



EVALUATION OF THE 2016 AGM SEASON

Introduction

Every year Eumedion¹ prepares an evaluation of the season of annual reports and shareholders meetings, the AGM season. The main substantive findings concerning the annual reports for the year 2015 and the regular shareholders' meetings held in 2016² are considered below.

Summary

- The number of votes cast at the AGMs retained its upward trend and was more than 71% at the AGMs of AEX companies and around 65% at the AGMs of AMX companies.
- Three voting items were rejected by the AGM (2015: 6), four voting items were withdrawn prior to the AGM and one voting item was amended prior to the AGM.
- In particular, shareholders protested against proposals to grant special bonuses to executives, such as synergy, transaction and retention bonuses, and to proposals to change the remuneration policy when these were inadequately explained.
- Two AEX companies cancelled an anti-takeover mechanism: ING Group abolished its depositary-receipts structure and Boskalis abolished the voluntary application of the so-called structure regime. Shareholders of DSM used the voting item on the determination of the dividend percentage to be paid on preference shares to advocate alignment between the voting rights and capital contribution on these shares. Royal Brill announced that it will review its corporate governance structure, which includes three anti-takeover mechanisms. The proposal to amend and extend the existing call option agreement between Royal Ahold and its anti-takeover foundation was withdrawn from the agenda.
- Shareholders seem to be more flexible with respect to authorisations to issue new shares when the pre-emption rights will not be excluded. For example, shareholders and holders of depositary receipts of ING Group agreed to an authorisation to issue new shares of no less than 50%; 40% with pre-emption rights and 10% with or without. Shareholders of Gemalto agreed to an authorisation to issue new shares up to 30% of the issued capital. 20% would be with pre-emption rights for current shareholders and 10% with or without pre-emption rights.
- An increasing number of listed companies are providing their investors insight into the tax policy and the level of the effective tax rate. Many listed companies do not yet wish to provide detailed public information on their payments made to the governments of the countries in which they have operations ('country-by-country-reporting').

¹ Together, the Eumedion participants represent approximately 25% of the shares of the Dutch listed companies.

² This evaluation report covers the AGMs of companies that have its registered office or headquarters in The Netherlands and are listed on Euronext Amsterdam.

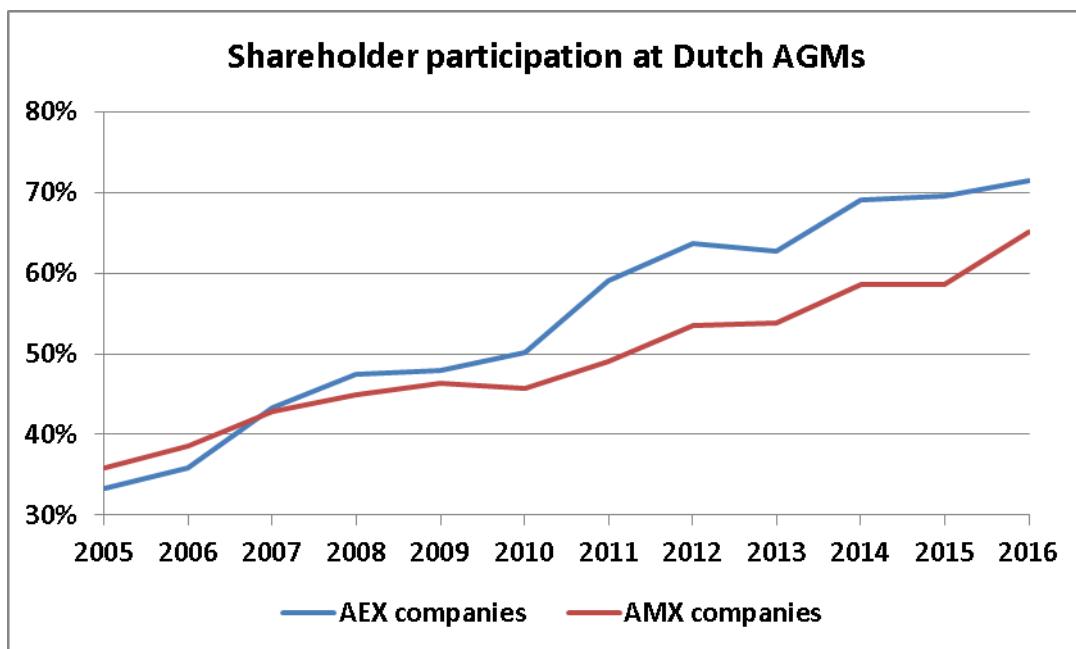
- The number of listed companies that published an ‘integrated annual report’ tripled – from 6 in 2015 to 18 this year. An integrated report provides investors better insight into the long term value creation model of the company and the accompanying risks.

1. Increasing shareholder participation rate persists

Shareholders and holders of depositary receipts were able to vote on 873 proposals, one of which was a shareholder’s proposal. Follow This, a collective of Shell shareholders that wants to make the world sustainable quicker by making Shell a renewable energy company, placed a proposal on the agenda to make Shell a renewable energy company by investing the profits from fossil fuels in renewable energy. Shell would have to adapt its strategy accordingly within one year. The proposal was voted down by the Shell AGM with 97.2% of the votes cast. Delta Lloyd major shareholder Highfields Capital Management also requested that an item be placed on the agenda, namely the discussion of the agreements between Delta Lloyd and 7.1% shareholder Fubon Financial Holding. This request for placement on the agenda was denied by the board of the insurer because it had been submitted too late. Moreover, Delta Lloyd stated that the most important elements of the agreements had already been made sufficiently public so that shareholders would be able to ask questions about them at the AGM in any case.

In the end – besides the shareholders’ resolution for Shell – only two proposals were rejected by the AGM, namely the authorisation of the board of Tie Kinetix to issue up to 20% new shares in the forthcoming 18 months and the extension of the appointment term of the supervisory directors of Core Laboratories from 3 to 4 years. Four proposals – the authorisation of the Fugro and Heijmans board to issue new shares and the accompanying proposals to exclude or limit the pre-emption rights – could only be adopted with the support of their Trust Offices (see also appendix 1). Four proposals were withdrawn (granting synergy bonuses to the Ahold executives, extension of call option agreement between Ahold and its anti-takeover foundation, changing the dividend percentage on the DSM preference shares and the appointment of a supervisory director at Brill), and also one part of the proposal submitted by BESI to change the remuneration policy (possibility to grant transaction bonuses to the board). This is explained in more detail in paragraphs 2 and 3 and in appendix 2.

The number of votes cast at the AGMs of the AEX and AMX companies maintained its increasing trend amounted to more than 71% at the AEX companies and 65% at the AMX companies (graph below).



2. Shareholders criticise special bonuses and unclear remuneration policies

Thirteen listed companies (AkzoNobel, Ahold, Vopak, Altice, BinckBank, BESI, Flow Traders, Sligro Food Group, Beter Bed, Wessanen, Kiadis Pharma, Kardan and Curetis) had placed a change in the remuneration policy or the granting of a special bonus on the agenda of the AGM. The proposals only led to controversy with the shareholders when the policy included the possibility to grant a special bonus, such as a synergy, transaction or retention bonus, or was inadequately explained. The first was the case at Ahold, BESI and Wessanen. The proposals for granting synergy bonuses to the Ahold executives and for the possible granting of a transaction bonus to the executive of BESI were eventually withdrawn as a result of pressure from shareholders. The proposal to grant the CEO of Wessanen a retention bonus in the middle of his first appointment term could only be adopted by the AGM with the help of the majority shareholder, who is also represented in the supervisory board of Wessanen. At Flow Traders and Beter Bed a lack of clarity on the proposals resulted in a substantial number of votes against (more than 20%). For example, it was hardly possible to deduce precisely what changes were being proposed in the proposal to change the remuneration policy of Flow Traders. From the proposal to change the option scheme of Beter Bed it was impossible to deduce which companies were included in the performance peer group, the number of options that would vest when certain performance targets are met and confusion on the possibility to adjust the option exercise price downwards during the term of the options. The supplemental relevant information was provided to the AGM, but this information arrived too late for the shareholders who could not attend the meeting and who had to issue their voting instruction well in advance of the meeting. Eumedion therefore urgently appeals for the proposals to amend the remuneration policy to be well-explained in writing and not only presented at the AGM.

In order to head off dissatisfaction amongst shareholders and possibly also society at large a number of supervisory boards have made use of their discretionary authority to adjust bonuses downwards.

For example, the supervisory board of Aegon decided to reduce the short term bonus for the management board for the 2007 financial year by almost 7% “after incorporating model validation updates and assumption changes for the 2015 financial performance of the Group”. The non-executives of Unilever also applied a reduction of almost 7% to the short term bonus of the Unilever executives because further progress needed to be made in winning market share, agility and cost control. The non-executives of Shell reduced the annual bonus of the executives of Shell by almost 10% in connection with a number of safety incidents and the discontinuation of a project. The supervisory board of Delta Lloyd decided to not grant any bonus to the executives of the insurer “due to the development of the solvency and the response to this in the share price of Delta Lloyd in 2015”. Only the supervisory board of IMCD used upwards discretion in connection with the high score in one of the performance criteria for the short term bonus for the executives.

In a number of cases, chairmen of the management boards took the initiative to moderate the remuneration package. For example, the CEO of Unilever refused an increase in his fixed salary, while the chairman of the management board of Fugro refused to accept a bonus for the 2015 financial year, although a number of goals prompting payment of the bonus had been achieved. Three of the four executives of Curetis also voluntarily refused to accept a bonus for the 2015 financial year.

After fourteen listed companies increased the remuneration of the supervisory directors in 2014 and no less than 24 in 2015, this was followed by another eleven companies in 2016 (DSM, ING Group, Wolters Kluwer, Arcadis, Brunel, KAS BANK, Kiadis Pharma, Batenburg Techniek, Van Lanschot, Tie Kinetix and Curetis). The increase was usually motivated by the increase in work and liability for the supervisory directors and a ‘remuneration gap’ in comparison with other, comparable companies. These were convincing reasons for the shareholders. All proposals to increase the remuneration of the supervisory directors were adopted by the AGM with significant majorities. By the way, Curetis was the only company that proposed henceforth rewarding its supervisory directors (partially) with (share) options. After Pharming, AMG and Core Laboratories, Curetis is the fourth Dutch listed company that is rewarding its supervisory directors partially with financial instruments.

3. Two AEX companies abolish an anti-takeover device

After years of criticism of the various anti-takeover devices from shareholders, ING Group and Boskalis changed tack in 2016 and abolished the device that was most heavily criticised. At ING Group this was the depositary receipt structure. Depositary receipts have now been issued for almost all ING shares. Only the depositary receipts are listed on the stock exchange. The underlying shares are held by the Stichting ING Aandelen, a Trust Office. This Trust Office votes on those shares for which the holders of the depositary receipts have not requested a proxy in order to vote themselves. The ING Trust Office represented a substantial number of votes at the AGMs in recent years – on average between 40 and 50 percent – due to absenteeism of the holders of depositary receipts. When the Trust Office has been dissolved only the providers of equity capital can take the decisions at the AGM, without any disturbance of a party that runs no economic risk in the company. The dissolution of

the Trust Office did have a ‘price’. It has become more difficult for the providers of the ING equity capital to submit a proposal on the agenda of the AGM and to dismiss non-functioning executives and supervisory directors. In addition, the foundation that can take anti-takeover preference shares during periods of undesired shareholder activism or a hostile takeover, will continue to exist.

Boskalis proposed the abolition of the voluntary application of the so-called structure regime. A large Dutch company is legally obliged to apply the structure regime, unless the majority of its employees work overseas. At Boskalis this has been the case since the end of the previous century, but the dredging company continued the structure regime on a voluntary basis. During the AGM that took place in 2015, shareholders requested the board of Boskalis to reconsider the voluntary application of the structure regime, because the AGM cannot appoint and dismiss executives under this regime. The supervisory board has that exclusive authority. The board of Boskalis listened to this request from the shareholders and will prepare an amendment to the articles of association for the next AGM.

Royal Ahold proposed to extend the existing call option agreement with its anti-takeover foundation for another five years in order to have an effective anti-takeover device in the upcoming five years. Ahold also promised to convene an EGM within six months after exercising the call option by the foundation to discuss the developments with its shareholders. However, Ahold decided to withdraw the proposal from the AGM agenda after feedback from shareholders. The Ahold shareholders found no pressing need to have this amendment implemented on short notice as the current call option agreement continues through December 2018.

Shareholders of DSM used the voting item on the determination of the dividend percentage to be paid on preference shares to advocate alignment between the voting rights and capital contribution on these shares. The preference shares will then no longer have any anti-takeover function. The preference shares were created in 1996 through a conversion of ordinary shares held by the Dutch State to enable the latter to dispose of a last part of its participation in the company. Although the preference shares were issued at a discount of 54% in comparison with the market price of ordinary shares, the voting rights attached to the preference shares were not adjusted. As a consequence, the voting rights are not aligned with the fair value of the capital contribution. This distortion was not removed after the introduction of the Dutch corporate governance code in 2003 that asked Dutch listed companies to adjust the voting of the preference shares by aligning them to their economic interest. According to the DSM articles of association the dividend percentage to be paid on the preference shares is based on the effective return on nine to ten years Dutch government loans, increased or decreased by a mark-up or discount of no more than 100 basis points, to be determined by the management board. Every ten years the dividend percentage is to be adjusted on the basis of the above-mentioned computation. Based upon this formulae, the dividend percentage for the preference shares over the last 10 year period has been about 4.3%. Due to the very low interest rates at this moment in time, the new dividend percentage for the coming 10 year period would end up at about 1.7%. According to DSM, this is far below market rates for preference shares. Moreover, the

company's policy is to offer a fair dividend to all its shareholders by providing a stable, and preferably rising dividend. It is partly due to this that DSM proposed a one-off deviation from the above-mentioned computation of the dividend rate by maintaining the dividend percentage of the last 10 year period on the preference shares for another period of 5 years and to set the next dividend adjustment date at January 1, 2021. A number of holders of ordinary shares made it clear to DSM that they objected to this, partially because the voting rights on the preference shares would also remain unchanged. DSM decided to take the proposal off the AGM agenda. DSM will now conduct further dialogue before determining what the best approach is for all stakeholders.

During its 2016 AGM, small cap company Royal Brill announced that it will examine the structure and practical effects of the current governance structure. After the summer a meeting of holders of depositary receipts will be convened in order to exchange thoughts on this issue. Brill is currently one of the best protected listed companies in the Netherlands. The AScX company has the statutory obligation to apply the structure regime. As a consequence the AGM of Brill does not have any influence on the composition of the management board. Only the supervisory board is authorised to appoint and dismiss the members of the management board. In addition, Brill has only issued depositary receipts and the Brill Trust Office has the authority not to grant a proxy to the holders of depositary receipts in the case of a hostile (takeover) situation. A foundation also has the possibility to take anti-takeover preference shares in the case of a hostile bid for the (depositary receipts of) shares or undesired shareholder activism. And finally, the combined meeting of the supervisory board and the management board has the authority to propose binding nominations for the appointment of executives and supervisory directors and also amendments to the articles of association. It is unclear which anti-takeover construction Brill wishes to reconsider.

4. Authorisations to issue new shares

To date, it has been *market practice* for Dutch listed companies that the AGM provides a 'standard' authorisation to issue new shares up to 10% of the issued capital, increased by 10% in the case of mergers or takeovers. The management board is also authorised to limit or exclude the statutory pre-emption rights for existing shareholders to this percentage. An increasing number of primarily non-Dutch institutional investors enforce more stringent guidelines for the exclusion or limitation of the pre-emption rights – sometimes to a maximum of 5%. In contrast, after the financial crisis the guidelines were loosened with regard to authorisations to issue new shares with the retention of the pre-emption rights. Some investors use the guideline to permit authorisation of up to 100% of the issued or authorised capital when the pre-emption rights are retained.

ING Group was the first large Dutch listed company that 'tested' the new guidelines of institutional investors. The bank proposed to its shareholders to authorise the ING management board to issue up to 50% new shares for unspecified purposes, 40% of which with pre-emption rights. The 40% with pre-emption rights was inserted in a clause in such a way that it would only be valid for shareholders who – in short – are seated in those jurisdictions that do not stipulate stricter prospectus requirements than

those that are applicable in the Netherlands or the United States. The company would otherwise have to incur excessive expenses for, for example, the translation of a prospectus into less common languages or the publication of supplemental information in addition to the information that must be included in the prospectus on the grounds of Dutch and US securities law and regulations. The bank published supplemental information on which types of shareholders and which jurisdictions would be affected by this more detailed clause insertion more than three weeks prior to the AGM. This related to a number of parties, including Japanese shareholders and private shareholders in Australia, Canada and in (possibly) a number of EU member states. ING withstood the ‘test’. Only 10.5% of the share capital present or represented at the AGM (excluding the votes cast by the ING Trust Office) voted against the authorisation to issue new shares.

Gemalto also proposed a wider authorisation than the market practices applicable in the Netherlands. Gemalto asked the AGM for an authorisation to issue new shares of up to 30%, 20% of which with pre-emption rights. In contrast to the ING Group, Gemalto did not specify and conditions for the retention of the pre-emption rights. Gemalto was also provided the requested authorisation from its AGM.

There is a chance that the authorisation level proposed by the ING Group will be copied by other Dutch listed companies in future, and in the listed financial institutions in particular. Eumedion is not an advocate of this, partially because the wider authorisation to issue new shares can also be used to facilitate a merger or a large acquisition. It is precisely with the majority of Dutch financial institutions that the AGM has no real influence on large acquisitions. An acquisition only needs AGM approval if the value of the acquisition amounts at least 1/3 of total assets of the acquiring company. In practice, this right of approval is illusory at the majority of Dutch financial institutions. For example, at ING it must be an acquisition with a value of at least € 281 billion, at Aegon it would be an acquisition of at least € 139 billion and at the NN Group it would be an acquisition of at least € 54 billion. The AGM can only discipline the executives of financial institutions by using a limited ‘up front’ authorisation to issue new shares (for the purpose of acquisitions). It would already help if mergers and acquisitions are excluded from the requested wide authorisations to issue new shares.

5. Significant increase in the number of listed companies that publish an integrated report

In its 2016 Focus Letter, Eumedion requested the listed companies to take further steps towards publishing an integrated annual report. In an integrated annual report investors and other stakeholders are provided concise information on how a business’ governance, strategy, business model and prospects lead to value creation over the short, medium and long term. It enables companies to combine all information that is relevant for analysing the long term development of the company in a single, integrated report. 18 listed companies published an integrated annual report for the 2015 financial year, in comparison with 6 for the 2014 financial year. The dialogues that Eumedion has held with listed companies reveal that this number will at least double in the forthcoming years. A number of listed companies are still setting up their internal procedures in order to be able to gather the

sustainability information - and therefore to be able to publish it – just as fast as the financial information. A number of other listed companies are still busy with the process of ‘integrated thinking’ and with the incorporation of sustainability risks and opportunities into the strategy and the business model of the company. A number of companies that have already published an integrated annual report state that ‘integrated reporting’ has contributed to the internal thought process on the long term business model and the accompanying risks and external transparency. Eumedion expects that ‘integrated reporting’ will be given a further boost by the proposal of the Monitoring Committee Corporate Governance Code to amend the Dutch corporate governance code. A new best practice provision is incorporated which reads that “in the management report, the management board should give a substantive description of the view on long-term value creation, the strategy for its realisation and which contributions were made to the long-term value creation in the past year. The management board should report on both the short-term and long-term developments” (draft best practice 1.1.3). This best practice provision is aligned with the objective of integrated reporting.

KPN is one of the listed companies that have published an integrated annual report this year. KPN even went a step further by also including an ‘integrated’ or ‘combined’ report from its external auditor EY in the integrated annual report. In the ‘integrated’ auditor’s report the investors are provided the conclusions of the external auditor’s audit or review of the annual accounts, the reports of the management and supervisory board and the sustainability information at one place in the integrated annual report. The main features of the audit and review are also expressed in the combined report. Furthermore, the external auditor has reviewed the entire management and supervisory board report and drawn the conclusion from this that there are no material misstatements to report. Eumedion encourages other listed companies to follow the example set by KPN and its external auditor.

6. More transparency on tax policy and effective tax rate

Eumedion called on the Dutch listed companies to provide more insight into the tax policy, the effective tax rate and the amount of the taxes paid. Investors need this information in order to gain better insight into the risk-return profile of the company. In recent times it has become apparent that there are increasing governance, compliance, financial reporting, reputation and social risks attached to an aggressive tax strategy of a company.

To our full satisfaction many companies have included a tax statement in their annual report or on their website: all but two AEX companies, approximately two thirds of the AMX companies and 35% of the AScX companies. In addition, almost all listed companies disclose their effective tax rate in the annual accounts and provide a reconciliation and an explanation to this rate. Only a small number of companies also disclose a ‘target range’ with respect to the future development of the effective tax rate.

Many listed companies are still cautious with regard to including information on (tax) payments to the governments in the countries where they have operations. Only the listed banks (ING Group, ABN

AMRO, BinckBank and KAS BANK) and a number of insurers (NN Group and Delta Lloyd) publish the tax payments per country ('country by country-reporting'). Of the non-financial listed companies, only DSM, Unilever, Randstad Holding, Heineken, Ahold, KPN, Vopak and BAM Group provide a breakdown of the total tax payments. Some only per region, some of the most important markets and per region and some of the most important countries where they have operations. The dialogues that Eumedion participants have had with listed companies reveal that a number of other listed companies are considering taking a first step towards including country-by-country-reporting in the 2016 annual or sustainability report. The majority of the listed companies regard a detailed breakdown of tax payments as competitive information and are waiting for a (European) level playing field via legislation.

7. Great variation in transparency on acquisition strategy

Furthermore, Eumedion had requested that the listed companies provide more clarity in relation to their acquisition policy. There was also a request to consider raising the threshold for the approval of a major acquisition by the AGM. Analysis of the annual reports and the websites of the listed companies reveals that transparency regarding the acquisition strategy fluctuates significantly. A number of companies describe the criteria for the consideration of an acquisition in detail, whereby attention is devoted to the financial and strategic criteria and the manageability. Of the 75 AEX, AMX and AScX companies, 18 have included a substantive description of the acquisition strategy for investors in the annual report or on the website. These are primarily the companies that have an 'active' acquisition policy in the sense that they regularly acquire companies. Companies that are not currently implementing or considering acquisitions pay barely any attention to this subject. Nevertheless, it would be good for clarity to make it crystal clear that a company does not have an active acquisition strategy and also does not intend to implement such a policy in the short term.

Eumedion also requested that the listed companies consider raising the threshold for the AGM to approve major acquisitions to a two-thirds majority of the votes, possibly with a quorum. Only a small number of listed companies were prepared to seriously consider this. The great majority of the listed companies felt no enthusiasm for this. These listed companies believe that this will give small, activist shareholders too much influence and power. Eumedion finds this a disappointing result. It has included a proposal on this problem in its position paper on the protection of minority shareholders in companies with a controlling shareholder.³

8. Auditor rotation and auditor's reports

This year, nine listed companies placed a proposal to appoint a new external auditor on the AGM agenda. This means that almost all of the listed companies have rotated their external auditor in the last three years. The AGM did not reject any of the proposals for the auditor rotation. The announcement of AScX company ICT Group that it had entered into a tender procedure for a new external auditor after only five years of audits conducted by Deloitte was striking. According to the company, this was due to a number of factors, including "the changed size, activities and strategy of

³ <http://www.eumedion.nl/en/public/knowledgenetwork/position-papers/2016-06-position-paper-minority-shareholders-final-version.pdf>.

the company". The increase in the audit fee by no less than 177% in 2015 in comparison with 2014 probably also played a role. It is the intention of the ICT Group to propose a new external auditor for appointment to the 2017 AGM.

26 listed companies already rotated their external auditor in 2015. For fourteen companies this was accompanied by a drop in the audit fee (varying from 1% at Beter Bed Holding to 49% at Wolters Kluwer), and the audit fee rose for twelve companies (varying from 6% at Aalberts Industries to 84% at Oranjewoud). It is striking that the auditor rotation led to a reduction in audit fees for all AEX companies, with the exception of Aalberts Industries. The same picture arose from the rotations that took place in 2014 (9 of the 16 auditor rotations led to a drop in the audit fee, including for all four AEX companies). This can indicate that these companies are the most desirable for audit firms ('trophy clients'), which is why they submit very 'competitive' tenders. In the forthcoming years it will have to be apparent – partially on the basis of the AFM supervision reports – that the reduction of the audit fees has not resulted in the reduction in the quality of the audits.

Similarly to last year, the external auditors published a more extensive, company-specific auditor's report with respect to the audit of the annual accounts. The average quality of this report has further increased in the last year. For example, the scope of the group audit was quantified in almost all cases. This was not common by any means in the auditor's reports that were issued for the 2014 annual accounts. In addition, more explanation of the choice of the materiality benchmark was provided in comparison with last year. With respect to the key audit matters, it is generally clear what the key audit issues were and how the audit addressed the matter. What is sometimes rather unclear is which conclusions and observations the external auditor attaches to the key audit matters and whether the company has resolved the issues effectively. As far as Eumedion is concerned, the current subdivisions 'description key audit matter' and 'description of how the audit addressed the matter' should be supplemented with the auditor's 'result, observations or conclusion'.⁴ The external auditors of ABN AMRO, NSI, Flow Traders, Intertrust, Neways, Kiadis Pharma and Groothandelsgebouwen (all KPMG) have already made this three-way split in their auditor's reports with respect to the 2015 annual accounts of these companies. Another best practice is the report of the external auditor of Brunel International (PwC), who explained explicitly in his report why certain key audit matters in the 2014 auditor's report were no longer mentioned in the 2015 auditor's report. This example deserves to be followed by other auditors next year.

The majority of key audit matters still relate to certain line items in the annual accounts. However, we can see that governance-related issues such as the tone at the top and the remuneration policy are key audit matters more often. For example, six external auditors reported 'management override of controls' as a key audit matter, which also involved reviewing the incentives coming from the

⁴ The need for this was also demonstrated by the confusion in the media about the remarks of the external auditor of small cap Esperite on a related party transaction in the key audit matters section in his auditor's report. EY described the risk of the related party transaction and also the auditor's response, but did not make clear whether the transaction was agreed on at arm's length terms.

remuneration policy, and another auditor specifically evaluated the integrity of two executives. In five companies, ‘compliance with laws and legislation’ was seen as a key audit matter, and the quality and effectiveness of the internal risk management and control system was a subject of attention for the external auditors of several companies.

It is remarkable that in five companies the external auditor concluded in his report that the internal risk management and control system was not effective throughout the year, which meant that additional detailed controls had to take place, but that the board of the company issued an in control statement without commenting on the (temporary) lack of effectiveness.⁵ On the contrary, the boards declare that the internal risk management and control system functioned properly in the year under review. Only the boards of ING Group and Curetis reported that the internal risk management and control system was ineffective during part of the report year. These findings still show that, in some cases, the new, long format auditor’s report contains more information on the risk profile of the company than the report from the board and certainly the in-control statement. Eumedion wants to call on the boards to report on the functioning and effectiveness of the internal risk management and control system more honestly than is currently the case.

9. Increased attention for climate risks and opportunities

195 countries signed the climate treaty in Paris in December 2015. It was agreed that the rise in global temperature must be limited to well below two degrees Celsius in comparison with the pre-industrial era. In order to achieve this goal there must be a carbon-free economy in the second half of this century. Each of the 195 countries have committed to drawing up a plan for the reduction of CO₂ emissions. The consequences of the climate treaty for businesses and for institutional investors may be significant. Several companies devote attention to the consequences of climate change and the Paris treaty in their annual reports and/or sustainability reports, and investors discussed the consequences a great deal during the AGM and in dialogues.

Royal Dutch Shell spent eleven pages to the anticipated energy transition in its 2015 sustainability report partially due to a shareholders’ resolution adopted during the 2015 AGM. In addition, two separate reports were published in the run-up to the 2016 AGM, namely ‘A Better Life With A Healthy Planet; Pathways to Net-Zero Emissions’ and ‘Energy Transitions and Portfolio Resilience’. In the view of various institutional investors these reports still offer inadequate insight into the resilience of Shell’s business model in relation to changes in the climate policy of countries as a consequence of the implementation of the Paris climate treaty. Institutional investors publicly called on Shell to provide ‘detailed’ reports on the climate risks and the strategy of Shell to contribute to the necessary energy transition.⁶

⁵ This was the case at Neways, DPA Group, Royal Delft Group, Pharming Group and Esperite. All these companies did not have an internal audit function in place. Probably partly due to the absence of the internal audit function, the audit fee for these companies increased by an average of 30%.

⁶ http://www.iigcc.org/files/publication-files/Shell_AGM_investor_statement_FINAL_COB_230516.pdf.

Companies that are 'affiliated' to the oil and gas sector such as Vopak, Core Laboratories, Fugro and SBM Offshore, also devoted attention to the climate risks and the climate treaty in their annual report, albeit in less detail than Shell. For example, Vopak included a concise paragraph on 'Risks and opportunities related to sustainability and climate change' in the 2015 annual report. Core Laboratories and Fugro also see both risks and opportunities for their business model and strategy. SBM Offshore emphasises the risks of measures that will be implemented by various governments. Other companies emphasise precisely the strategic opportunities of the climate change and the climate treaty. For example, Boskalis expects more offshore wind turbine projects and possibly also more demand for coastal defense and riverbank protection projects. Arcadis wrote in its 2015 annual report: "Rising sea levels caused by climate change are an unprecedented challenge for delta areas, in which more than 50% of the world's population lives. This creates demand for our solutions to lower greenhouse gases and carbon footprints; manage water resources; and improve water management and flood protection systems, in both the developed world and emerging economies". Companies such as Kendrion and BE Semiconductor Industries also write that they see mostly opportunities, without going into detail or being specific by the way.

Investors asked banks and insurers about the risks of a potential carbon bubble for the assets of these financial institutions and in what ways these risks could be mitigated.

Eumedion calls on all listed companies to report in more detail about their contribution to the reduction of CO2 emissions and thereby to the implementation of the Paris climate treaty in the 2016 annual report and/or sustainability report. The institutional investors also expect listed companies to provide insight into the consequences of climate change and the climate treaty for the long term business model and the long term strategy (see also the draft statement on climate change).

Appendix 1: AGM proposals with strongest shareholder resistance (excluding votes cast by Trust Offices)

AGM	Subject	Result
Royal Dutch Shell	Changing the company's strategy (shareholder resolution)	97.2% against (resolution voted down)
Tie Kinetix	Authority to issue new shares	88.5% against (resolution voted down)
Fugro	Disapplication of pre-emption rights	66.98% against
Fugro	Authority to issue new shares	61.83% against
Core Laboratories	Amendment of articles of association	57.41% against (resolution voted down)
Heijmans	Disapplication of pre-emption rights	55.9% against
Heijmans	Authority to issue new shares	55.5% against
Fugro	Reappointment supervisory director Noy	44.74% against
Fugro	Discharge of the Management Board	41.81% against
Fugro	Discharge of the Supervisory Board	41.81% against
AMG	Disapplication of pre-emption rights (second 10% tranche)	40.30% against
AMG	Disapplication of pre-emption rights (first 10% tranche)	39.99% against
Brill	Discharge of the Supervisory Board	39.07% against
Stern Groep	Authority to repurchase shares	37.9% against
Wessanen	Retention bonus for CEO	35.42% against
IMCD	Disapplication of pre-emption rights	34.08% against
BESI	Amendment of remuneration policy	31.7% against
Beter Bed Holding	Amendment of stock option plan	31.10% against
IMCD	Authority to issue new shares	27.65% against
Ctac	Authority to issue new shares, including disapplication of pre-emption rights	26.48% against
BinckBank	Authority to issue new shares, including disapplication of pre-emption rights	25.43% against
Delta Lloyd	Disapplication of pre-emption rights	24.85% against
Delta Lloyd	Authority to issue new shares	23.09% against
DSM	Disapplication of pre-emption rights	21.35% against
Value8	Authority to repurchase shares	20.4% against

Appendix 2: Proposals withdrawn before the AGM

AGM	Proposal
Ahold	Granting recognition incentive awards
Ahold	Extension of call option agreement with anti-takeover foundation
DSM	Determination of dividend percentage on preference shares
BE Semiconductor Industries	Possibility of granting transaction bonuses to executives
Brill	Appointment of new supervisory director