



To the International Sustainability Standards Board

Frankfurt, Germany

Submitted electronically

The Hague, 27 July 2022

Ref: B22.14

Subject: Eumedion response to the ISSB's exposure drafts

Dear Members of the ISSB,

Eumedion appreciates the opportunity to respond to your Exposure Draft 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' (ED S1 General Requirements) and Exposure Draft 'IFRS S2 Climate-related Disclosures' (ED S2 Climate) as issued in March 2022. Eumedion is the dedicated representative of the interests of 53 institutional investors, all committed to a long term investment horizon. Together our participants invest over € 8 trillion of capital in equity and corporate non-equity instruments. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard globally recognised financial and sustainability standards as critical elements in a global financial infrastructure. Investors are dependent on the quality of such standards for allocating their own and entrusted capital, including their engagement with and voting on the shares of the companies they invest in. Global reporting standards are instrumental for responsible and engaged investors to effectively live up to their fiduciary duties.

Our response is divided in two sections, starting with some more general observations inspired by the EDs, followed by more detailed comments on the EDs.

## **General observations**

### **A comprehensive map for the IFRS reporting framework is needed**

The key notion we would like to bring to your attention is that investors need to evaluate sustainability-related topics not on their own, but in the full context of the reporting entity's business model, financial performance, competitive landscape, governance, and the risks, opportunities, and strategies of which the sustainability-related ones are a subset. We therefore would like to reiterate the remarks in our response to the 2020 IFRS Consultation Paper on Sustainability Reporting<sup>1</sup>:

*“Eumedion is of the opinion that the ultimate ambition of the Foundation should be to cover all the needs of responsible and engaged investors for corporate annual reporting through the combined efforts of the IASB and the [I]SSB, without leaving any blank areas on the corporate reporting map.”*

Eumedion suggests that the ISSB and IASB together formulate a longer term envisaged IFRS map so stakeholders can better understand where current and future projects fit in and which Board(s) will be responsible for them. Such map may include the following elements:

- a) The IASB standards and its related Conceptual framework (CF) for financial reporting.
- b) A CF for investor-focused integrated reporting<sup>2</sup>, not limited to sustainability-related topics.
- c) Standards wherein the ISSB incorporates integrated reporting.
- d) A general requirements standard for all financial disclosures that encompass integrated reporting, with specific attention to general requirements for sustainability-related financial disclosures.
- e) Thematic standards for both sustainability-related and other topics.
- f) Industry-specific standards for both sustainability-related and other topics.
- g) A taxonomy for both sustainability-related and other topics to facilitate the consumption of digital reporting.

Ultimately, the ISSB global baseline Eumedion envisages comprises of b) to g).

Ad b) One could speculate whether in the long run there might be merit in drafting a single CF for both the IASB and the ISSB; however a single CF is not a purpose on its own but may eventually be the result of a natural reduction in the need for differences between the two CFs over time.

Ad c) ‘Integrated reporting’ as envisaged by the International Integrated Reporting Council. The solid inroads provided by the IASB’s Exposure Draft ‘Management Commentary Practice Statement’ can be taken as an excellent starting point. We currently see most merit in the IASB remaining responsible for investor-focused financial reporting standards, and the ISSB becoming responsible for investor-focused integrated reporting standards; of which sustainability-related standards are a

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<sup>1</sup> <https://www.eumedion.nl/clientdata/215/media/clientimages/Response-IFRS-Foundation-consultation-SSB.pdf?v=201217142415>

<sup>2</sup> Such requirements may be location-agnostic in line with the approach already suggested in the Management Commentary Exposure Draft of the IASB.

significant subset. We do note that the IASB did produce the high quality Management Commentary Practice Statement ED and we expect great merit in its continued involvement in the project. However, investors will need an auditable standard on this topic and the IASB might be perceived as overextending itself if it were to (co-)publish a standard on integrated reporting. Besides that, we expect that integrated reporting standards have a higher intensity of connectivity with other future standards issued by the ISSB than with the standards issued by the IASB.

There is a vulnerability in sustainability-related standards only, as its rigor in practice heavily banks on the definition, and the interpretation thereof, of what should be regarded as 'sustainability-related' and what not. Such definition is currently not provided in the ED S1 General Requirements.

### **The SASB Framework**

The SASB framework benefited greatly from feedback from reporting entities and investors since its inception. Its requirements have been part of a continuous improvement process as many of them have already been re-evaluated and refined over time. SASB's industry-specific framework was developed using a bottom-up approach. Each metric in each industry was developed to meet a rather strict enterprise value materiality threshold. The SASB framework is a unique high quality investor-focused framework that in a sense consists of a set of, in our view, bare minimum requirements that need to be considered by a reporting entity.

The somewhat stronger reference in the ED S1 General Requirements to the SASB framework compared for example to the explicitly non-mandatory CDSB framework causes a concern to us. We attest that SASB has a rather strict approach to enterprise value materiality. And this stronger reference to the SASB Framework could be seen as the ISSB integrally importing this rather strict approach and therefore also serve as implicit guidance to reporting entities on how to apply enterprise value materiality within the ISSB standards, and possibly as an indication for the Board's own strictness towards setting (industry) standards.

A pronounced example where Eumedion fears that the SASB's application of enterprise value materiality is falling short of investors' information needs, is on the topic of diversity & inclusion. The SASB framework currently suggests diversity & inclusion metrics for 8 out of 77 industries. A recent staff paper does suggest to increase this number to 53 industries and it includes the following slide:<sup>3</sup>

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<sup>3</sup> <https://www.sasb.org/wp-content/uploads/2021/12/List-of-Proposed-Industries-for-DEI-Industry-Characteristics-Indicators.pdf>

## Channels of Business Relevance and Industry Characteristics

| Channels of Business Relevance           | Industry Characteristics   |
|--|--|
| <b>Talent Attraction &amp; Retention</b> | Industries characterized by (1) worker shortages at key positions which impact financial performance, (2) talent turnover/retention is highly linked to firm performance, and/or (3) disparity among groups, classes, or other categories in hiring, compensation, promotion, or other disparate access to opportunities within firms. |
| <b>Customer Representation</b>           | Industries that (1) sell to or serve individual consumers, (2) require an understanding of a diverse set of customer needs in order to reach broad and/or new customer base.   |
| <b>Community Relations</b>               | Industries that generate significant social or environmental externalities which disproportionately adversely impact local communities.  |
| <b>Innovation</b>                        | Industries that are driven by intellectual property and innovation and/or face a fundamental transition or disruption.   |

This proposal indicates that the current (and developing) view on enterprise value materiality is along the following line: diversity and inclusion are important to (potential) employees and therefore contribute to becoming an attractive employer. An unattractive employer may face shortages of employees and that may affect future cash flows. If an industry has obvious shortage of employees, this could be one reason why the SASB suggests requirements for that industry.

Eumedion engages on diversity and inclusion with reporting entities irrespective of their industry.<sup>4</sup> We would consider the four described 'channels of business relevance' as too narrow, and fear that reporting entities could be inspired by adopting this strict approach to enterprise value materiality.

How could the ISSB navigate on the above observations? The ISSB could:

- provide more guidance on how enterprise value materiality should be judged;
- continue the Board's approach to ED S2 Climate: use thematic standards as a catch-all starting point, and complement them with directly related industry-specific SASB framework metrics that need to be considered by reporting entities;
- emphasise to what extent the SASB framework metrics, their basis for conclusions, and the materiality thresholds for applicability have or have not been re-evaluated through the ISSB lens on enterprise value materiality;
- emphasise the SASB framework notion that metrics relevant in one industry may be relevant to reporting entities in other industries as well;
- remove the 'non-mandatory' reference to the CDSB framework from ED S1 General Requirements paragraph 51b, as it might imply to some that the SASB framework has a mandatory status.

### **Current thoughts on a phased approach**

We would like to share our current preferences for priorities for the ISSB. These may well change over time due to new circumstances or insights, but they do provide you with early signals of what we see as mattering most at this point in time.

<sup>4</sup> <https://www.eumedion.nl/clientdata/215/media/clientimages/Focus-Letter-2022.pdf?v=211013081623>, page 3

We see a high time sensitivity and an obvious priority for the ISSB to develop sustainability-related thematic standards as there are jurisdictions that either are ambitious to use them, build on them, or wish to be inspired by them. The sooner high quality thematic standards are available, the lower the risk of divergence.

While keeping the comprehensive map we envisaged earlier in this letter in mind, we suggest the ISSB to continue developing ED S1 General Requirements, ED S2 Climate to actual standards and in parallel start with other sustainability-related thematic standards. Human Capital seems as an obvious candidate to start working on, even ahead of the upcoming ISSB agenda consultation. The ISSB may benefit from its co-operation with GRI on developing the thematic standards. Before putting renewed effort in industry-specific standards, priority should be given to ensuring that standards for integrated reporting are completed first. Then renewed efforts can be allocated towards improving industry standards and a conceptual framework. The taxonomy should be updated to keep pace with any progress made in standard setting.

The above approach aims to take generic thematic standards as a starting point that can be complemented by SASB industry-specific requirements that need to be considered.

Jurisdictions may be tempted to revert to existing industry classifications that resonate less with investors. We therefore see merit in promoting and finetuning an investor-focused industry classification, such as the one SASB has developed, to other jurisdictions that may be in the process of developing industry-specific requirements.

We do not consider it a problem that in this phase CF-like elements are included in the General Requirements. The CF can be drafted at a later stage. Writing a high quality CF takes scarce resources. The quality of a CF will benefit from first having had hands-on experience in this still rather new area of standard setting as there still is a lot to learn.

### **Materiality assessment as designed by the Global Reporting Initiative (GRI)**

In question 8 on materiality of ED S1 General Requirements, the ISSB remarks: *“Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date”*. We fully agree with these remarks that are reiterated in ED S1 General Requirements paragraph 59. We believe that a periodic materiality assessment in accordance with GRI Standard 3: Material Topics 2021 would be a useful tool to determine material topics from a users’ perspective as well as from the entity’s perspective. We believe that ISSB framework should include such a materiality assessment as mandatory guidance.

## **More detailed suggestions**

### **ED S1 General Requirements**

In some paragraphs, notably paragraph 1 and 9, the objective of the ED S1 General Requirements may be unduly limited to reporting on sustainability related 'risks and opportunities' only. We would here suggest to replace 'risks and opportunities' with 'topics'. And define 'sustainability related topics' as:

- Topics such as risks and opportunities, strategy, governance, risk management, metrics and targets that are sustainability related;
- define governance to include reporting on remuneration;
- define risk to include reporting on incidents;
- define incidents to include reporting on 'near misses'<sup>5</sup>.

Eumedion considers the relevance of candid reporting on incidents, including near misses, as very high. Even smaller incidents can pose early warning signals for bigger ones. Incident reporting allows investors to have a more meaningful dialogue with reporting entities. It is our experience that dialogues on incidents tend to focus on better understanding what actually happened, what lessons were learned and what actions were taken. Please find examples of reporting on incidents in Appendix A 'Incident reporting by Royal DSM, Philips and Randstad' to this letter.

Paragraph 2, 4, 11(d), 16 to 20, 22, 25, 27, 29, 30, and most of the paragraphs after 40 are now limited to cover 'risks and opportunities'. We would suggest to include the topic of 'incidents' as well.

We suggest to include the topic of remuneration as well. This is also in line with the ED S2 Climate and the ESRS proposals issued by EFRAG. The relevance of the topic of remuneration may well be applicable to more topics than those related to climate. Future feedback on the upcoming agenda consultation may indicate whether there is merit in addressing the topic of remuneration in a separate standard. Please note that investors' interest in remuneration also goes well beyond sustainability-related remuneration only. For now, the ED S1 General Requirements' governance section seems most appropriate to include disclosure requirements on how remuneration is related to sustainability topics.

### **Other frameworks to be considered**

Paragraph 19 of the strategy section requires the reporting entity to consider other frameworks through a reference to paragraph 51. We consider a such reference to paragraph 51 also applicable for metrics in the 'metrics and targets' section.

*"Paragraph 51*

*To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial*

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<sup>5</sup> The 2021 Integrated annual report of Royal DSM provides an indicative definition of 'near misses': <https://annualreport.dsm.com/ar2021/corporate-governance-and-risk-management/what-still-went-wrong-in-2021.html>

*reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider:*

- (a) the disclosure topics in the industry-based SASB Standards;*
- (b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);*
- (c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and*
- (d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.”*

### **‘Assets’ versus ‘resources’**

We suggest to alter paragraph 6d to ‘the entity’s development of knowledge-based assets and resources.’ We can well imagine that this requirement should not only include assets that by IFRS-definition are recognised in the financial position, but should be extended to other unrecognised knowledge-based resources.

### **Definitions of General Purpose Financial Reporting**

Paragraph 56 refers to a definition of General Purpose Financial Reporting that is used both in ED S1 General Requirements and the ED S2 Climate. We fully support this crucial definition and wonder if the prominence of it could somehow be raised. For example by including it in the main text of the General Requirements or by somehow indicating in the text that it refers to a defined term.

#### *General purpose financial reporting*

*The provision of financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:*

- (a) buying, selling or holding equity and debt instruments;*
- (b) providing or selling loans and other forms of credit; or*
- (c) exercising rights to vote on, or otherwise influence, management’s actions that affect the use of the entity’s economic resources.*

*General purpose financial reporting encompasses—but is not restricted to—an entity’s general purpose financial statements and sustainability-related financial disclosures.*

### **The FRC comment letters**

On all other topics, we took notice of the comment letters of the Financial Reporting Council<sup>6</sup> and generally support their more detailed responses to the individual questions.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,



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<sup>6</sup> [https://www.frc.org.uk/getattachment/ad4d7629-e9b9-4ef4-be8c-ae4561c131b/FRC\\_ED-consultation-response\\_IFRS-S1-General\\_June2022.pdf](https://www.frc.org.uk/getattachment/ad4d7629-e9b9-4ef4-be8c-ae4561c131b/FRC_ED-consultation-response_IFRS-S1-General_June2022.pdf)  
[https://www.frc.org.uk/getattachment/c86b36af-3f93-4bd2-8714-42226bde5d34/FRC\\_ED-consultation-response\\_IFRS-S2-Climate\\_June2022.pdf](https://www.frc.org.uk/getattachment/c86b36af-3f93-4bd2-8714-42226bde5d34/FRC_ED-consultation-response_IFRS-S2-Climate_June2022.pdf)

**Appendix A 'Incident reporting by Royal DSM, Philips and Randstad'**

## Consequence management

We apply zero-tolerance consequence management to violations of the Code. Under our **whistleblower procedure** ([DSM Alert](#)), most (potential) violations are reported to and dealt with by local line management. Where this is not considered appropriate, complaints can directly be made to the **DSM Alert Officer**. In both cases, consequence management practices (such as official warning, temporary suspension, dismissal) are in place for substantiated violations to support compliance with the Code. The DSM Alert Officer reports to the Managing Board and also reports independently to the Audit Committee of the Supervisory Board twice a year. Any individual not employed by DSM who might wish to voice a concern regarding violations of the Code may also contact the DSM Alert Officer via the [company website](#).

In 2021, **23 Alert cases** (reports of potential violations of the Code) were received by the DSM Alert Officer, three of which were reported by an external party. This is at a level comparable with previous years. Four of these were potential bribery and corruption cases. After investigation, one of these four Alert cases was substantiated and consequence management was applied.

The table below gives an overview of all reported substantiated **violations of the Code** (including Alert cases), with a breakdown by the People, Planet and Profit dimensions and region. Proven violations result in dismissal or other forms of consequence management. In line with this policy, 45 employees were dismissed in 2021 because of breaches of the Code, legal or local company regulations. In addition, 89 employees received another form of consequence management. Over the years, the number of violations has remained about the same. In 2021, a slight increase in the reporting of dismissal cases and a slight decrease in other kinds of consequence management cases was seen.

### People

Most of the cases in the People dimension relate to violations of the Life Saving Rules. Inappropriate or disrespectful behavior that does not contribute to a psychologically safe and healthy working environment (discrimination, sexual and other kinds of harassment) is also reported in this dimension. Health and safety are priorities for the company and incident-reporting channels are well known.

### Planet

There were 6 violations of the Code reported in the Planet dimension in 2021. All these cases concerned a failure to strictly observe our procedures.

### Profit

Most of the cases in the Profit dimension relate to fraud and conflict of interest

**Implementation of the DSM values training program**

|   | 2021 | 2020 |
|---|------|------|
| % of targeted employees trained             |      |      |
| <b>General</b>                              |      |      |
| Code of Business Conduct                    | 97%  | 95%  |
| <b>People</b>                               |      |      |
| Life Saving Rules                           | 99%  | 98%  |
| Respectful Behavior                         | 98%  | 96%  |
| GDPR overview                               | 99%  | 95%  |
| <b>Planet</b>                               |      |      |
| Basic Course Responsible Care               | 99%  | 97%  |
| <b>Profit</b>                               |      |      |
| Global Trade Controls                       | 98%  | 95%  |
| Anti-Bribery & Corruption                   | 98%  | 94%  |
| Security                                    | 96%  | 96%  |
| Cyber Fraud Awareness                       | 98%  | 98%  |
| <b>DSM Annual Competition Law Statement</b> |      |      |
| % of people having signed the statement     | 100% | 100% |

**Violations of the Code**

|   | 2021       | 2020       |
|---|------------|------------|
| Number of dismissals / other consequence management | 45 / 91    | 37 / 121   |
| <b>Triple P breakdown</b>                           |            |            |
| People  | 30 / 73    | 29 / 102   |
| Planet  | 0 / 6      | 0 / 5      |
| Profit  | 15 / 12    | 8 / 14     |
| <b>Regional breakdown</b>                           |            |            |
| Europe & Africa                                     | 12 / 37    | 13 / 52    |
| Americas  | 26 / 42    | 20 / 55    |
| Asia-Pacific  | 7 / 12     | 4 / 14     |
| <b>TOTAL</b>  | <b>136</b> | <b>158</b> |

**Alert cases (whistleblower procedure)**

|  | 2021       | 2020                   |
|--|------------|------------------------|
| Number substantiated / not substantiated / under investigation | 7 / 15 / 1 | 9 / 9 / 4 <sup>1</sup> |
| <b>Triple P breakdown</b>                                      |            |                        |
| People   | 6 / 11 / 1 | 7 / 7 / 2              |
| Planet   | 0 / 0 / 0  | 1 / 0 / 0              |
| Profit   | 1 / 4 / 0  | 1 / 2 / 2              |
| <b>Regional breakdown</b>                                      |            |                        |
| Europe & Africa  | 1 / 4 / 0  | 1 / 3 / 2              |
| Americas   | 4 / 9 / 1  | 5 / 3 / 0              |
| Asia-Pacific   | 2 / 2 / 0  | 3 / 3 / 2              |
| <b>TOTAL</b>   | <b>23</b>  | <b>22</b>              |

<sup>1</sup> The four Alert cases 'under investigation' in 2020 were resolved in 2021: two were substantiated, two were not substantiated.

# What still went wrong in 2021

The year 2021 presented us with many challenges as well as opportunities. The ongoing effects of the COVID-19 pandemic continued to place additional and unexpected demands upon our company and our people worldwide. At the same time, this was a pivotal year in DSM's transformation with the sale of our Resins & Functional Materials business and associated businesses, the integration of three acquired companies, and the establishment of three new Business Groups as we fully focus on becoming a Health, Nutrition & Bioscience company.

Despite the challenging circumstances, we applied our high standards with our usual rigor. Possible breaches of the DSM Code of Business Conduct were investigated and, if any form of infringement was found to have occurred, consequence management was applied (see [DSM Code of Business Conduct](#) for further information). Here we share the **most significant incidents** of 2021 across all three dimensions of People, Planet and Profit and not relating solely to breaches of the DSM Code of Business Conduct. This overview includes incidents with a financial impact as well as incidents regarding health, safety, environment, security and fraud, in all of which areas we have a [low risk appetite](#).

In line with our reporting policy, this overview includes not only incidents but also **some serious near-misses**. Near-misses are cases that did not result in injury, illness or serious damage but which could have done so. Even when a crisis is averted, it is our responsibility to learn from it and do better in future. We have a process in place to collect information about incidents and serious near-misses as presented in this overview, using [various sources](#) including our internal Letter of Representation, and our reporting system for SHE and Security incidents.

Preventing incidents from reoccurring requires us to **understand each incident** to the best of our ability. When an incident occurs, our first priority is to take care of any injuries and repair any damage. We investigate every recordable incident using a fixed **root cause analysis** method and we trigger global improvement cycles, see [Safety, health & well-being](#). We adjust requirements and processes and apply consequence management as needed.

## People

### Incidents involving falls

At DSM Nutritional Products in Lalden (Switzerland), an operator was stretching in the attempt to close a valve. He lost balance, falling to the ground and dislocating his shoulder.

At DSM's joint venture Yimante in Jingzhou (Hubei Province, China), an employee fell from height in a washing tower and suffered multiple rib fractures.

### Incidents during process interruptions and maintenance work

At DSM Nutritional Products in Jiangshan (Jiangsu Province, China), an employee carrying out maintenance work on a vacuum pump lost the tip of a finger when the vacuum pump piston unexpectedly moved.

At DSM Nutritional Products in Jiangshan (Jiangsu Province, China), an employee conducting maintenance work was hit by the end cover of an air compressor which was still under pressure and broke his thigh.

At DSM Nutritional Products in Belvidere (New Jersey, USA), an employee lost the tip of a finger during the reinstallation of a piece of equipment.

At DSM Food Specialties in Yantai (Shandong Province, China), an employee lost a finger and the tip of another finger while he was trying to remove a blockage in a feeding pipeline.

At DSM Engineering Materials in Emmen (Netherlands), an employee injured the tip of a finger while removing polymer wires from the cutter of an extruder.

At DSM Nutritional Products in El Salto (Mexico), an operator suffered a head injury that required stitches when he was hit by a tool while starting up a blender. From the incident investigation we learned that the DSM safety rules and controls

had been violated multiple times. Consequence management was applied, and organizational and procedural changes were implemented.

#### Incidents due to flash fires / explosions

At DSM Nutritional Products in Ambernath (India), a flash fire occurred at the dosing point where two employees were manually filling a reactor. The employees sustained first-degree burns to their hands and heads.

At DSM Nutritional Products in Mairinque (Brazil), a flash fire occurred during a normal restart procedure after a power shutdown. An employee sustained first- and second-degree burns to the upper body and there was material damage to the equipment.

At DSM's joint venture Yimante in Jingzhou (Hubei province, China), an employee sustained second-degree burns to his face when a flash fire occurred while he was cleaning a tank.

At DSM Nutritional Products in Sisseln (Switzerland), a small fire occurred in a formulation unit, causing the suspension of a production line for a few weeks. There were no personal injuries.

At DSM Nutritional Products in Kingstree (South Carolina, USA), a process interruption caused plugging in a feed line. During the restart of the process an internal ignition led to an explosion. There were no personal injuries.

At DSM's joint venture Yimante in Jingzhou (Hubei province, China), an implosion damaged a product storage tank causing a loss of production of multiple days. There were no personal injuries.

At DSM Nutritional Products in Esbjerg (Denmark), a runaway reaction occurred when a bacteria-containing product stream was being sterilized, damaging two valves in the production installation. There were no personal injuries.

#### Other health and safety incidents

At DSM's joint venture Olatein in Dieppe (France), a contractor working at height dropped a wooden board that fell six meters, hitting another contractor's foot. The contractor suffered a fracture of his big toe.

At DSM Food Specialties in Delft (Netherlands), two employees entered a production room filled with a mist. One experienced irritation to the eyes and the other irritation to the cheek.

At DSM Food Specialties in Yantai (Shandong Province, China), an employee fractured a toe when a poorly loaded pallet he was moving tilted, and his foot got stuck between the pallet and the floor.

At DSM Nutritional Products in Schenectady (New York, USA), an employee reported discomfort in his left knee after repetitively moving 50 kg drums onto a pallet. He was reassigned to physically less-demanding tasks.

At DSM Food Specialties in Wuxi (Jiangsu Province, China), a pallet slipped off a truck to the ground as unloading commenced, leading to a severe blow to the waist area of the truck driver, who suffered multiple fractured vertebrae.

At DSM Nutritional Products in São Paulo (Brazil), an employee was hit by a truck while making a business trip in a company car.

#### Incidents involving personal data

Unauthorized persons accessed the Office365 email account of an employee of one of our strategic IT partners. After a day, the employee noticed unusual behavior in the email account and alerted the DSM IT Security team. In the timeframe between the attack and its detection, a phishing mail was sent to a number of employees from the corrupted email account. Corrective and mitigating measures were immediately taken that stopped the attack the same day. No similar instances have been noticed since. The incident was reported to the Dutch Data Protection Authority.

### Security incidents

While transporting for DSM Food Specialties in Mexico, a truck carrying DSM products was hijacked by armed thieves. The driver was threatened with firearms and required to hand over the vehicle and its consignment. The driver was released unharmed after the assault.

## Planet

There were no serious reportable Planet incidents this year.

## Profit

At DSM Food Specialties in Delft (Netherlands), the mechanical breakdown of a centrifuge led to a loss of production of more than a week.

At DSM Engineering Materials, two raw material suppliers declared force majeure, leading to a loss of production of multiple days at DSM.

At DSM Food Specialties in Delft (Netherlands), parts of equipment were incorrectly replaced during a maintenance stop, leading to a delay in restarting the production.

At Group Business Services (Latin America), irregularities in the purchasing process were detected, pointing to a fraud case in which multiple fraudsters were involved. Relevant processes and controls were reviewed and updated.

At DSM Nutritional Products in Freeport (Texas, USA), production needed to be stopped as a result of exceptionally low temperatures in February. The freezing of equipment, a power outage and material damage caused a loss of production of several days.

At DSM Nutritional Products in North America, a supplier delivered raw material which affected product quality and necessitated a product replacement in the case of one customer.

At DSM Nutritional Products, two suppliers of the same raw material declared force majeure, impacting the supply to multiple DSM sites, leading to a loss of margin.

Before the completion of the divestment of DSM Resins & Functional Materials in the first quarter of 2021, two suppliers declared force majeure, leading to a loss of production at multiple DSM sites.

## 13.5 Governance indicators

In 2020, Philips further reinforced its commitments as a purpose-driven company with the announcement of an enhanced and fully integrated approach to doing business responsibly and sustainably. This section provides additional information on (some of) the Governance parameters reported in [Governance, starting on page 62](#)

### 13.5.1 General Business Principles

In 2021, a total of 610 concerns were reported via Philips Speak Up (*Ethics Line*) and through our network of GBP Compliance Officers, an increase of 7% year-on-year (2020: 571 concerns).

While this is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign, the increase is flattening. We still believe the upward trend in reporting remains in line with our multi-year efforts to encourage our employees to express their concerns, whilst realizing that the extraordinary business conditions in both 2020 and 2021 make it imprudent to draw any specific conclusions from these numbers.

Specifically in 2021, we once more focused on increasing awareness on Integrity and on the importance of speaking up, through and following the deployment of our biennial Business Integrity Survey. Through this survey, 27,000 employees trusted us with their views and opinions on integrity within Philips. 94% of employees expressed the belief that we act with integrity at Philips. To gain deeper insights into the results of the Business Integrity Survey, we are executing deep-dive initiatives amongst our employees throughout the company, the results of which will become available during the first half of 2022. As in previous years, teams around the world have participated in structured dialogues with their manager where quality, integrity and speaking up are discussed as part of a company-wide initiative. We have fully revised our GBP and Legal Compliance e-learning, further driving the impact of this training initiative, and improving learner experience. Over 71,000 of our employees completed this e-learning. Where COVID-19 restrictions allowed, we have also initiated dedicated face-to-face GBP training for our direct employees who do not have access to hardware to complete online training.

In percentage terms, the increase in reports is specifically visible in North America, which is now responsible for 51% of all reported concerns (2020: 45%). Latin America showed a small increase to 14% (2020: 12%), EMEA showed a decline to 14% (2020: 22%). The APAC region remained stable at 21%.

Philips Group  
Breakdown of reported GBP concerns in number of reports <sup>1)</sup>

|                            | 2017       | 2018       | 2019       | 2020       | 2021       |
|----------------------------|------------|------------|------------|------------|------------|
| Health & Safety            | 11         | 11         | 9          | 26         | 19         |
| Treatment of employees     | 211        | 254        | 320        | 342        | 365        |
| - Equal and fair treatment | 59         | 63         | 55         | 52         | 31         |
| - Employee development     | 12         | 8          | 9          | 5          | 20         |
| - Employee privacy         | 1          | 6          | 10         | 8          | 11         |
| - Employee relations       | 32         | 24         | 18         | 13         | 6          |
| - Respectful treatment     | 77         | 102        | 163        | 160        | 226        |
| - Remuneration             | 8          | 11         | 9          | 28         | 7          |
| - Forced labor             | -          | -          | -          | 1          | -          |
| - Conflict of interest     | -          | -          | 1          | 6          | 7          |
| - Working hours            | 9          | 12         | 14         | 27         | 10         |
| - HR other                 | 13         | 28         | 41         | 42         | 47         |
| Legal                      | 36         | 59         | 44         | 39         | 48         |
| Business Integrity         | 104        | 96         | 138        | 127        | 112        |
| Procurement                | 6          | 6          | 7          | 12         | 4          |
| IT                         | 6          | 4          | 3          | 5          | 8          |
| Other                      | 8          | 8          | 24         | 20         | 54         |
| <b>Total</b>               | <b>382</b> | <b>438</b> | <b>545</b> | <b>571</b> | <b>610</b> |

<sup>1)</sup> Includes Domestic Appliances

## Most common types of concerns reported

### Treatment of employees

As in previous years, the type of concern most commonly reported related to the category 'Treatment of employees'. In 2021 there were 365 reports in this category, compared to 342 in 2020. This represents 60% of the total number of concerns, similar to 2020 (60%).

The majority of the concerns reported in the 'Treatment of employees' category relate to 'Respectful treatment'. The 'Respectful treatment' sub-category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. In the 'Treatment of employees' category, 51% of cases originated from North America, similar to 2020 (51%).

### Business integrity

The second most-reported type of concern relates to 'Business Integrity', which accounted for 18% of total cases reported in 2021, down from 22% in 2020. These concerns originated primarily from the APAC region (34%), followed by the North America region (29%), Latin America (21%) and EMEA (16%).

### Substantiated/unsubstantiated concerns

Of the 610 cases reported in 2021, 180 are still pending closure, the majority being those that were filed in the last quarter of the year. The table above gives an overview of the number of reported concerns that were substantiated (i.e. were found to constitute a breach of our General Business Principles) by the subsequent investigation.

Of the 430 reports from 2021 that were closed during the same year, (409 in 2020), 94 were substantiated, which represents 22% of the total number reported and closed (27% in 2020). In 2021, 21% of the 'Treatment of employees' cases were substantiated, compared to 27% in 2020 (2019: 28%, 2018: 28%). In addition, 25% of the 'Business Integrity' reports were closed as substantiated in 2021, compared with 36% in 2020 (2019: 44%, 2018: 45%).

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Classification of the new concerns investigated in number of reports <sup>1)</sup>

| Category               | 2019          |                 | 2020          |                 | 2021          |                 |
|------------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|
|                        | substantiated | unsubstantiated | substantiated | unsubstantiated | substantiated | unsubstantiated |
| Health & Safety        | 2             | 3               | 3             | 17              | 2             | 14              |
| Treatment of employees | 64            | 164             | 73            | 201             | 56            | 215             |
| Legal                  | 10            | 18              | 7             | 19              | 10            | 20              |
| Business Integrity     | 31            | 40              | 25            | 45              | 17            | 50              |
| Procurement            | 2             | 4               | 1             | 8               | 1             | 3               |
| IT                     | -             | -               | 1             | 3               | 5             | 3               |
| Other                  | 4             | 10              | -             | 6               | 3             | 31              |
| <b>Total</b>           | <b>113</b>    | <b>239</b>      | <b>110</b>    | <b>299</b>      | <b>94</b>     | <b>336</b>      |

<sup>1)</sup> Includes Domestic Appliances

In addition to the above, 207 concerns that were still open at the end of 2020 were closed during the course of 2021. A total of 82 (39%) of these concerns were substantiated after investigation.

A total of 176 closed concerns were substantiated. These substantiated concerns were followed up with remedial actions and/or disciplinary measures, where appropriate. Remedial action can be corrective, varying from strengthening the business processes, training and coaching, to increasing awareness of the expected standard of business conduct. Disciplinary measures may include termination of employment and written warnings. Disciplinary measures were taken in relation to 81 substantiated concerns.

## Environmental incidents

In 2021, one environmental incident was reported at a Diagnosis & Treatment site. This incident related to soil contamination. Corrective actions were taken to remediate the effect. One environmental incident related to a water leak and a non-compliance were reported at a Connected Care site. The non-compliance resulted in a minor fine. In Personal Health, three environmental incidents were reported, which related to emissions to air and soil contamination. Immediate action was taken, and no fine was issued. Furthermore, three non-compliances were reported; these were related to noise and water discharge requirements, and no fines were issued.

To find out about our sustainability results at global and regional and market level, go to [the Philips results hub](#).

**Metrics:** Health and Safety metrics were further developed in 2021 to support existing metrics:

- **Recordable Accident Rate:** In 2021, we recorded 213 TRCs (178 in 2020), i.e. cases where the injured employee is unable to work for one or more days, received medical treatment or sustained an industrial illness.

**Proactive metrics:** More emphasis was placed on proactive metrics whilst retaining the existing reportable accident rate. The metrics are aggregated into a scorecard, to provide one consolidated proactive performance metric, which is presented at business level. Specific proactive safety metrics include:

- Shop floor visits (Gemba walks) completed: 14,028 (target: 12,773)
- Safety problem-solving events (Kaizens) implemented: 6,490 (target: 6,228)
- Behavioral Safety Observations: 2,945 (target 2,240 (program was reduced due to COVID-19 constraints))
- Training: 25,572 of trainings completed (target 21,734)
- Corrective action closure: Average days to Close: No audits were conducted due to COVID-19

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**Total recordable cases per 100 FTE**

|                       | 2017        | 2018        | 2019        | 2020        | 2021        |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Diagnosis & Treatment | 0.58        | 0.55        | 0.61        | 0.45        | 0.53        |
| Connected Care        | 0.61        | 0.35        | 0.34        | 0.31        | 0.31        |
| Personal Health       | 0.26        | 0.22        | 0.18        | 0.30        | 0.24        |
| Other                 | 0.29        | 0.22        | 0.24        | 0.16        | 0.21        |
| <b>Philips Group</b>  | <b>0.37</b> | <b>0.30</b> | <b>0.32</b> | <b>0.24</b> | <b>0.29</b> |

Additionally, we recorded 114 Lost Workday Injury Cases (LWICs), i.e. occupational injury cases where the injured person is unable to work for one or more days after the injury. This represents a 25% increase compared with 91 in 2020. The LWIC rate increased to 0.16 per 100 FTEs, compared with 0.12 in 2020. The number of Lost Workdays caused by injury increased by 1,672 days to 4,236 days in 2021.

Philips Group

**Lost workday injuries per 100 FTEs**

|                       | 2017        | 2018        | 2019        | 2020        | 2021        |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Diagnosis & Treatment | 0.27        | 0.20        | 0.33        | 0.27        | 0.28        |
| Connected Care        | 0.14        | 0.13        | 0.09        | 0.11        | 0.09        |
| Personal Health       | 0.24        | 0.16        | 0.14        | 0.22        | 0.16        |
| Other                 | 0.14        | 0.11        | 0.09        | 0.06        | 0.12        |
| <b>Philips Group</b>  | <b>0.18</b> | <b>0.14</b> | <b>0.14</b> | <b>0.12</b> | <b>0.16</b> |

### Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment, the number of Health and Safety incidents increased in 2021, with 3 LWICs compared to 40 in 2020. The LWIC rate increased to 0.28 compared to 0.27 in 2020. The total number of recordable cases for the Diagnosis & Treatment businesses segment increased to 81 (66 in 2020), mainly due to more recorded incidents in our factories North America.

### Connected Care businesses

Health and Safety performance in the Connected Care businesses segment in 2021 improved compared to the prior year: 6 LWICs (8 in 2020). Correspondingly, the LWIC rate decreased from 0.11 to 0.09 in 2021. The total number of recordable cases for the Connected Care businesses segment decreased to 21 in 2021 (23 in 2020), mainly driven by our factories in North America.

### Personal Health businesses

In the Personal Health businesses segment, Health and Safety incidents decreased in 2021, with 12 registered LWICs, compared to 15 in 2020. The LWIC rate decreased from 0.22 in 2020 to 0.16 in 2021. There were 18 recordable cases in the Personal Health businesses segment in 2021 (21 in 2020). This decrease was mainly due to less recorded incidents in Indonesia and EMEA.

### Business Continuity & Resilience

Philips has organized its Business Continuity & Resilience management to increase organization resilience, and maintain customer satisfaction, by continuing the delivery of products, services or solutions to our customers, at acceptable predefined levels, in time of disruption. Philips has deployed and maintains a global Business Continuity Management System (BCMS), which is aligned to, and certified against, the international standard for Business Continuity ISO 22301. Philips was able to manage the effects of COVID-19 and continue to develop and mature its global Business Continuity & Resilience program.

The COVID-19 global pandemic significantly affected Philips' global operations in many ways, including government-mandated factory and office lockdowns, supply chain shortages, travel restrictions, and ensuring employee health and safety. Philips continued to extend its comprehensive global Business Continuity Management System (BCMS) with the deployment to new entities in 2021. More BCMS implementations were originally planned but delayed due to COVID-19. On a Global level 77 BCMS have been implemented and or maintained on a local level by the end of 2021. The BCMS are supported with training materials in Philips University.

As a result, Philips was able to maintain manufacturing operations (and in some cases increase output) and all services to ensure support for our customers, with limited interruption to key service and support activities to hospitals.

In 2021, we appointed a Chief Procurement Officer, with the ambition to build a world-class procurement function to make a positive, organization-wide impact through innovation, supply risk management, and environmental responsibility, as well as ensuring cost efficiency and contributing to growth. This can only be achieved with a strong, professional, committed and trustful supply chain. The CPO reports directly to the CFO and will drive the Executive Board's agenda related to supplier engagement. In line with our commitment to the SBTi's net-zero standard, our ambition is to engage with our suppliers on reducing emissions as well.

## health and safety

### a healthy and safe work environment for talent

The pandemic has shown the importance of staying (mentally) healthy and working in a safe workplace, at home or somewhere else. Returning to the workplace and reshaping a new future of work is key to ensuring the health and well-being of workers. Reopening workplaces requires new health and safety protocols that take COVID-19 into consideration. Throughout 2021, Randstad continued to help talent get back to work safely, supporting both employers and candidates through efforts related to sharing best practices on (mental) health and well-being, providing personal protective equipment, and health and safety protocols.

Caring for people is embedded in our core values and forms a mandatory part of our induction programs. It is in this context that our consultants work with clients and talent to support workplace safety. Several of our operating companies have specialized health and safety managers to provide guidance. We advise our clients on matters of occupational health and safety, for example, by pointing out how to prevent workplace risks and by providing 'security at work' training. Formal audits at client locations are conducted in some business areas, such as construction, where taking extra health and safety precautions is best practice. More information about our local initiatives for a healthy and safe work environment can be found on our [website](#).

We have a global health & safety policy, which states that Randstad is committed to providing and maintaining a healthy and safe work environment, and promotes well-being at work, doing all that is reasonably practical to

prevent personal injury and illness and to protect talent, employees, clients, and visitors from foreseeable work hazards. Health & safety is also explicitly mentioned in our human rights policy, as we see this as one of the salient risks related to our industry which requires specific focus.

All workers across the labor market have a right to a healthy and safe work environment. Our health and safety management, which is organized locally at operating company level, is designed to safeguard business continuity and deal with risks. Our operating companies adhere to all applicable local standards and regulations, and are expected to have a sophisticated health and safety structure in place. We track sickness rates, work-related accidents or incidents resulting in injuries and work-related fatalities, both for employees and candidates. Fatal incidents are immediately reported to the Executive Board.

In 2021, we provided work to more than two million people. Our first duty as a company is to make sure we do not send anyone into a work environment that may be harmful to them. Unfortunately, despite our best efforts, accidents occurred that resulted in injuries. The aggregated number of work-related injuries among our placed workers globally amounted to 26,000 (2020: 19,000), while the number of working days lost due to these injuries added up to 368,000 (2020: 304,000). Based on these data, our 'injury rate' increased from 0.21% to 0.22% of overall days worked.

Much to our regret, in 2021, we were also confronted with 8 (2020: 6) fatal incidents among placed workers:

#### number of fatal incidents among placed workers

|                      | 2021 | 2020 | 2019 |
|----------------------|------|------|------|
| Argentina            | 1    | 0    | 0    |
| Australia            | 1    | 0    | 0    |
| Belgium & Luxembourg | 0    | 0    | 1    |
| France               | 2    | 0    | 2    |
| Germany              | 0    | 0    | 1    |
| India                | 1    | 4    | 5    |
| Italy                | 1    | 0    | 1    |
| Netherlands          | 1    | 0    | 2    |
| Spain                | 1    | 1    | 1    |
| Uruguay              | 0    | 1    | 0    |
| USA                  | 0    | 0    | 1    |
| Group                | 8    | 6    | 14   |

Despite our high safety standards, we unfortunately faced several incidents in 2021, causing 72 injuries among our employees (2020: 68). The number of working days lost due to these injuries amounted to 500 (2020: 900). This results in an overall injury rate of 0.01% of overall days worked, which is the same as last year.



Our increasing reliance on the use of technology is matched by an unprecedented rise in cyber crime, which is now a daily reality for all large enterprises. In 2021, Randstad experienced a number of cyber incidents, which were dealt with adequately. In Q4 2020, Randstad was also the victim of a sophisticated attack, through which data was exfiltrated from a limited number of servers in the US, France, Poland, and Italy. In response to the incident, we immediately launched an internal investigation by our 24/7 incident response team. We also engaged third-party cyber security and forensic experts to assist with the investigation and remediation of the incident. Prompt global action was taken to mitigate the incident, while further protecting Randstad's systems, operations, and data. Our systems continued running without interruption and without any disruption to our operations. Appropriate steps continue to be taken in order to investigate any incident occurring and implement necessary actions to strengthen our information security posture, in line with regulations and ongoing cyber security developments.

## sustainability fundamentals.

communicating with an anonymous reporter has proven to be successful in several instances.

Protecting the rights of those who speak up on potential misconduct is essential. Our procedure therefore ensures confidentiality for the person speaking up, respecting privacy and data protection rights, and protection against retaliation, including for those assisting the person speaking up.

The right of non-retaliation is guaranteed under the Business Principles. Violation of this right will not be tolerated. Any form of threat or retaliation aimed at speaking up may lead to disciplinary measures.

### reports made

The number of reports (complaints and concerns) made in 2021 (401) was back to the level of 2019 (386). The decrease observed in 2020 (down 16%), most likely as a result of the first waves of the pandemic, did not continue. Again, this total included a substantial number of reports made via the integrity line that qualified as service issues and bypassed the normal appropriate local reporting channels, such as the branch manager or local complaint or help desks. Where possible, these were referred to the relevant local function for follow-up, or dismissed if there was insufficient detail (especially when also anonymous). Through local communication efforts, we aim to maintain and increase awareness of the correct routing.

Of the 401 reports made in 2021, 102 were accepted as admissible. After thorough investigation of these 102 reports, 61 were found not proven, and 41 were, at least partially, proven. A total of 7 were still under investigation at year end. The proven complaints (41) were related to harassment and intimidation (12), health & safety (6), non-compliance with internal policies and procedures (6), improper management practices/unprofessional behavior/breach of business principles (5), sexual harassment (4), discrimination (3), fraud/misuse of Randstad property for personal purposes (3), hostile work environment (1), and conflict of interest (1). We saw 10 reports that were directly related to the COVID-19 situation, mainly related to safe working situations, either at Randstad offices or at the client locations.

The vast majority of the reports (258) were made by current or former candidates/placed workers; most of

### misconduct reporting

|  | 2021 | 2020 | 2019 |
|--|------|------|------|
| New complaints                                     | 401  | 323  | 386  |
| Of which anonymous                                 | 139  | 123  | 116  |
| Concerns referred to other channels/not legitimate | 292  | 199  | 233  |
| Proven or partially proven                         | 41   | 53   | 61   |
| Not proven   | 61   | 71   | 92   |
| Under investigation <sup>1</sup>                   | 7    | 0    | 0    |
| Total  | 401  | 323  | 386  |

<sup>1</sup> The 1 complaint reported as 'under investigation' for 2019 was not proven. Of the 7 complaints reported as 'under investigation' for 2020, 6 were not proven and 1 was proven.

these were referred to local management or the local complaint or help desks. A total of 22 reports were made by clients, suppliers, or other external parties, and in 74 cases (due to insufficient information being provided by anonymous reporters), it was not clear who made the report. The remaining 47 reports came from employees or former employees.

All valid reports were followed up internally, usually by local teams with the support of the local integrity officer and/or the risk manager. If the report related to local management, it was followed up by the central integrity officer and Global Business Risk & Audit. Again in 2021,

### awareness of misconduct reporting procedure

|                                | 2021 | 2020 | 2019 |
|--------------------------------|------|------|------|
| North America                  | 9.0  | 9.0  | 8.9  |
| France                         | 8.1  | 8.0  | 7.9  |
| Netherlands                    | 8.1  | 8.1  | 7.7  |
| Germany                        | 8.3  | 8.2  | 8.3  |
| Italy                          | 8.3  | 8.3  | 8.2  |
| Belgium & Luxembourg           | 8.3  | 8.2  | 8.1  |
| Iberia                         | 8.5  | 8.2  | 8.1  |
| Other European countries       | 8.6  | 8.5  | 8.4  |
| Rest of the world              | 8.3  | 8.2  | 8.0  |
| Global Businesses <sup>1</sup> | 8.6  | 8.5  | 8.4  |
| Corporate                      | 8.2  | 8.5  | 8.4  |
| Group                          | 8.5  | 8.4  | 8.3  |

<sup>1</sup> Global Businesses includes the data of Randstad Sourceright only. The following entities are not yet covered: Monster, Aussy, Randstad RiseSmart, and twago.

Source: Randstad in Touch engagement survey.

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| Belgium & Luxembourg           | 8.3  | 8.2  | 8.1  |
| Iberia                         | 8.5  | 8.2  | 8.1  |
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