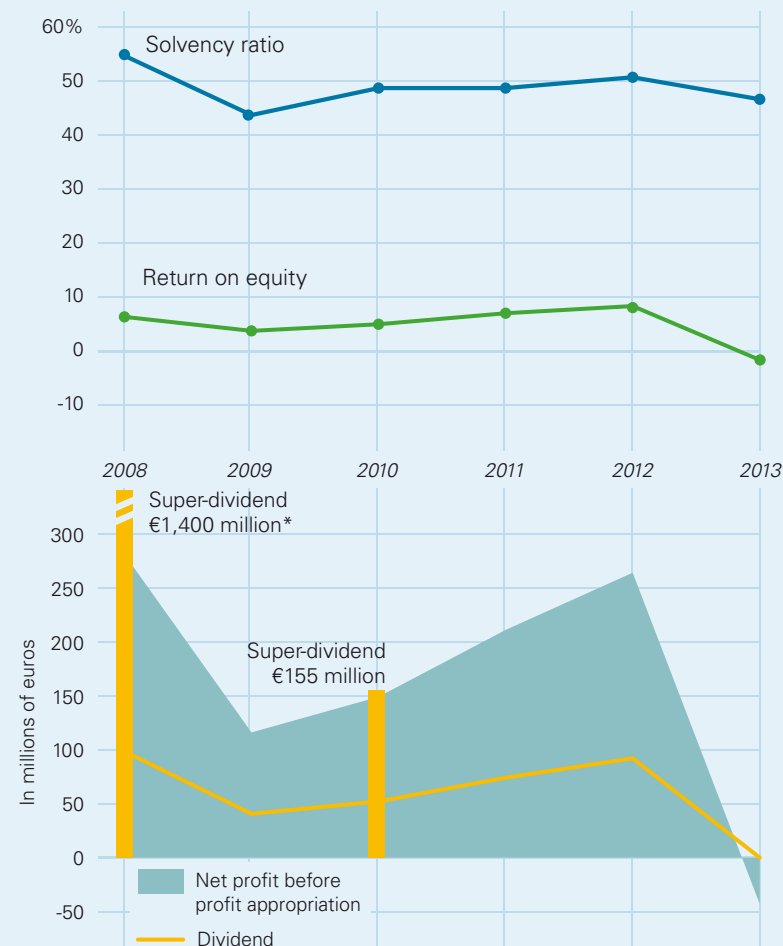


Shareholder powers

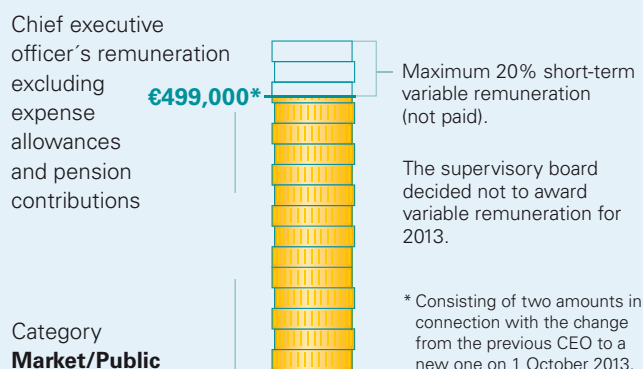
Under NS's articles of association (2008, mitigated two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		> 1/3 balance sheet total	> 1/4 shareholders' equity
Executive board	Appointment	●	nomination
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	
	Profile		●

Financial information



Remuneration in 2013



Foreign activities in 2013

Through its Abellio subsidiary, NS is active in the Netherlands, Germany and the United Kingdom. NS also has a subsidiary in Ireland (NS Financial Services).

Legal structure in 2013



NWB Bank

Nederlandse Waterschapsbank N.V.

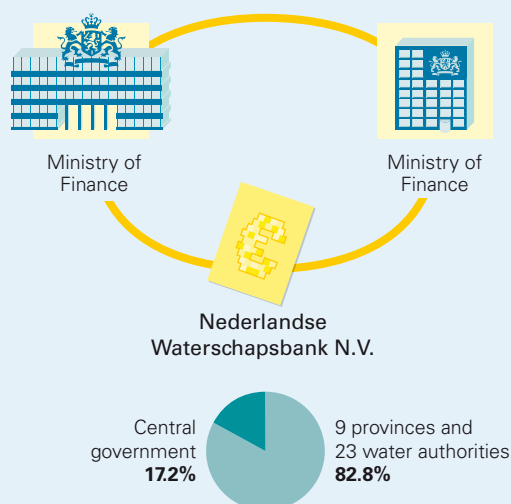
Public interest

NWB Bank provides profitable financial services at low fees to public authorities and institutions in the semi-public sector in both good times and bad times.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

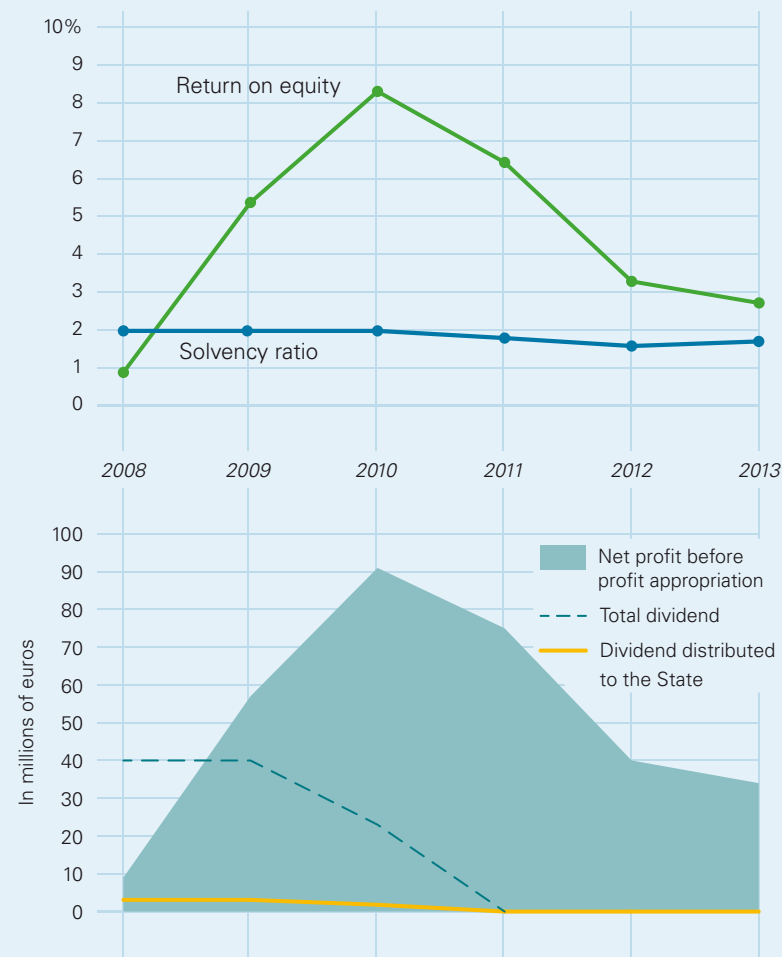


Shareholder powers

Under NWB's articles of association (2013, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		1/3 shareholders' equity	not laid down in articles of association
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	
	Suspension	●	
	Dismissal	●	
	Profile		●

Financial information



Remuneration in 2013



Foreign activities in 2013

NWB Bank attracts capital on the international money and capital markets. It invests solely in the Netherlands, chiefly by providing credit facilities.

Legal structure in 2013

Nederlandse Waterschapsbank N.V.

Oost

Ontwikkelingsmaatschappij Oost-Nederland N.V.

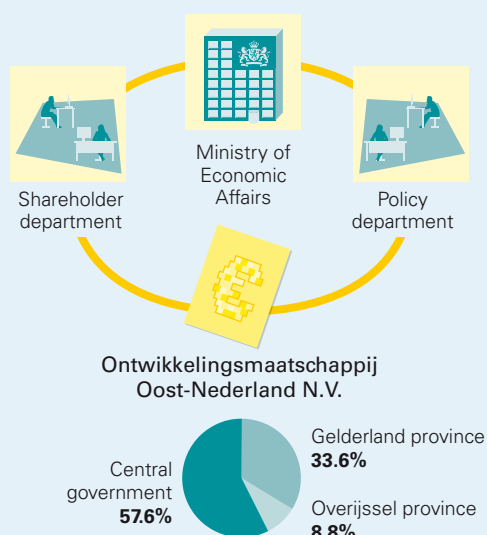
Public interest

Regional development companies strengthen the economic structure of regions by stimulating economic activity and employment by encouraging investments, promoting development and innovation, participation and management (providing venture capital) and restructuring and developing industrial estates.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Decentralised model



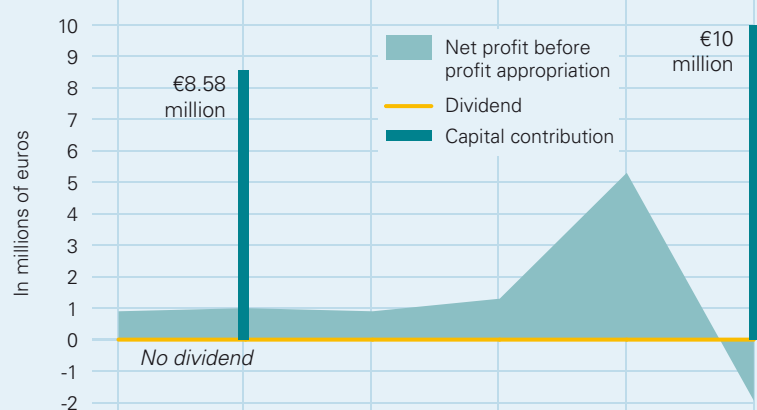
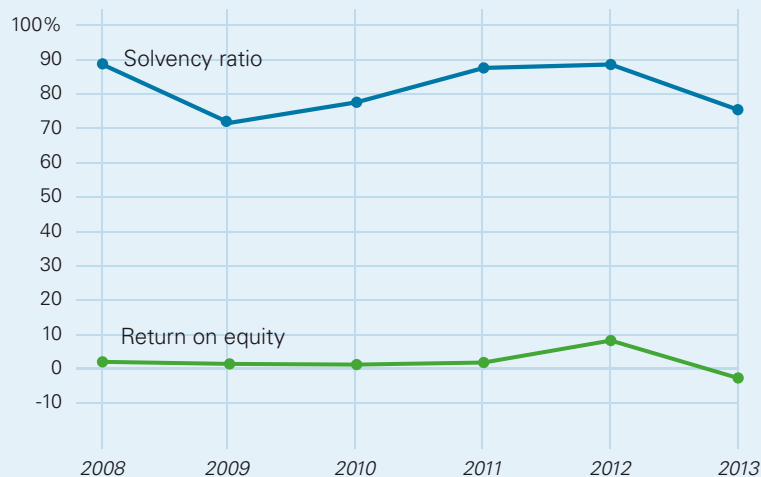
Shareholder powers

Under Oost's articles of association (2009, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

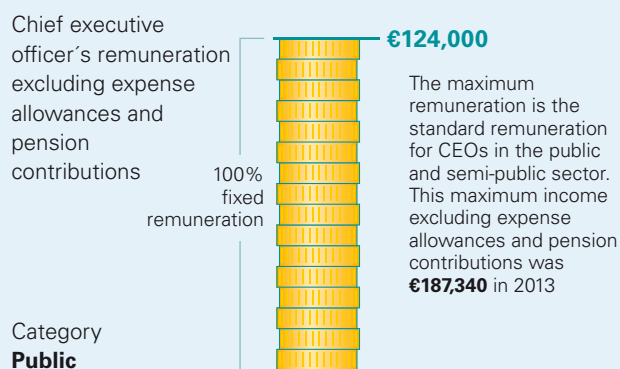
		AGM	Supervisory board
Remuneration	Policy	●	advice
	Executive board	●	advice
	Supervisory board	●	
Investment threshold		<i>not laid down in articles of association</i>	investment plan
Executive board	Appointment	●	advice
	Suspension	●	●
	Dismissal	●	advice
Supervisory board	Appointment	●*	
	Suspension	●	
	Dismissal	●	
	Profile	●	consulted

* On the basis of nomination by the Ministry of Economic Affairs

Financial information



Remuneration in 2013



Foreign activities in 2013

Not disclosed

Legal structure in 2013



ProRail

Railinfratrust B.V.

Public interest

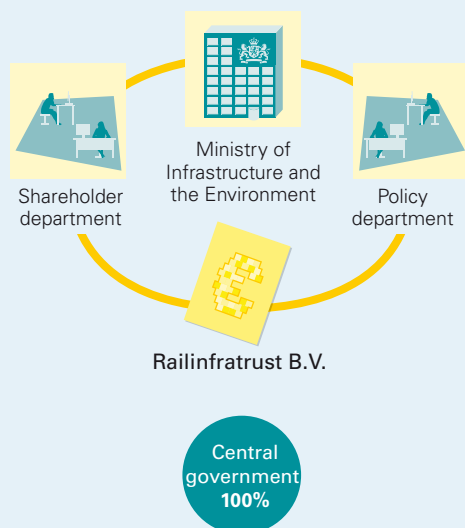
The railway infrastructure is vital to the accessibility of the Netherlands. The public interests are:

- continuity, availability and quality of the main railway infrastructure and associated facilities,
- efficient market conditions: non-discriminatory allocation of the capacity of the infrastructure;
- safety and sustainability.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Decentralised model

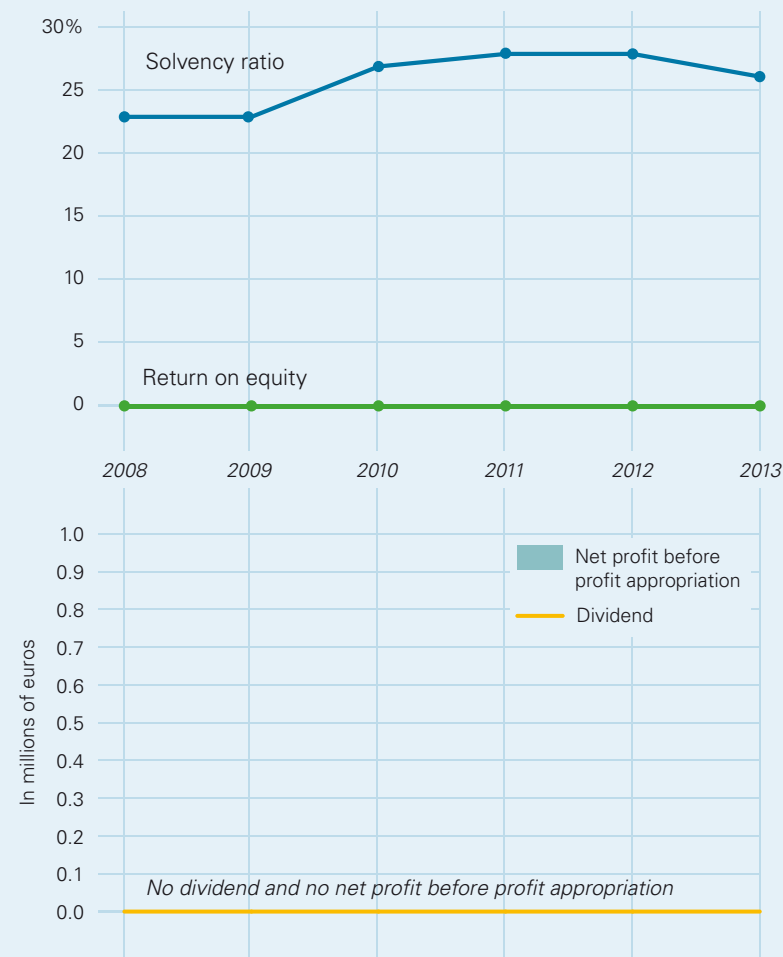


Shareholder powers

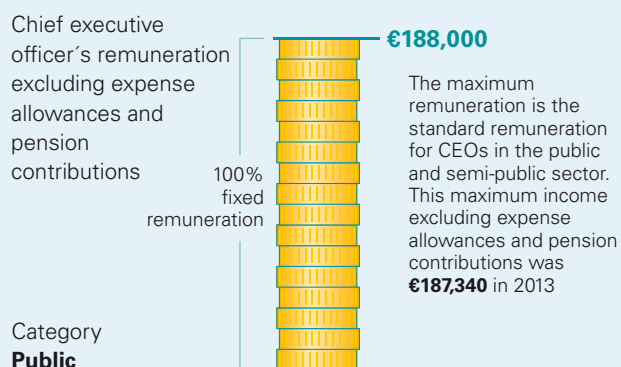
Under ProRail's articles of association (2011, mitigated regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		> €35 million	¼ shareholders' equity or > €35 million
Executive board	Appointment	●	nomination
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	●
	Profile	discussion	●

Financial information



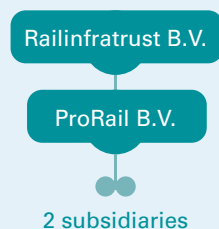
Remuneration in 2013



Foreign activities in 2013

Not disclosed

Legal structure in 2013



Saba Bank

Saba Bank Resources N.V.

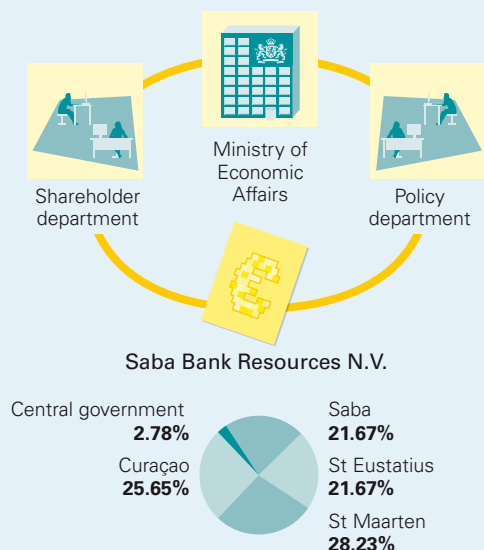
Public interest

Saba Bank is responsible for the storage, transportation, processing, and sale of petroleum and carries out other tasks laid down in the Country Ordinance on Petroleum.

Source: articles of association

Shareholders

Decentralised model

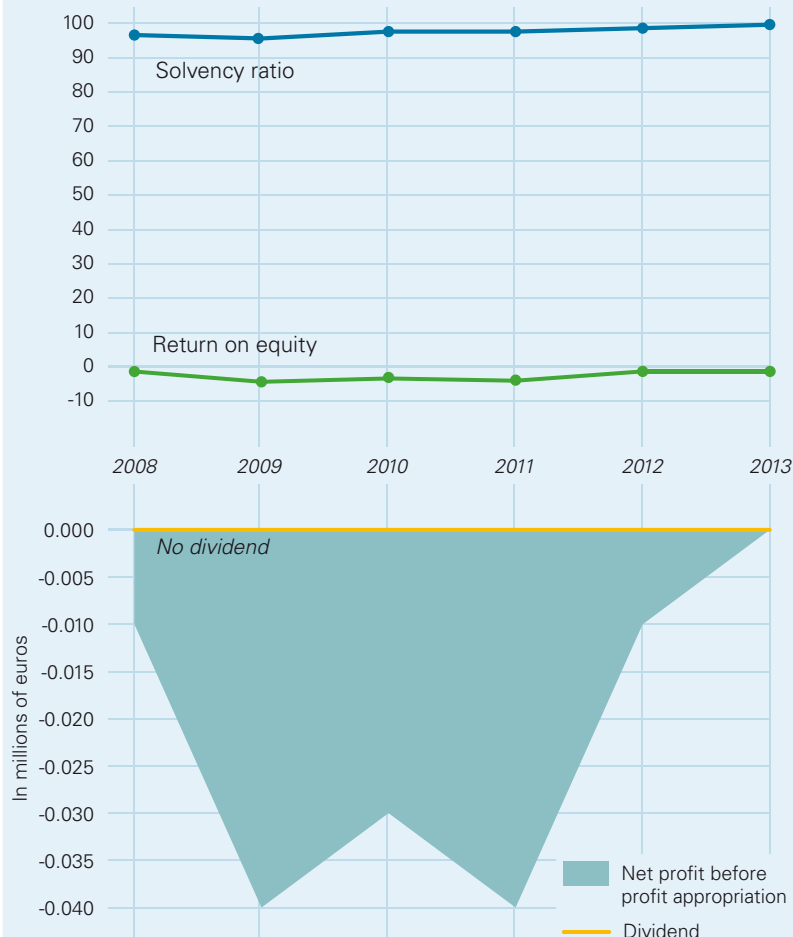


Shareholder powers

Under Saba Bank's articles of association (1984), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles of association</i>	
	Executive board	●	
	Supervisory board	●	
Investment threshold		<i>not laid down in articles of association</i>	> approx. €0.23
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	
	Suspension	●	
	Dismissal	●	
Profile		<i>not laid down in articles of association</i>	

Financial information



Remuneration in 2013

The Dutch state holds too few shares to influence the directors' remuneration.

Foreign activities in 2013

Not disclosed

Legal structure in 2013

Saba Bank Resources N.V.

Legal structure
not further disclosed

Schiphol Group

N.V. Luchthaven Schiphol

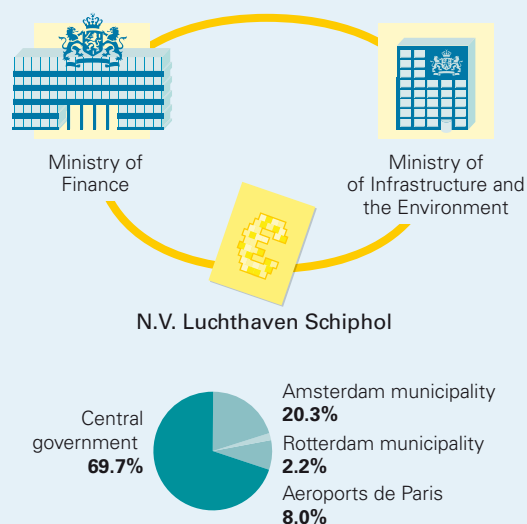
Public interest

The public interest of Schiphol Airport is directly related to the general importance of the airport to the Netherlands: the continuity, quality and network development of the airport as a vital link in the Dutch economy; efficient market conditions, fair competition and open access to the infrastructure; prevention of the misuse of market forces; high quality access to the airports; a sustainable, healthy and safe living environment.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

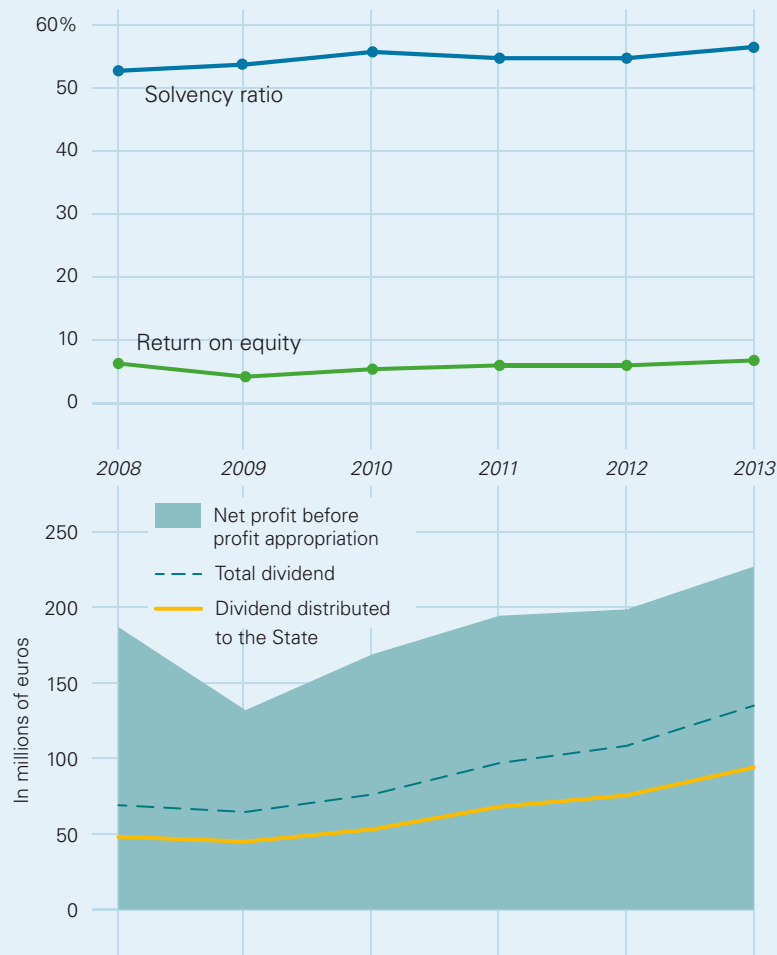


Shareholder powers

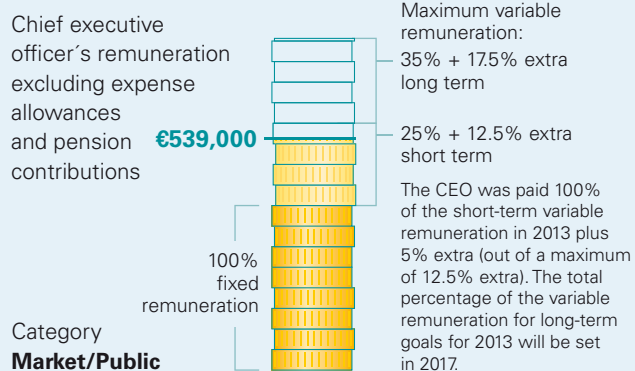
Under Schiphol Group's articles of association (2007, two-tier regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	proposal
	Executive board		●
	Supervisory board	●	
Investment threshold		10% of balance sheet total	25% shareholders' equity
Executive board	Appointment		●
	Suspension		●
	Dismissal	consulted	●
Supervisory board	Appointment	●	proposal
	Suspension		●
	Dismissal	●	
	Profile		●

Financial information



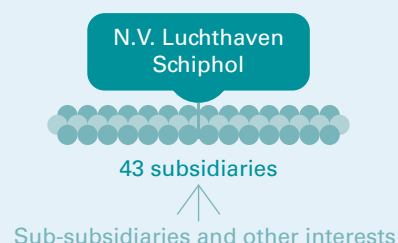
Remuneration in 2013



Foreign activities in 2013

Schiphol Group has a diverse portfolio of international holdings, management contracts and alliances.

Legal structure in 2013



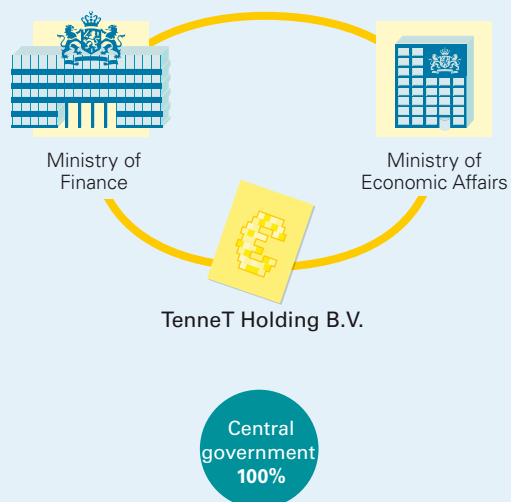
Public interest

The public interest of TenneT lies in the security of electricity supplies. Specific public interests in which TenneT plays a role are: the continuity, reliability and quality of the electricity grid; fair competition; non-discriminatory access to the electricity grid; contributing to the strength and efficiency of the electricity market.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

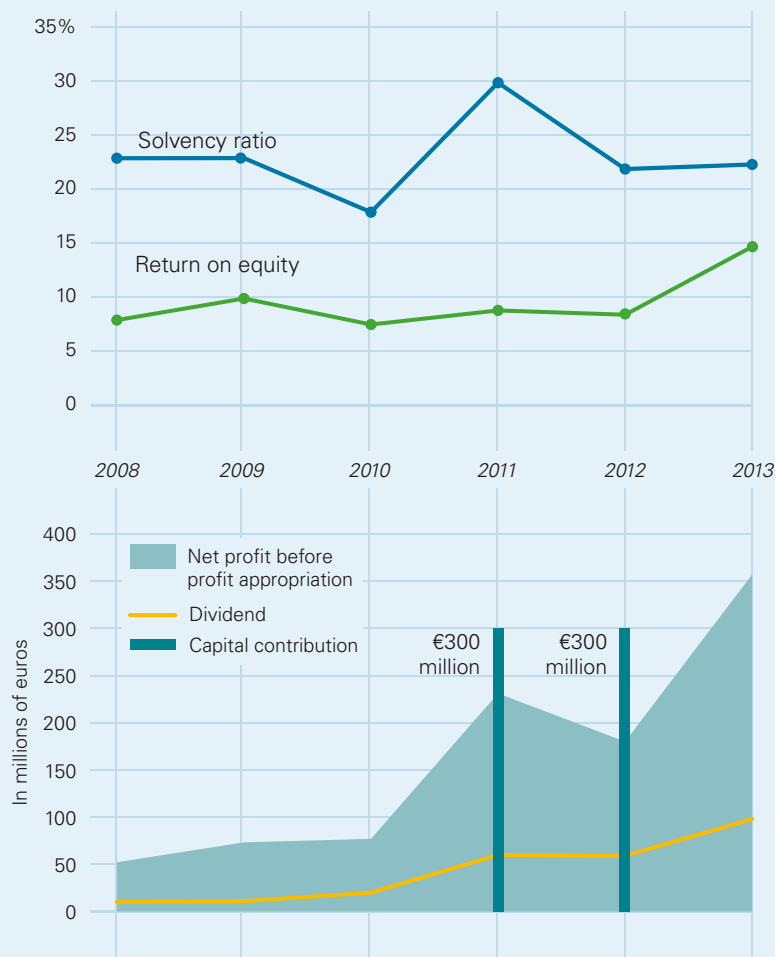


Shareholder powers

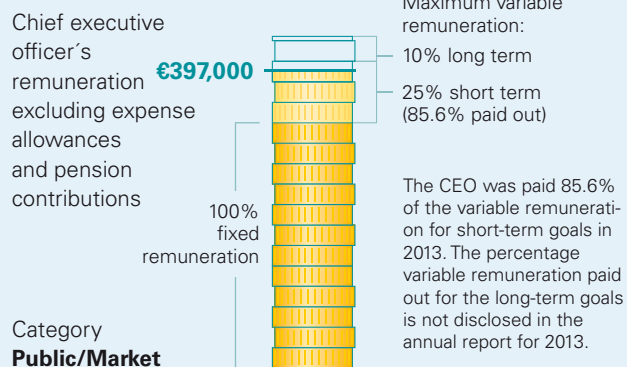
Under TenneT's articles of association (2005, mitigated regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles of association</i>	
	Executive board		●
	Supervisory board	●	
Investment threshold		> €100 million	> €50 million
Executive board	Appointment		●
	Suspension		●
	Dismissal	consulted	●
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	vote of no confidence	
	Profile		●

Financial information



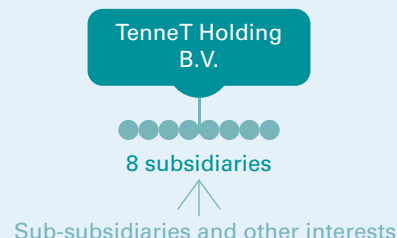
Remuneration in 2013



Foreign activities in 2013

Ownership of the German electricity network (TenneT TSO GmbH) and of various international connectors.

Legal structure in 2013



Thales

Thales Nederland B.V.

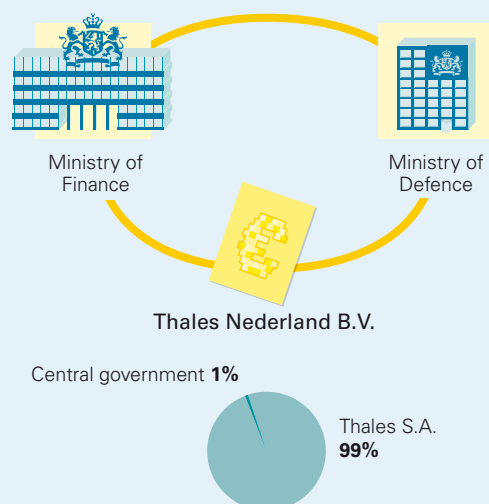
Public interest

The government maintains its 1% interest in Thales Nederland owing to the importance of the company's ability to create capital and therefore jobs. Another consideration is the fulfilment of contractual obligations, especially with the government itself. Other interests include the maintenance of a national defence industry, protection of sensitive information and the maintenance of technical know-how.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

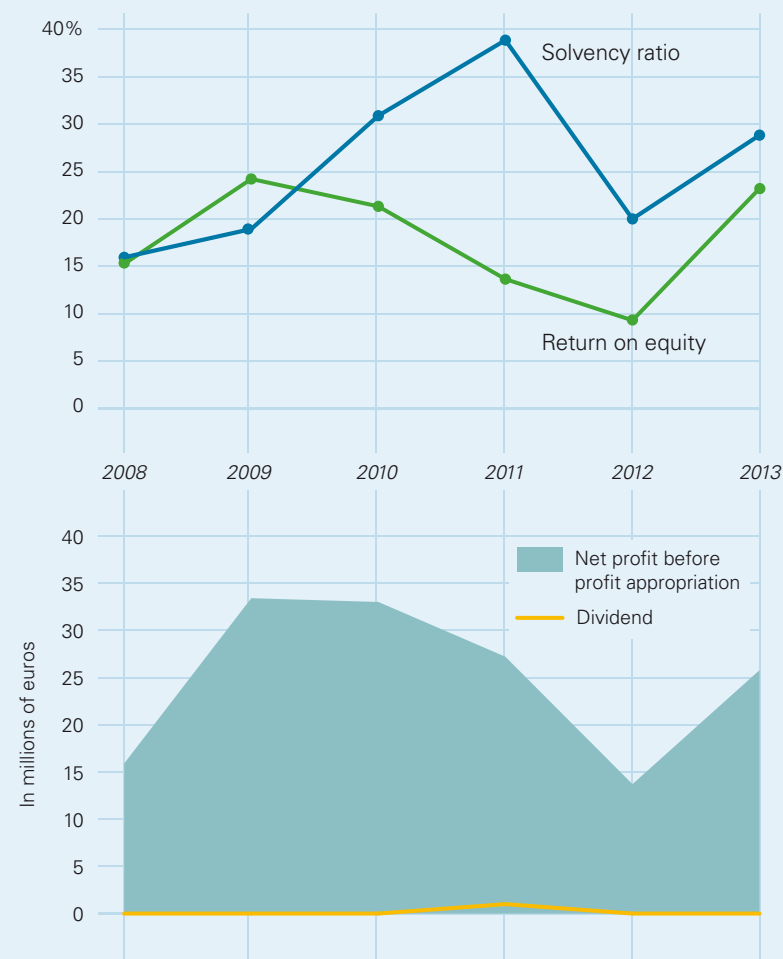


Shareholder powers

Under Thales's articles of association (2010), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles of association</i>	
	Executive board	●	
	Supervisory board	●	
Investment threshold		<i>not laid down in articles of association</i>	> ¼ shareholders' equity
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	
	Profile	discussion	●

Financial information



Remuneration in 2013

The Dutch State holds too few shares to influence the directors' remuneration.

Foreign activities in 2013

Thales has several foreign holdings, e.g. in Canada, Germany, Portugal and Turkey. Owing to the State's 1% interest, the risks to the shareholder are limited.

Legal structure in 2013



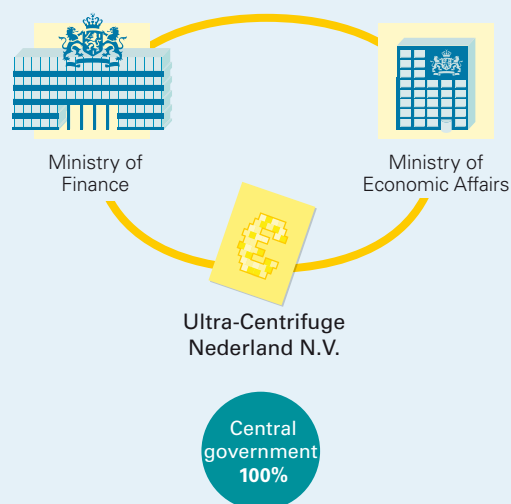
Public interest

UCN protects the public interest of Urenco, a company (uranium enrichment plant) in which UCN holds a third of the shares. The public interests of Urenco are non-proliferation, safety and supply security.

Source: Annual Report on State Owned Enterprises 2013

Shareholders

Centralised model

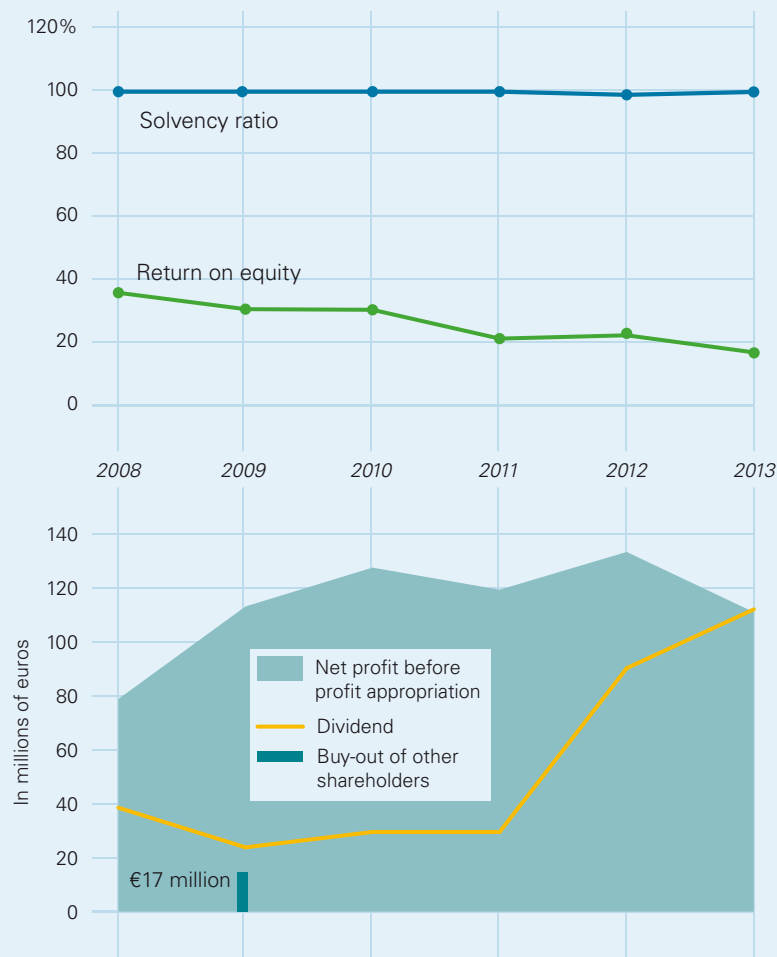


Shareholder powers

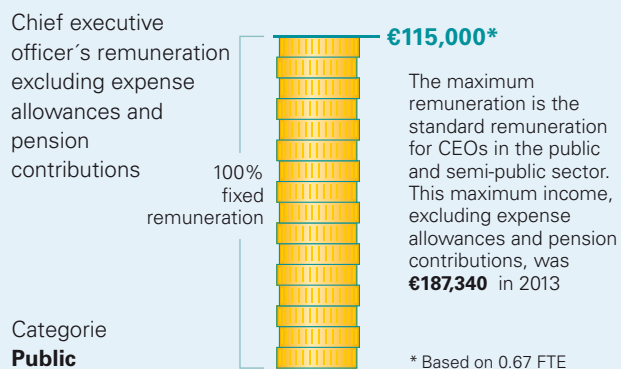
Under UCN's articles of association (2003, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	<i>not laid down in articles of association</i>	
	Executive board		●
	Supervisory board	●	
Investment threshold		<i>not laid down in articles of association</i>	> €5 million
Executive board	Appointment	●	
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	
	Suspension	●	
	Dismissal	●	
	Profile	<i>not laid down in articles of association</i>	

Financial information



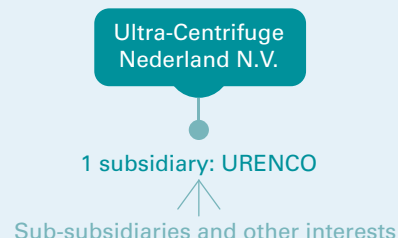
Remuneration in 2013



Foreign activities in 2013

As well as a plant in the Netherlands Urenco has enrichment plants in the United Kingdom, Germany and the United States.

Legal structure in 2013



Winair

Windward Islands Airways International N.V.

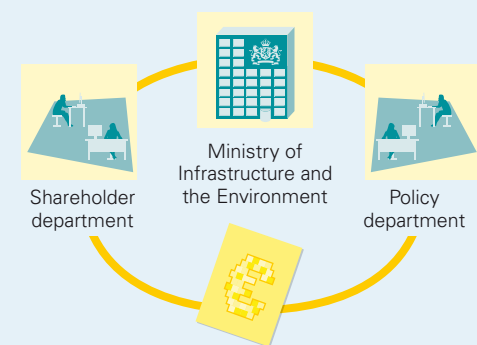
Public interest

Access to Saba and St Eustatius.

Source: Ministry of Infrastructure and the Environment

Shareholders

Decentralised model



Windward Islands Airways International N.V.

Central government
7.95%



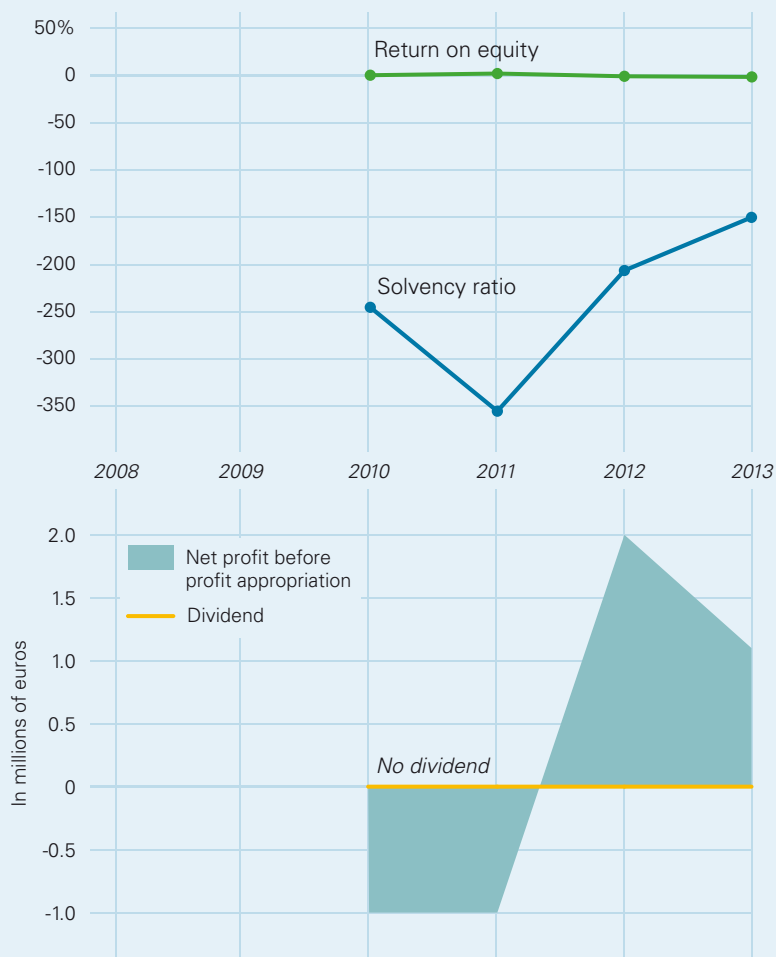
St Maarten
92.05%

Shareholder powers

Under Winair's articles of association (2011, ordinary regime), the annual general meeting (AGM) and the supervisory board have the following powers:

		AGM	Supervisory board
Remuneration	Policy	●	
	Executive board		●
	Supervisory board	●	
Investment threshold		Within St Maarten \$0.5 million; Outside St Maarten \$0.25 million	\$50,000
Executive board	Appointment	●	nomination
	Suspension	●	●
	Dismissal	●	
Supervisory board	Appointment	●	nomination
	Suspension		●
	Dismissal	●	
Profile		not laid down in articles of association	

Financial information



Remuneration in 2013

The Dutch State holds too few shares to influence the directors' remuneration.

Foreign activities in 2013

Not disclosed

Legal structure in 2013

Windward Islands
Airways International N.V.

Legal structure
not further disclosed

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