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Amsterdam, May 21, 2013

Subject: Brunel Houston accounting

This letter is in response to the questions raised by the VEB in their letter of 4 March 2013.

These questions related to the accounting irregularities as communicated by Brunel in our press release dated 1 March 2013. The irregularities resulted in an overstatement of revenue, margin and EBIT in the financial reports of our regional office in Houston, which were included in 2012 in our consolidated financial reports and corrected with the submission of our full year results.

1. Exactly when and how the Board first become aware of the (first indications of) accounting irregularities?

*During 2012, we received some signals regarding the unsatisfactory quality of the local accounting department, which caused us to strengthen this department in 2012. The December 2012 reporting packs for this region, reported to our Corporate Finance & Control department mid-January 2013, led to various questions regarding the accuracy of this pack.*

*The first answers provided by the financial controller for the Americas region were unsatisfactory, but did not yet suggest any accounting irregularities. But since we had not received appropriate responses to our queries, the Board of Directors decided to send the group controller to Houston at the beginning of February 2013. His first review revealed that the accounts included unclear items, mainly caused by errors made during the conversion to new accounting software earlier in 2012. Only after these errors had been corrected at the end of February 2013, were the first signs of accounting irregularities noticed. Together with the newly appointed regional controller and the local accounting staff, the group controller was then able to determine the extent and impact of these accounting irregularities.*

2. The press release mentions 'control issues'. To what specific 'control issues' is Brunel referring here?

*As mentioned in the press release, the accounting irregularities started in 2011. In mid-2011, the previous regional financial controller passed away, creating the need for an immediate successor. The former head of the accounting department was appointed. One of the main control issues that allowed this former head of the accounting department to fail to notice the*

*accounting irregularities was that he had been able to breach the necessary segregation of duties between accounting and control.*

*It is our opinion that the accounting irregularities started in 2011, mainly because the newly appointed regional controller turned out to lack the capabilities necessary to perform his new role adequately. Due to the lack of sufficient segregation of duties between accounting and control, he was able to cover up his errors and incompetence.*

*Although the accounting irregularities had begun in 2011, our internal control procedures only detected them at the beginning of 2013. Even though there have been mitigating circumstances (fast growth, new regional controller and new general manager), we can only conclude that our internal controls fell short in Houston, both in terms of executing existing policies (i.e. segregation of duties) and monitoring the effectiveness of the controls in place.*

3. How were the management and control of operations, and their financial administration, organised by the US operations within Brunel?

*All our operating entities have a country/general manager and a head of the local accounting department. The country manager is in turn managed by a regional manager, who reports to the Energy Board. For each region, a regional financial controller is appointed who reports to both the CFO and the regional manager. The regional controller performs the main internal control activities.*

*All entities report to Corporate Control. Main reports are the weekly KPI figures and monthly financial reports. Corporate Control reviews all reports and takes action to follow up on specific items noticed in the reviews. Rolling 12 month forecasts (latest estimates) are prepared quarterly. Each quarter, the monthly financial report and the latest forecast are discussed by the CFO and responsible business controller in a review meeting with the regional manager and regional controller responsible for the entity in question.*

*Corporate Control visits entities on a regular basis. These visits are triggered by, amongst other things, underperformance by the entity or repetitive errors noticed in reporting.*

*All significant entities are periodically visited by the CEO and/or CFO. The CEO is also a member of the Energy Board. The Energy Board meets periodically to discuss all major business items and events within the Oil and Gas activities of Brunel.*

4. In the interview with the Financieele Dagblad (published on the FD website), CEO Van Barneveld noted that "had we paid attention in early 2012, we could have spotted it." In which specific areas did the internal control fall short?

*Even though the accounting irregularities were initially insignificant, the amount became accumulatively sizable towards the beginning of 2012. If we had performed an extensive on-site internal review on the adequacy of internal controls and financial reporting during one of our visits to Houston, we would most likely have spotted the irregularities, or at least the lack of sufficient internal control and segregation of duties.*

5. According to the press release, Brunel has adjusted downwards both the sales and EBIT results for 2011 and 2012. What is the basis for Brunel's assumption that fraud in the United States was limited to these two years, and not already occurring before then?

*We refer to our answer to question 2: the irregularities are mainly attributable to the incompetence of our former regional controller. He was appointed regional financial controller mid-2011 after the previous regional controller suddenly passed away.*

*Moreover, as these irregularities all resulted in accumulating overstatements of various assets in the balance sheet, we were able to trace these overstatements back to identify the moment they were made, their nature and the person responsible for their creation. In so doing, we have been able to determine that the irregularities started in 2011.*

6. On what grounds does Brunel base its opinion that the irregularities in the United States have been 'a one-off, isolated incident'?

*It was possible for this incident to occur due to a combination of several interrelated circumstances. The main relevant circumstances in Houston were the sudden need for a new regional manager, the lack of appropriate skills of that regional controller, the lack of sufficient segregation of duties and internal control, and the rapid and profitable growth of the business in this region.*

*We have reviewed all our other regions and entities to check for similar circumstances, also drawing on the findings of the review activities carried out by Corporate Control, and have concluded that we have no indications that similar irregularities currently exist in any other regions or entities.*

7. What specific measures have Brunel taken in order to tighten internal control and risk management?

*One of the reasons these irregularities could occur and remain unnoticed for so long is that Brunel has been primarily focused on achieving growth and development of business, and less focused on ensuring that back offices and internal control keep pace with the growth of our activities.*

*We initiated specific measures after we became aware of the irregularities in Houston. These measures are directed at increasing the awareness within Brunel of the importance of compliance to policies and guidelines, as well as improving discipline in adherence to these policies and guidelines.*

*We were conscious of the need for adequate internal controls and procedures, especially in the light of the growth we have achieved over the last years and further growth we are aiming for in the future. The Board of Directors had decided that, to enable this growth, we needed to implement uniform procedures worldwide, supported by uniform software solutions. The phased implementation of these procedures and related software is, as per the schedule established in 2011, due to be completed in early 2014. A large part of the standard software has been tailored to Brunel's requirements. We trust this implementation of uniform software and procedures will ensure better internal control.*

*Needless to say, we have also made changes within our office in Houston.*

8. What measures still need to be implemented in order to tighten up internal control and risk management?

*The necessary measures have since been implemented. However, we feel that internal control and risk management require continuous attention and updating. We are confident that the measures we have implemented thus far will enable us to react adequately to current, new and evolving requirements for our internal control and risk management.*

9. According to statements made by Van Barneveld, Brunel's internal investigation into the 'weak link' in the organisation is still ongoing. How does this statement fit with the communication of Brunel that there has been an 'isolated problem'? In other words, on what grounds does Brunel feel able, while an investigation is still ongoing, already at this stage to conclude that the fraud in the United States was an isolated problem?

*The initial findings of our internal investigation conducted in February 2013 led to the conclusion, at the end of February 2013, that the cause of the irregularities could be traced to the actions of one individual. Although we felt reasonably comfortable that this conclusion was correct, we also agreed that a more thorough investigation was required to verify this conclusion. At the time the above statement was made, the additional investigation was still ongoing.*

10. At what point does Brunel expect to have completed the internal investigation and to report its findings to shareholders?

*The internal investigation has been completed. Please refer to the attached press release (published 15 May 2013) for more details on the investigation's outcomes.*

11. Has Brunel, as a result of the discovery of accounting fraud, since carried out an investigation into other (international) business units in respect of the functioning of internal risk management and control systems?

*As explained in answer to question 7, we have performed additional internal audits globally on our specific "unbilled revenue" positions as per the end of 2012. We have also conducted a review to assess the probability of similar issues arising elsewhere within Brunel. Neither the internal audit on unbilled revenue nor the review assessing the probability of occurrence of similar issues has revealed indications of similar risks.*

12. If so, which parts of the business did, or will, these investigations cover, and what were the specific conclusions regarding the functioning of the internal control and management systems?

*All regional offices within the Brunel Oil and Gas divisions, as well as the main entities in Europe (The Netherlands, Germany and Belgium), have been subject to the review as described in our response to question 11.*

13. What observations were made on the quality of information and/or information systems by the external auditor in the management letter regarding the financial statements for 2009, 2010 and 2011?

*The external auditor did not make any specific recommendations in the management letters regarding the financial statements of 2009-2011 in respect of the quality of information and/or information systems.*

14. Did the external auditor, in their management letter following the audit procedures for the financial statements for 2009, 2010 and 2011, already in any way drawn attention to possible inadequacies or room for improvement in the risk management and control systems relating to financial reporting by subsidiaries of Brunel?

*The external auditor indicated that in 2009 and 2010 internal controls were adequate, but that further improvements could be made. In subsequent years, the external auditor indicated that these further improvements (increased frequency in the number of contacts of Corporate Control with the regional controllers and increased quality of local controls) had been made.*

*In its management letters for 2009 and 2010, Deloitte advised us to further formalise the existing risk analysis and risk management systems. In 2011, Deloitte advised us to visit new entities regularly in order to be able to uncover problems in time, and to further assess possible tax risks.*

15. If so, what specific points for concern, deficiencies and/or areas for improvement were at that time identified by the auditor and brought to the attention of the Board of Directors and/or Supervisory Board?

*No specific issues, deficiencies and/or improvements were at that time drawn to the attention of the Board of Directors and/or Supervisory Board.*

I trust our responses satisfactorily address your questions. Please do not hesitate to contact me should you have any further questions, or would like a meeting to discuss the contents of this letter.

Kind regards,

Jan Arie van Barneveld  
CEO Brunel International N.V.

Attachment: press release Brunel International N.V. published 15 May 2013

## Press Release

- 2012 financial statements
- Investigations Brunel Americas completed

Amsterdam, 15 May 2013

### **2012 financial statements**

Brunel has published its 2012 financial statements. These are available on our website. The investigation in America has resulted in limited modifications to the results for 2012 as published on 1 March 2013. Adjusted to take account of the results of the investigation, and additional audit fees, the EBIT decreased by €1.8 million. The net result is virtually unchanged from the previously published figures, other than resulting from the restatement of the 2011 financial statements. The final results for 2012 are attached as an appendix to this press release.

Brunel has amended the comparative figures in the 2012 financial statements to give a clear picture of the year-on-year development of activities and profitability. As a result of this restatement, EBIT for 2011 has been decreased by €3,5 million. The initially reported EBIT for 2012 has been increased by this amount. Further details on this restatement are included in our 2012 financial statements.

### **Investigation into Brunel Americas**

Both our own additional internal investigations and the investigation by KPMG confirm our provisional findings: that the irregularities in the figures as reported by our office in Houston were an isolated incident and entirely attributable to a single employee.

In 2012 we received some signals regarding the inadequate quality of the finance department in Houston. It appears that with the appointment of the regional financial controller of Brunel Americas in mid-2011, the necessary segregation of duties between accounting and control broke down, the impact of which was only spotted by Brunel in early 2013. Afterwards it was established that these errors had initially been the result of incompetence, and that in the course of 2012 there was some manipulation of internal reports and the disposition of €350.000.

In the meantime, measures have been taken to prevent similar occurrences in the future. We are obviously very disappointed by the whole episode. On the other hand, we are relieved that the now completed investigations have indeed confirmed that the irregularities related exclusively to internally reported figures, and that no customers or contractors have been adversely affected in any way.

Jan Arie van Barneveld: *"We have carried out a root-and-branch investigation of the irregularities, and come to the conclusion that both their nature and scope are restricted to that which we initially uncovered a few months ago. And that is a huge relief. As a result of this occurrence, we are now more than ever aware of the importance of strong controls. This period has been an important lesson for us. Brunel will continue to evolve, as our growth and the quality of our controls must develop in parallel."*

Not for publication

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